



# Delinquency:

## The Untold Story of Student Loan Borrowing

BY ALISA F. CUNNINGHAM  
GREGORY S. KIENZL, PH.D

March 2011

A REPORT BY  
Institute for Higher  
Education Policy

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# Executive Summary

Student financial aid—including grants and loans—plays a key role in supporting students' access to and success in college. Yet, despite periodic increases in grant funding, students and their families have increasingly relied on borrowing to cover more of the costs of higher education. As the number of student borrowers has increased and their cumulative indebtedness has grown, so too has concern about whether the resulting debt levels are manageable and about the long-term impact of student loan debt on other life choices and consumption patterns. Absent more complete data, policymakers have often focused on default rates, which are an incomplete measure of the range of experiences of contemporary students, including those who may have difficulties repaying their student loans. Default rates do not include the many borrowers who become delinquent on their federal education loans, but manage to avoid default. These borrowers face some of the same consequences as borrowers who default, but until now, the size and significance of this group has not been recognized or been part of the policy discussion about default prevention and financial literacy in general.

To better understand the impact of borrowing and student indebtedness, this report examines the repayment experiences of student loan borrowers using data provided by five of the largest student loan guaranty agencies. It examines more than 8.7 million borrowers with nearly 27.5 million loans who entered repayment between October 1, 2004 and September 30, 2009. The primary focus is on the nearly 1.8 million borrowers who entered repayment in 2005. This report is a snapshot of borrower experiences, but it can help inform policy discussions about student loan programs and the tools available to help borrowers avoid delinquency and default.

## **Characterizing Borrower Behavior: Experiences in Repayment**

Borrowers in the 2005 cohort faced a range of circumstances and options as they started repaying their loans, and continued

to do so as they moved along the path of trying to meet their repayment obligations. The study looks at whether these borrowers became delinquent at some point during that period or availed themselves of various options to postpone or delay repayment during their first five years in repayment.

- **The “expected” path through repayment.** About 37 percent of borrowers managed to make timely payments without postponing payments or becoming delinquent, representing almost 667,000 borrowers in the 2005 cohort with nearly \$13.1 billion in loans. In other words, more than a third of the borrowers in the 2005 repayment cohort seem to be willing and able to use the federal student loan repayment framework in the intended way.

- **The appropriate and timely use of repayment tools and options.** Other borrowers, about 23 percent, used the repayment tools and options provided by the federal government to postpone their payments, thereby avoiding delinquency. Some of these borrowers—11 percent—used only deferment, mostly because they re-enrolled in college. But 12 percent of borrowers used forbearance (often in combination with deferment) to postpone monthly payments. These borrowers were aware of federal repayment options and used them for the intended purpose.
- **The magnitude of delinquency without default.** Although repayment options were available and could have been used earlier, more than one fourth of the borrowers who entered repayment in 2005—26 percent—became delinquent on their loans at some point, but did not default. Most of these borrowers eventually used deferment and/or forbearance as tools to avoid default (21 percent), while a smaller proportion (5 percent) was able to resolve the delinquency, presumably by making payments to get their account current.
- **The defaulters.** About 15 percent of borrowers not only became delinquent, but also had defaulted on their loan(s) at some point during the first five years of their repayment term.

In total, 41 percent of the borrowers faced the negative consequences of delinquency or default. It is important to recognize that for every borrower who defaults there are at least two others who were also delinquent on their student loans, but successfully avoided default. These data illustrate that many more borrowers are having difficulty repaying their loans in a timely manner than is generally recognized when the focus is on default rates alone. These patterns are both a cause for concern and an opportunity for improvement.

### Key Differences in Borrower Behavior: Who Did What and Where

Given the breadth of repayment behaviors these borrowers exhibited, it is important to better understand what types of borrowers were or were not able to make payments on time.

#### Borrower behavior varied depending on whether the borrower graduated.

- Most of the borrowers who left postsecondary education without graduating had difficulty in repaying their loans—33 percent of undergraduate borrowers who left without a credential became delinquent without defaulting, and 26 percent defaulted.
- Forty-eight percent of undergraduate borrowers who graduated with a credential were repaying in a timely manner, but 21 percent became delinquent without defaulting and 16 percent defaulted—a considerably lower number than among nongraduates, but still significant.

#### Borrower repayment patterns varied depending on the type of institution last attended.

- A third or less of borrowers at four-year, public or private nonprofit institutions became delinquent or defaulted on their loans, while nearly half or more (45 percent and 53 percent, respectively) of their borrowers were making timely payments on their loans.
- In contrast, only one-quarter to one-third of borrowers at for-profit and public two-year institutions were making timely payments on their loans, and more than half of all borrowers in these sectors were delinquent or had already defaulted.

**Borrowers' repayment experiences also differed by the highest grade level attained.**

- Most borrowers who entered repayment in 2005 last borrowed after only a few years of enrollment—37 percent after just one year of college or less, and an additional 18 percent after two years.
- Of those who last borrowed after enrolling one year or less, two-thirds either became delinquent (30 percent) or defaulted (34 percent), compared with 21 percent and 6 percent, respectively, of borrowers who last borrowed in their fourth year.

**Certain borrowers are particularly likely to become delinquent, which has implications for policies and practices that attempt to lower delinquency rates.**

- Of borrowers who started repayment in 2005, those who left school without a credential, last borrowed after attending only one year of college or less, or attended a public two-year or for-profit institution were far more likely than their counterparts to become delinquent or default during the first five years of the repayment.

- Many, if not most, borrowers who entered repayment after leaving college without a credential became delinquent or defaulted. For four-year public and private nonprofit institutions, the percentage of noncredentialed borrowers who were delinquent—but did not default (30 percent and 27 percent, respectively)—was twice that of those who defaulted (15 percent and 11 percent, respectively). The opposite is true for two-year for-profit institutions, where half of borrowers without a credential defaulted and 26 percent were delinquent without default.
- The rates of delinquency and default were generally much lower for borrowers who had graduated than for those who had not. However, even among borrowers who successfully completed their programs at two-year for-profit institutions, 27 percent became delinquent without default and 30 percent had already defaulted. Borrowers who graduated and last attended four-year public and private nonprofit institutions had much lower rates of delinquency or default. However, almost a fifth of this group became delinquent at some point, although 5 percent or fewer defaulted.



### Opportunities for Further Discussion

The goal of this study has been to shine a light on the full range of borrower repayment patterns, and particularly on students who became delinquent on their student loans, but did not default. The number and percentage of borrowers in this study who are known to have had difficulty in repaying their loans, particularly those who became delinquent, but did not default, is considerably higher than the numbers usually discussed in policy circles, where the focus is primarily on default. The full scope of the problem is worrisome considering that more than two in five borrowers who entered repayment in 2005 became delinquent on one or more of their loans at some point during the repayment period covered by this study. While nearly two-thirds of these delinquent borrowers had not defaulted, this group is too large to continue to ignore. This study confirms that far more students than generally recognized enter repayment and encounter a range of financial challenges with negative consequences that include delinquency, damaged credit scores, and alternative repayment options that may increase overall interest payments.

The initial findings of this study provide important first steps to understanding the broader scope of borrowers' experiences with student loans. But there is much more to do, and lowering rates of delinquency and reducing defaults will require a serious commitment from many different stakeholders who care about college access and success. From a public policy perspective, student success should be viewed as not only access to college, but also persistence to a degree or certificate, and the effective management of student loan debt. If, in an era of limited resources, students must increasingly borrow to help cover the cost of their education, then what additional support do they need to help ensure that they have a successful educational and repayment experience? Reframing the debate about student loan debt to include the causes and consequences of delinquency could go a long way toward improving borrowers' experiences, enhancing the student loan program, saving taxpayers' money, and perhaps contributing more broadly to higher education as a whole. ☞

# Introduction

For decades, the benefits of postsecondary education have been recognized as an increasingly essential component of the nation's economic and social well-being. Policymakers have called for major increases in educational attainment, both to compete with other nations and to reduce the participation and graduation gaps between underserved students and their more affluent peers. However, many challenges exist for meeting these goals—not only academic preparation, college awareness, and institutional capacity, but also overcoming the financial barriers created by rising college prices and stagnating family incomes, which have been exacerbated by the current economic downturn. In this context, student financial aid, including grants and loans, plays a key role in supporting students' access and success in college. Yet despite periodic increases in grant funding, students and their families have increasingly relied on borrowing to cover more of the costs of higher education. Federal student loans are now the single largest source of financial aid available to both undergraduates and graduate students.

For many students, borrowing is essential to enroll in and complete college. Many pay back their loans without incident or interruption, but for some, loans can become unmanageable and they fall behind on payments or stop paying altogether. If borrowers become delinquent (i.e., fail to make monthly payments within 60 days of the due date), the delinquency may be reported to credit bureaus and become part of their credit

record. Generally, if borrowers exceed 270 days of delinquency, they will be considered in default on their loans, with serious consequences to their financial futures.<sup>1</sup> In contrast, deferment and forbearance provisions are designed to address repayment difficulties by allowing borrowers to temporarily suspend the

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<sup>1</sup> It is 360 days for Federal Family Education Loans or Direct Loans held by the U.S. Department of Education.

repayment of their loans to avoid delinquency. Participation in these programs is often an indication that current circumstances make it difficult or impossible for borrowers to repay their debts.

As the number of student borrowers has increased and their cumulative indebtedness has grown, so too has concern about whether the resulting debt levels are manageable and what the long-term impact of student loan debt will be on other life choices and consumption patterns. Without more complete data, policymakers have often focused on cohort default rates. In fiscal year (FY) 2008, for example, about 3.4 million federal student loan borrowers entered repayment nationwide, and almost 240,000 borrowers defaulted on their student loans by the end of the next fiscal year (U.S. Department of Education 2010a, 2010b). But cohort default rate calculations are an incomplete measure of the range of experiences of contemporary students, including those who may be struggling to repay their student loans. For example, they understate defaults that occur years after students leave college; to address this issue, the Department of Education has recently introduced measures that are better able to capture the problems borrowers are having in repayment, including three-year cohort default rates.<sup>2</sup>

<sup>2</sup> See glossary for more information. Also, see <http://federalstudentaid.ed.gov/datacenter/cohort.html>.


However, these measures still do not include the many borrowers who become delinquent on their federal education loans, but manage to avoid default. These borrowers face some of the same consequences as borrowers who default, including negative impacts on their credit records, but until now this group has not been part of the policy discussion about default prevention and financial literacy in general.

Examining these issues raises a number of questions:

- How many borrowers become delinquent, but do not default on their student loans?
- Do borrowers use federal repayment options to postpone payments and avoid delinquency?
- How many and what percentage of borrowers manage to repay their student loans on schedule without having to postpone or delay payments?
- What are the characteristics of the borrowers in each of these groups? How do they differ?

To answer these and related questions about the impact of the reliance on borrowing and student indebtedness, this report examines the repayment experiences of student loan borrowers, using data provided by five of the largest student loan guaranty agencies on more than 8.7 million borrowers with nearly 27.5 million loans who entered repayment between October 1, 2004 and September 30, 2009, with a focus on the nearly 1.8 million borrowers who entered repayment in 2005. The data include information about the specific loans taken out by each borrower; the types of loans, loan amounts, and specific repayment events; and select borrower characteristics such as age, graduation status, and last institution attended (**SEE BOX 1**).

To complement the quantitative analysis, this report also discusses the consequences of delinquency and default on student loan borrowers, including the effect on their credit scores and future ability to borrow. In addition, it provides some context on federal loans and repayment options.

Although the study is a snapshot of borrower experiences, it can inform policy discussions about student loan programs and the tools available to help borrowers avoid delinquency and default. Some borrowers find it hard to make payments, but still manage to do so in a timely manner; others, for one reason or another, do not. The fact that some borrowers are able to avoid delinquency by using deferment, forbearance, or other repayment options indicates that the system is working for them. It seems likely that more borrowers could be using those tools. There are risks inherent in borrowing for college, especially for disadvantaged students, but making sure borrowers have the information on their repayment options when they need it could help mitigate those risks. The patterns of loan delinquency, deferment, and forbearance revealed in this study provide an important window into the challenges facing many borrowers. 

## BOX 1: Data Sources

The data used in this analysis relied on borrower- and loan-level information for students who entered repayment between October 1, 2004 and September 30, 2009. The data were provided by five large student loan guaranty agencies: American Student Assistance, ECMC (former CSAC/EdFund data only), Great Lakes Higher Education Guaranty Corporation, Texas Guaranteed, and USA Funds. Student loan guaranty agencies are state agencies or nonprofit organizations that insure student loans made through the Federal Family Education Loan Program (FFELP) against default. When a borrower defaults, the guaranty agency reimburses the lender for the balance remaining on the loan and then may collect on the defaulted loans after they have paid claims to the lender. Guarantors also play a role in providing information to students and financial aid offices on financial literacy in general and on debt management and loan repayment options. They also provide training and guidance to participating lenders and schools (U.S. Department of Education 2009a).

Together, the five guarantors represented the majority of federal Stafford loan volume made through the FFEL program over the five-year period (U.S. Department of Education 2009b). This cohort was likely to be representative of the broader student borrower population. However, in addition to the loan volume held by other guaranty agencies, the Direct Loan program was responsible for a substantial amount of federal student loan volume overall—almost a quarter of new loan volume in FY 2009 (U.S. Department of Education 2009a). These borrowers were not included in the study. The FFEL program’s origination of loans was discontinued in 2010; all new federal loans are now made through the Direct Loan program. Guaranty agencies will still manage existing FFEL portfolios until the underlying loans are paid in full.

The guarantors provided borrower information that was not individually identifiable; it included information on loan origination and repayment dates; individual loan amounts; and loan “events,” which occurred during the repayment period, such as deferment, forbearance, delinquency, and default. The data include only federal loans—subsidized and unsubsidized Stafford loans—Graduate PLUS loans, and consolidation loans.

To answer the research questions, multiple definitions were devised based on the available data and the borrowers’ experiences in repayment. For example, one measure focused on whether a borrower had ever been delinquent, while another explored whether a delinquent borrower ever used options such as deferment and forbearance. These events were aggregated into a classification of borrowers according to their

repayment status (SEE TABLE 2). The examination also includes differences based on a number of borrower characteristics, including loan type, institution type, age, and graduation status.

To conduct the analysis, several assumptions were made. For example, some students may have loans held with one of the other guarantors or the Direct Loan program; unfortunately, this cannot be quantified, although it is likely to be a fairly small number, especially for the 2005 repayment cohort. This study is based on what is known about the loans in the portfolios of the five guarantors. Thus, only the last institution type is reported, regardless of where the borrower started or enrolled before initiating repayment. Some outliers were excluded, including borrowers with 30 or more loans and those who fell outside the probable college-age range. This exclusion affected a miniscule number of borrowers. Both undergraduate and graduate/professional borrowers are included in the data, and borrowers could have varying durations of repayment, depending on when they first entered repayment. In large part, the report focuses on borrowers who entered repayment in 2005, as they have the longest repayment period.

In addition to the borrower data provided by the guarantors, a number of phone interviews were conducted with guaranty agency ombudsmen, experts from organizations that understand risk management and the calculation of FICO credit scores, and experts from community-based organizations that do credit counseling—these people provided background for the analysis, helped put the quantitative analysis in context, and made suggestions for future research.

# Student Loans in Context

The purpose of federal student loans is to enable students to attend postsecondary education institutions and move toward completing a degree or certificate. A substantial number of students depend on loans to finance their postsecondary education—in 2007–08, 39 percent of all undergraduates borrowed to help finance their education, up from 34 percent in 2003–04 (U.S. Department of Education 2004, 2008). Certain groups of students are more likely to borrow than others: those enrolled in higher priced public, private nonprofit, and for-profit institutions; those attending on a full-time basis; and those with greater financial need (Cunningham and Santiago 2008).<sup>3</sup>

When borrowing, students have a number of choices, including a range of federal student loans as well as non-federal alternatives. The majority of borrowers obtain loans through the federal Stafford loan program; of these borrowers, 86 percent borrowed through the subsidized loan program, 64 percent through the unsubsidized program, and 50 percent from both (National Center for Education Statistics 2008). Some undergraduate students participate in the campus-based Perkins loan program; others obtain private, state, or institutional loans; and some parents borrow through the federal Parent Loans for Undergraduate Students (PLUS) program. In addition, graduate students can borrow through the Grad PLUS program.

Each of these loan types has different terms and conditions, and some are more favorable to the borrower than others. For example, with subsidized Stafford loans, the federal government pays the interest for borrowers while they are in school and during the six-month grace period after they leave. For borrowers with unsubsidized loans, interest starts to accrue when the loan is disbursed, and they have the option of paying the interest or deferring it while they are enrolled. For both, repayment of the loan principal and interest begins six months after leaving school. The amounts students may borrow in a year and cumulatively are limited by federal statute.<sup>4</sup> If students need more funds, they can turn to private loans, which often have less favorable conditions (such as higher interest rates) and lack some of

<sup>3</sup> Other groups are less likely to borrow, but may instead work full time, drop their enrollment to part time, or take other measures to finance their education.

<sup>4</sup> Loan limits vary depending on students' dependency status, class level, and some other factors. For more details, see <http://studentaid.ed.gov/PORTALSWebApp/students/english/studentloans.jsp>.

the repayment protections of federal student loans. However, private loans are usually only available to students if they have a favorable credit history or a co-signer with good credit.

After borrowers leave school or are no longer enrolled at least half time—with or without completing a credential—Stafford loan borrowers have a six-month grace period before entering repayment.<sup>5</sup> Over the years, the federal government has created a variety of options to encourage repayment and make loan payments more manageable (Department of Education, Student Aid on the Web):<sup>6</sup>

- **Choice of Repayment Plans.** Various types of federal student loan repayment plans are available to students, each with different terms and structures. For example, standard repayment—repayment of the loan over 10 years—has the highest monthly payment, but the lowest amount of interest over the life of the loan. An extended repayment plan lengthens the term of the loan to lower monthly payments; in the graduated payment plan, payments begin at lower amounts and gradually increase

over time. Other options take the borrower's income into account, with payment levels tied to income and other factors. Income-based or extended repayment generally produces the lowest monthly payments, but higher total interest over time.

- **Loan Consolidation.** Federal loan consolidation makes repayment administration easier by combining several loans into a single new loan.<sup>7</sup> It usually lowers monthly payments for the borrower by providing access to the alternative payment plans mentioned above that reduce monthly payments. These plans increase the loan term, so the total interest paid over the term is higher.<sup>8</sup>
- **Deferments.** Borrowers are able to defer (temporarily suspend) their loan payments if they meet certain criteria. These include enrolling at least half time in school or experiencing economic hardship or unemployment. Borrowers do not have to make payments on the loan principal until the deferment ends. The interest payments on subsidized Stafford loans are made by the federal government during the deferment period. Unsubsidized Stafford loan interest payments can be paid monthly or deferred, but are typically added to the principal balance at the end of the deferment period.

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<sup>5</sup> Repayment can be defined as a period in which the loan is amortizing and the principal balance is going down; thus, a deferred loan would not be considered in repayment. However, repayment can also be thought of as borrowers entering repayment after the grace period. For this study, we differentiate between "active" repayment and being in the repayment term. Only borrowers who are making payments toward principal are in the active repayment category; those who are in deferment or forbearance, or have become delinquent, are in the repayment period without paying down the principal on their loans.

<sup>6</sup> See the glossary for more information.

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<sup>7</sup> Consolidation was also used to lower the interest rate on one loan.

<sup>8</sup> Subsidized Stafford borrowers who consolidate lose the interest benefit during a deferment.

- **Forbearance.** At their discretion, lenders may grant a forbearance that temporarily suspends a borrower's payments. Forbearances are typically granted in three- or six-month increments up to a limit of five years. A forbearance is generally a more expensive option than deferment because interest continues to accrue, even on subsidized loans. The borrower does not make principal payments; he or she can make interest-only payments or have the interest capitalized and added to the principal when the forbearance expires.

These repayment options have different long-term and short-term effects on students' financial situations. Students can use an option to decrease their monthly payments or to postpone payment for a certain period. Some borrowers require only a short-term solution, such as forbearance or deferment, while for others it makes more financial sense to restructure their loan entirely.

When borrowers are unable or unwilling to make their payment on time each month, at some point they become delinquent on their loans. When a borrower is 60 to 120 days delinquent, the loan holder is required by federal law to report the delinquency to a national credit bureau. Such a delinquency can remain on a borrower's credit report for up to seven years after it is reported, making it difficult for the person to borrow in the future (American Student Assistance 2010).

If delinquencies continue for nine months (270 days), the lender will declare the borrower in default and file a claim.<sup>9</sup> Borrowers default for a number of reasons, from unemployment to illness to failure to file deferment or forbearance requests on time to simply refusing to meet their financial obligations. The penalties for default are severe: Loan payments can be deducted from a borrower's wages, income tax refunds can be withheld, or the account can be turned over for collection. In addition, default has longer-term impacts on students' credit ratings and eligibility for student aid.<sup>10</sup> **(SEE BOX 2.)** Many studies have examined the factors that contribute to default, but few have examined the extent of delinquency or the characteristics of delinquent borrowers who do not default. ☞

<sup>9</sup> A claim would be filed with the guaranty agency under FFELP. As of July 1, 2010, FFELP no longer originates loans. Under the Direct Loan program, a claim is not filed; rather, a demand letter is sent directly to the borrower from the Department of Education. For FFEL or Direct Loans held by the Education Department, loans are considered in default when they are 360 days past due.

<sup>10</sup> For example, the default will show up on the credit history for up to seven years. In addition, defaulters can be sued for the entire amount of the loan; they are liable for any collection or court costs; and, they might not be able to renew a professional license.



## BOX 2: Consequences of Student Loan Delinquencies

Significant research has been conducted to examine the factors that predict or are associated with student loan default (see Gross et al. 2010 and McMillion 2004 for summaries of various research studies). Most of the literature is focused on precollege, college effects, postcollege, and background characteristics of students who default on education loans. Background characteristics include gender, race, ethnicity, family income, age, and the student's level of preparedness for college (Flint 1994; Herr and Burt 2005; Volkwein and Szelest 1995). In addition, a plethora of studies have evaluated the between-college and within-college impact on a student's likelihood of defaulting—including the number of semesters enrolled at an institution, college major, and employment status—or have focused on postenrollment variables such as income, personal and family history, and financial literacy (Steiner and Teszler 2003; Thein and Herr 2001; Volkwein and Szelest 1995; Woo 2002). Little research has been conducted on students who have difficulty repaying their loans and who become delinquent, but do not default.

The penalties for default on federal loans are serious and wide-ranging. They include garnishment of a portion of the borrower's wages or withholding of income tax refunds, Social Security benefits, or other public benefits. Unlike most other loans, student loans are not dischargeable through bankruptcy. The borrower is not eligible for additional Title IV student aid until the loan is repaid or formal arrangements have been made to repay. In addition, default can have other long-term effects outside the government penalties. These consequences can be grouped into a number of themes:

- **Collection.** The federal government and guaranty agencies that own defaulted loans may turn them over to collection agencies. Defaulters are liable for the original principal balance, all accrued interest, court costs, and any collection fees, which are all added to the outstanding balance.
- **Impact on the Borrower's Credit Score.** Delinquency and default have a negative effect on credit ratings, such as the FICO score. The exact impact on the credit score depends on exactly what lenders report to the national credit bureaus, which pull together information to create the credit profile that goes to FICO. Delinquencies on student loans are only one

part of the equation and may be treated differently depending on whether a borrower is chronically late or generally has a good payment history. However, delinquencies of 90 days or more are highly likely to have a negative impact.

- **Impact on Future Borrowing.** If a borrower's credit score is negatively affected, it will have ramifications on his or her ability to borrow in the future—mortgages, auto loans, and other consumer loans—as well as on the terms of any future borrowing. Generally, higher FICO scores signify less risk for lenders, which usually leads to more favorable terms for new loans, and vice versa. If default is reflected in lower credit scores, a borrower may not be offered or be able to afford any new loans.

Borrowers who are delinquent on student loans, but do not default, may not face all these consequences; for example, they remain eligible for financial aid and would likely not have their income or benefits withheld. However, depending on their extent, delinquencies affect borrowers' credit scores and their ability to borrow in the future.

Sources: FinAid.org, Office of the FSA Ombudsman ([www.ombudsman.ed.gov](http://www.ombudsman.ed.gov)), and background interviews.

# Characteristics and Repayment Behavior of Borrowers

The borrower-level data available for this study include information about borrowers who began repayment on their student loans between October 2004 and September 2009. The focus is on borrowers who began repaying their loans in 2005 and what happened to them in the first five years after entering repayment.<sup>11</sup> To better understand these borrowers, selected characteristics were examined, including information about the loans they took out, the types of colleges they attended, and other factors. This was followed by a detailed examination of borrowers' experiences in repayment so far, including whether they ever used repayment options—specifically deferment and forbearance—or became delinquent during the five-year period.<sup>12</sup>

## Defining the Borrower Population: Demographic, Enrollment, and Loan Characteristics

During the five-year period, about 8.7 million borrowers included in the available data began repayment; together, these borrowers took out nearly 27.5 million loans totaling \$148 billion. Borrowers most often received subsidized Stafford loans—about 71 percent of borrowers obtained one or more of these loans. About 60 percent of borrowers had received one or more unsubsidized Stafford loans. In addition, 25 percent of borrowers had

consolidation loans.<sup>13</sup> Many of the borrowers in the study took out more than one type of loan; in fact, 53 percent obtained both subsidized and unsubsidized Stafford loans. Borrowers in the study took out almost four loans on average, with a median total amount of over \$9,500.<sup>14</sup>

Overall, borrowers in the dataset who had entered repayment any time during the five-year study period had a range of demographic and enrollment characteristics (**SEE TABLE 1**).

<sup>11</sup> The 2005 cohort includes borrowers who entered repayment throughout the year.

<sup>12</sup> Unfortunately, the study cannot take into account all types of repayment plans that can be used to avoid delinquency, such as graduated repayment or income-based repayment.

<sup>13</sup> The percentages do not sum to 100 because students often took out more than one kind of loan.

<sup>14</sup> If borrowers who consolidated are removed, the median total loan amount was approximately \$7,040.

TABLE 1

## Select Characteristics of the Study Population and the 2005 Cohort (%)

AGE WHEN ENTERED REPAYMENT	2004–09	2005
Under 21 years old	8	7
21–24 years	29	28
25–29 years	25	26
30–44 years	27	27
45+ years	11	12

INSTITUTION TYPE LAST ATTENDED	2004–09	2005
Public four-year	23	25
Private nonprofit four-year	22	24
For-profit four-year	16	11
Public two-year	12	11
For-profit two-year	11	9
Other	8	8
Missing	9	14

HIGHEST GRADE LEVEL	2004–09	2005
First-year undergraduate	31	24
Second-year undergraduate	14	13
Third-year undergraduate	7	7
Fourth-year undergraduate	13	13
Fifth-year undergraduate	3	3
Graduate student	14	16
Missing	19	24

LOAN TYPE (MULTIPLE LOANS POSSIBLE)	2004–09	2005
Consolidation	25	36
Subsidized Stafford	71	67
Unsubsidized Stafford	60	55
Grad PLUS	2	*

Number of borrowers	8,711,724	1,779,222
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\*GRAD PLUS WAS NOT AVAILABLE FOR 2005.

NOTE: INSTITUTION TYPE WAS BASED ON THE LAST INSTITUTION A BORROWER ATTENDED BEFORE ENTERING REPAYMENT. "OTHER" INSTITUTIONS INCLUDED FOREIGN INSTITUTIONS, PRIVATE NONPROFIT TWO-YEAR AND LESS-THAN-TWO YEAR, AND PUBLIC AND FOR-PROFIT LESS-THAN-TWO YEAR. GRADE LEVEL WAS BASED ON THE YEAR CERTIFIED FOR FINANCIAL AID. "MISSING" PRIMARILY REFLECTS UNAVAILABLE DATA FOR MANY BORROWERS WITH CONSOLIDATION LOANS.

SOURCE: GUARANTOR DATA FILES, AUTHORS' CALCULATIONS

### Age Entering Into Repayment

- Twenty-nine percent of those entering into repayment were between the ages of 21 and 24 years—the age at which traditional students would typically have graduated or left college and started to repay their loans. One quarter of borrowers began repayment when they were between 25 and 29 years old; thus, the majority of borrowers in the study were less than 30 years old.
- A substantial proportion of these borrowers reflect non-traditional paths in college, with 27 percent between the ages of 30 and 44, and 11 percent 45 and older when they entered repayment.

### Last Institution Attended Before Entering Repayment<sup>15</sup>

- About 45 percent of the borrowers had enrolled at public or private, nonprofit, four-year institutions, 23 percent and 22 percent, respectively.
- Only 12 percent of the borrowers in the study had been enrolled in public two-year institutions before starting repayment. This is not surprising, as community college students are less likely to borrow than students attending other types of schools, because of lower tuition, part-time status, failure to apply for financial aid, or some other reason (Cunningham and Santiago 2008).
- Twenty-seven percent of borrowers in the study had been enrolled at a two- or four-year for-profit institution. This may seem disproportionately high given the relatively low percentage of undergraduate students who attend for-profit institutions overall, but a very high proportion of students who enroll at for-profits borrow—almost 88 percent in 2007–08 (National Center for Education Statistics 2008).

### Highest Grade Level<sup>16</sup>

- At the time of their last loan, almost 68 percent of borrowers reported that they were undergraduate students, with 31 percent obtaining their last loan after only one year in college or less, and an additional 14 percent after two years.
- About 14 percent of these borrowers were graduate or professional students. The rest were either borrowers who had last obtained a loan in the later undergraduate years or those for whom data was missing.

<sup>15</sup> The dataset includes information for only the last institution attended and not any other institutions that a borrower might have attended. This would mean, for example, that borrowers who started at community colleges and transferred to four-year institutions would be classified with four-year institutions, with a possible effect on classification of borrower behavior. Note that roughly 9 percent of the borrowers were missing data on the last institution attended. This occurred in large part because of unavailable data for consolidation loans.

<sup>16</sup> "Highest grade level" is defined as the level certified by the institution for the purpose of the last loan awarded to a borrower; it signifies "up to, but could be less than." In most cases, this variable shows the highest level attained by borrowers before leaving college. However, in a small number of cases, a person borrows with another guarantor later or continues enrollment without borrowing; this would not be captured in the data. A substantial proportion of borrowers (19 percent, primarily those with consolidation loans) did not have responses for this variable.

TABLE 2

## Borrowers Who Entered Repayment in 2005 by Loan Repayment Status

	% IN SPECIFIC BORROWER GROUPS	% IN AGGREGATED BORROWER GROUPS
Repayment without event	37	37
Deferment only (in-school enrollment)*	7	
Deferment only (economic hardship)*	4	23
Forbearance only	6	
Forbearance and deferment	6	
Delinquency only	5	
Delinquency and deferment	5	26
Delinquency and forbearance	8	
Delinquency with deferment/forbearance	8	
Default	15	15

\* AN ESTIMATED TWO-THIRDS OF BORROWERS DEFERRED BECAUSE THEY WERE STILL IN SCHOOL; THE REMAINDER CITED ECONOMIC HARDSHIP BASED ON ESTIMATES FROM THREE OF THE FIVE GUARANTORS.

NOTE: PERCENTAGES DO NOT SUM TO 100 DUE TO ROUNDING. INCLUDES BORROWERS WHO USED CONSOLIDATION LOANS. SEE APPENDIX TABLE 1 FOR NUMBERS OF BORROWERS IN EACH CATEGORY AND FOR THE DISTRIBUTION OF BORROWERS WHO DID NOT HAVE CONSOLIDATION LOANS.

SOURCE: GUARANTOR DATA FILES, AUTHORS' CALCULATIONS

For the purpose of analysis, it is helpful to focus on borrowers who had the most years of repayment (or non-repayment) history. Thus, the following section focuses on the almost 1.8 million borrowers in the study who started repayment in 2005.<sup>17</sup>

### Categorizing Borrower Behavior: Experiences in Repayment

A primary goal of this study was to define the number and proportion of borrowers who have different repayment experiences, and the data provided for this analysis allow a detailed examination of these experiences. Borrowers in the 2005 cohort faced a range of possibilities as they started repaying their loans and continued to do so as they moved along the path of trying to meet their obligations. This study cannot capture all the nuances of borrower experiences; rather, it is a snapshot of events that occurred during the study period and does not address the timing or recurrent complexities of borrowers' use of debt management options. However, the available data can be used to classify borrowers into a number of mutually exclusive categories that give a broad sense

of their repayment experiences. The categories are based on the "events" flagged in the data: Securing a deferment or forbearance, avoiding or becoming delinquent, and entering default.

One way of looking at these borrowers is to take into account whether those in the study period availed themselves of various options to postpone or delay repayment during their first five years in repayment or became delinquent at some point during that period.<sup>18</sup>

At one end of the spectrum are the active repayers, those who managed to make timely payments without ever postponing payments or becoming delinquent. About 37 percent of borrowers were repaying their loans without taking any mitigating actions, representing almost 667,000 borrowers in 2005 with nearly \$13.1 billion in loans. Whether they found making timely payments easy or difficult and whether they restructured their loans into other repayment plans to make the payments more manageable are not captured in the available data.

<sup>17</sup> Their characteristics are similar to those of the full study population (SEE TABLE 1).

<sup>18</sup> See Appendix Table 1 for the number of borrowers in each category.

The remaining 64 percent—more than 1.1 million borrowers with over \$25.3 billion in loans—were not actively repaying their loans for at least a portion of the study period and are likely to be a source of concern to varying extents.

- About 23 percent of the borrowers who started repayment in 2005 were able to use forbearance and/or deferment to postpone payments and avoid delinquency during the study period. It is difficult to assess the exact circumstances that prompted this group of borrowers to postpone repaying their loans. For example, 11 percent of borrowers used only a deferment. Although deferments can be used for economic hardship, estimates from three of the five guaranty agencies that participated in the study suggest that about two-thirds (7 percent) of deferments for these borrowers were for students who had re-enrolled in college.<sup>19</sup> Borrowers may request and be granted a forbearance for a multitude of reasons; these borrowers might have needed some level of assistance to postpone repaying their loans.
- Twenty-six percent of the borrowers in the 2005 cohort became delinquent on their loans but did not default. Most of these borrowers (21 percent) used deferment or forbearance to avoid default, while a smaller proportion (5 percent) were able to resolve their delinquency, presumably by making payments to get their account current.<sup>20</sup>
- At the other end, the snapshot shows that about 15 percent of borrowers not only became delinquent, but also had already defaulted on their loans at some point during the repayment term, despite the availability of mitigation tools.

The experiences of this cohort of borrowers can be divided into four broad categories: (1) Those who were actively repaying their loans and making on-time payments; (2) those who used deferment, forbearance, or both to postpone payments and did not

become delinquent; (3) those who became delinquent one or more times during the five-year period, but did not default; and (4) those who defaulted.

The number and percentage of borrowers in this study known to have had difficulty in repaying their loans—particularly those who became delinquent, but did not default—is considerably higher than what is usually discussed in policy circles, where the focus is primarily on default alone. The full scope of the problem is worrisome: More than two in five borrowers who entered repayment in 2005 became delinquent on one or more of their loans (including default) at some point during the repayment period covered by the study. Another set of borrowers (not as well defined) avoided delinquency only by taking mitigating action to postpone payment on their loans for various reasons and periods of time.

### **Key Differences in Borrower Behavior: Who Did What and Where**

Given the breadth of repayment behaviors these borrowers exhibited, it is important to understand what types of borrowers were able to make payments on time and what types were not. Many factors are known to be associated with default behavior, including institutional characteristics, borrower background, and failure to complete the program of study (Dynarski 1994; Steiner and Teszler 2003; Volkwein and Cabrera 1998; Woo 2002).<sup>21</sup> It is likely that at least some of those factors are associated with other borrower behaviors, such as the use of mitigation options and the likelihood of becoming delinquent. Some of these factors were available in the study data for exploration and can provide context for thinking about policies and practices that could be used to increase the number of borrowers who repay on a timely basis. This analysis of borrower characteristics focuses on the 1.1 million borrowers entering repayment in 2005 who did not have consolidation loans.<sup>22</sup> The distribution and numbers of all borrowers and those who did not consolidate their loans is shown in **APPENDIX TABLE 1**.

<sup>19</sup> The percentage was not available for all guarantors, and the types of deferments could not be separated out in a large proportion of the data. Therefore, subsequent analyses do not break out the types of deferments.

<sup>20</sup> Note that the options could have been used before or after the delinquency.

<sup>21</sup> Also see McMillion (2004) and Gross and colleagues (2009) for summaries of relevant literature.

<sup>22</sup> Borrowers with consolidation loans have been excluded owing to the lack of key data, such as last institution attended and graduation. Thus, some of the numbers may differ from those presented earlier.

TABLE 3

### Percentage Distribution of 2005 Borrowers by Loan Status and Graduation Status

UNDERGRADUATES	LEFT WITHOUT DEGREE/CREDENTIAL	GRADUATED	ALL BORROWERS
Timely repayment	26	48	35
Deferment/forbearance without delinquency	15	14	15
Delinquency without default	33	22	28
Default	26	16	21
Total	100	100	100
<b>GRADUATE STUDENTS</b>			
Timely repayment	47	68	58
Deferment/forbearance without delinquency	25	20	22
Delinquency without default	24	10	16
Default	5	2	3
Total	100	100	100

NOTE: DOES NOT INCLUDE BORROWERS WITH CONSOLIDATION LOANS.  
SOURCE: GUARANTOR DATA FILES, AUTHORS' CALCULATIONS

An initial examination of the behavior of these borrowers reveals that those who encountered problems in repayment differed from their counterparts who did not. Some of these differences are outlined below. (SEE APPENDIX TABLES FOR DETAILS.)

**Borrower behavior varies depending on whether the borrower graduated.** The delinquency and default rates of borrowers differed between those who earned a credential and those who dropped out of school.

- Overall, 42 percent of undergraduate borrowers who started repayment in 2005 had graduated with a degree or credential (SEE APPENDIX TABLE 2).
- Borrowers who left postsecondary education without graduating were more likely to experience difficulty in repaying their

loans—59 percent of undergraduate borrowers who left without a credential became delinquent or defaulted (SEE TABLE 3).

- Forty-eight percent of those who graduated with a credential were repaying in a timely manner, while 38 percent became delinquent or defaulted—a considerably lower number than among non-graduates, but still significant (SEE TABLE 3).
- Among graduate students, 68 percent of those who completed their program were making timely repayments on their loans without using deferment or forbearance, and only 12 percent were delinquent or in default (SEE TABLE 3).
- The proportion of graduate student borrowers who left without a credential and were delinquent or defaulted was 29 percent (SEE TABLE 3).

TABLE 4

### Percentage Distribution of 2005 Borrowers' Loan Status by Last Institution Attended

	PUBLIC FOUR-YEAR	PRIVATE NONPROFIT FOUR-YEAR	PUBLIC TWO-YEAR	FOR-PROFIT TWO-YEAR	FOR-PROFIT FOUR-YEAR
Timely repayment	45	53	24	32	35
Deferment/forbearance, but not delinquent	21	20	16	5	12
Delinquent, but not defaulted	24	20	36	27	29
Default	10	8	24	36	24
Total	100	100	100	100	100

NOTE: DOES NOT INCLUDE BORROWERS WITH CONSOLIDATION LOANS. ALSO SEE APPENDIX TABLE 3.  
SOURCE: GUARANTOR DATA FILES, AUTHORS' CALCULATIONS

**Borrower repayment behavior varies depending on the type of institution last attended.** Previous studies have indicated that the incidence of default varies considerably depending on the type of institution a borrower attended (Gladioux and Perna 2005). This analysis provides support for that conclusion and shows how it also applies for students who may not have defaulted, but had problems making timely payments.

- A third or fewer of borrowers at four-year public or private nonprofit institutions became delinquent or defaulted on their loans, while close to half (45 percent and 53 percent, respectively) were making timely payments, and an additional 20 percent had taken steps to secure a deferment or forbearance to postpone payments without ever becoming delinquent (SEE TABLE 4).<sup>23</sup> It is possible that these borrowers had better economic prospects or had more knowledge of their options than those who attended other kinds of institutions.
- In contrast, only one-quarter to one-third of borrowers at for-profits and public two-year institutions were making timely payments on their loans, and more than half of all borrowers in these sectors were delinquent or had defaulted (SEE TABLE 4). These types of institutions are similar in that they tend to serve

disadvantaged and non-traditional populations—groups that are often difficult to reach with information about repayment plans and financial literacy, in general. However, they are very different in the percentage of students who borrow. The percentage of borrowers at two-year public institutions is relatively low, given fairly low tuition and other expenses, and the greater propensity of students to enroll part time while working (Cunningham and Santiago 2008), whereas for-profit institutions have a different business model that is frequently reflected in higher costs of attendance and greater reliance on borrowing.

**Borrowers' repayment experiences differed in terms of the highest grade level attained.** The majority of borrowers who entered repayment in 2005 last borrowed after only a few years of enrollment—37 percent after one year of college or less, and an additional 18 percent after two years. This could mean that the borrowers left school at that grade level after completing a short-term program or dropped out before finishing a longer program.<sup>24</sup> Of those who last borrowed after enrolling for one year or less, two-thirds either became delinquent (30 percent) or defaulted (34 percent), compared with 27 percent of borrowers who last borrowed in their fourth year (SEE APPENDIX TABLE 4). Graduate student borrowers were the least likely to have been delinquent (16 percent) or defaulted (3 percent) over this period.

<sup>23</sup> The data capture only the last institution attended; borrowers could have been enrolled at a different kind of institution before they began repaying their loans. For example, borrowers who transferred from a two-year to a four-year institution would be captured as four-year students.

<sup>24</sup> In a small number of cases, borrowers may have borrowed with another guarantor or enrolled without borrowing. This would not be captured in the data.

**Older borrowers tend not to have as much trouble repaying loans.**

Six out of 10 of the youngest borrowers (those under 21) either became delinquent or defaulted. This proportion gradually decreases as borrowers get older, with about 33 percent of borrowers who were 45 or older when entering repayment subsequently becoming delinquent or defaulting (SEE APPENDIX TABLE 5). Research suggests that older, more experienced borrowers have more financial literacy skills, greater awareness of repayment options, and more marketable job skills and the resources to cover short-term repayment difficulties (Gross et al. 2009).

**Some borrowing choices may be associated with subsequent repayment patterns.**

It is possible that choices about the number of loans or the amount borrowed are related to experiences during the repayment period, whether positively or negatively. In general, borrowers who started repayment in 2005 and defaulted had fewer loans and lower loan amounts than those who did not default—fewer than three loans on average, compared with slightly more than three for those currently making timely payments and more than four for those who used forbearance (SEE APPENDIX TABLES 6 AND 7). Borrowers who defaulted had median total loan amounts of \$6,600 compared with more than \$8,000 for those repaying without event and \$9,000–\$11,000 for those using forbearance. The pattern is similar to that found in other studies (Steiner and Teszler 2003; Woo 2002). Although it may seem counterintuitive, the lower numbers are likely related to the number of years borrowers were enrolled before entering repayment, whether or not they completed their educational program, and the type of institution they attended. The numbers also suggest that the degree of debt burden is a relative, not an absolute, phenomenon.

**Borrowers who are delinquent or who default have many similarities, but some important differences.**

Overall, borrowers who were delinquent, but did not default and those who defaulted, were similar in many respects. Both groups were less likely to have last enrolled at a four-year public or private nonprofit institution. However, borrowers who were delinquent without defaulting were less likely to have last enrolled at a for-profit institution than those who defaulted. Within that group, borrowers who were delinquent and used both deferment and forbearance were more likely than defaulters to have last attended a public two-year institution and much less likely to have last attended a for-profit institution. Indeed, the use of deferments or forbearance to avoid delinquency or default was very limited at for-profit institutions. Borrowers who were delinquent without using any repayment options were almost as likely as defaulters to have last attended a for-profit institution, but more likely to have graduated.

Another significant difference is in the long-term impact on borrowers of becoming delinquent or defaulting. Delinquency (especially multiple delinquencies) often affects borrowers' credit score, limiting their ability to borrow in the future. But default carries far worse consequences that can persist for decades; thus, it is important to ensure that borrowers who become delinquent receive the information and counseling support they need to resolve their delinquency before they default.



TABLE 5

## Percentage of Borrowers Who Started Repayment in 2005 Who Were Delinquent or Defaulted by Selected Enrollment Characteristics

LAST INSTITUTION ATTENDED	% OF BORROWERS WHO BECAME DELINQUENT WITHOUT DEFAULT	% OF BORROWERS WHO DEFAULTED	% OF BORROWERS WHO WERE DELINQUENT OR DEFAULTED
Public four-year	24	10	34
Private nonprofit four-year	20	8	28
Public two-year	36	24	60
For-profit two-year	27	36	63
For-profit four-year	29	24	53
<b>HIGHEST GRADE LEVEL</b>			
First-year undergraduate	30	34	64
Second-year undergraduate	33	18	51
Third-year undergraduate	27	11	38
Fourth-year undergraduate	21	6	27
Fifth-year undergraduate	22	6	28
Graduate student	16	3	19
<b>GRADUATION STATUS</b>			
Graduated	22	16	38
Left without credential	33	26	59

NOTE: DOES NOT INCLUDE BORROWERS WITH CONSOLIDATION LOANS.  
SOURCE: GUARANTOR DATA FILES, AUTHORS' CALCULATIONS

### Certain borrowers are particularly likely to become delinquent, which has implications for policies and practices that attempt to lower delinquency rates.

To decrease rates of delinquency, programs need to target borrowers who are most at risk. The data in this study demonstrate that among borrowers who started repayment in 2005, those who left school without a credential, last borrowed after attending one year of college or less, or attended a public two-year or for-profit institution were far more likely than their counterparts to become delinquent or default during the first five years of the repayment period (SEE TABLE 5). In most instances, the proportion of borrowers who became delinquent without defaulting was significantly higher than the proportion who defaulted; exceptions were borrowers who last attended for-profit two-year institutions and those whose highest grade level was one year or less of college.

These three factors—institution type last attended, highest grade level attained, and graduation status—are associated positively or negatively with delinquency and default. It is difficult to disentangle them or quantify the impacts, because they are interrelated.

- For example, borrowers who had last attended public two-year or for-profit institutions were more likely to have taken out their last loan after only one year or less of enrollment—58 percent for public two-year institutions, for example, and 74 percent for for-profit two-year institutions (SEE APPENDIX TABLE 8). This makes sense, as students at those institutions are often enrolled in shorter programs, such as certificates of a year or less. The proportion of borrowers entering repayment after enrolling for one year or less is much lower (20 percent or less) at public and private nonprofit four-year institutions, which also would be expected. Further, substantial proportions of borrowers at these institutions last borrowed when they were graduate students (20 percent and 37 percent, respectively).
- In addition, both institution type and highest grade level are correlated with graduation. Collectively, about 42 percent of undergraduate borrowers who entered repayment in 2005 had graduated. For those who last borrowed after only one year, the figure drops to 36 percent. Borrowers who last attended four-year public or private nonprofit institutions were more likely to

TABLE 6

## Loan Status of 2005 Borrowers by Last Institution Attended and Graduation Status

OF THOSE WHO LEFT WITHOUT A CREDENTIAL	% OF BORROWERS WHO BECAME DELINQUENT WITHOUT DEFAULT	% OF BORROWERS WHO DEFAULTED	% OF BORROWERS WHO WERE DELINQUENT OR DEFAULTED
Public four-year	30	15	45
Private nonprofit four-year	27	11	38
For-profit four-year	34	30	64
Public two-year	39	27	66
For-profit two-year	26	50	76
All	32	23	55
<b>OF THOSE WHO GRADUATED,</b>			
Public four-year	15	4	19
Private nonprofit four-year	13	5	18
For-profit four-year	21	14	35
Public two-year	27	15	42
For-profit two-year	27	30	57
All	20	13	33

NOTE: DOES NOT INCLUDE BORROWERS WITH CONSOLIDATION LOANS.  
SOURCE: GUARANTOR DATA FILES, AUTHORS' CALCULATIONS

graduate (42 percent and 49 percent, respectively, compared with 36 percent for four-year for-profits and 23 percent for public two-year institutions). For-profit two-year institutions had higher completion rates (69 percent on average), perhaps owing to short-term certificate programs (SEE APPENDIX TABLE 9).

These figures reflect substantial numbers of borrowers who entered repayment after leaving college without a credential. As might be expected (Steiner and Teszler 2003; Volkwein and Cabrera 1998; Woo 2002), many, if not most, of these borrowers became delinquent or defaulted. This was true for all institutional types, although the extent varied (SEE TABLE 6). For example, the proportion of borrowers who left without a credential and became delinquent or defaulted ranged from 38 percent at private nonprofit four-year institutions to 76 percent at for-profit two-year institutions. For four-year public and private nonprofit institutions, the percentage of non-credentialed borrowers who were delinquent, but did not default was twice that of those who defaulted. The opposite is true for two-year for-profit institutions, where half


of borrowers without a credential defaulted (two out of every three who became delinquent). Other research (Volkwein and Szelest 1995; Woo 2002) suggests that the background characteristics of borrowers who attend schools with higher default rates—such as income, parent education, and financial independence—tend to differ from those of borrowers attending lower default-rate schools, which may account for some of the differences. However, this cannot be determined from the study data.

The rates of delinquency and default were generally much lower for borrowers who had graduated than for those who had not, suggesting that graduation may be a crucial factor.<sup>25</sup> Although this analysis cannot show causality, the findings support previous research that suggests that graduation (or, in this case, not graduating) is strongly correlated with loan default (Gross et al. 2009).

<sup>25</sup> The exception was two-year for-profits, where rates of delinquency were similar for borrowers who graduated and those who did not.

The likelihood of delinquency and default for borrowers who graduated also varied significantly by type of institution, again with two-year for-profits having the highest rates. About 76 percent of all borrowers who last attended for-profit two-year institutions, but did not graduate, became delinquent at some point, and over half of them defaulted on their student loans within five years of entering repayment. Even among borrowers who successfully completed their programs at these institutions, 57 percent became delinquent at some point, and 30 percent had already defaulted. Considering the effects of the recent global recession, the results are likely to be even worse for students who tried to enter the job market from 2008 onward. Borrowers who graduated and last attended four-year public or private nonprofit institutions had much lower rates of

delinquency and default. However, even for these institutions, almost a fifth of graduating borrowers became delinquent at some point, although only 5 percent or fewer defaulted.<sup>26</sup>

In addition to the characteristics highlighted here, other factors that could not be examined with the study data are likely important and could shed more light on some of these repayment patterns—factors such as starting salaries, employment status, and previous financial knowledge. Many of these factors are likely correlated with borrower behavior; deeper analysis might be able to identify the factors that most affect repayment behavior. Understanding all the factors that affect borrower behavior is essential to inform policy discussions about improving college completion, access, and affordability in an era of restricted **RESOURCES (SEE BOX 3)**. 

<sup>26</sup> These patterns among institution type, graduation status, and rates of delinquency/default hold for each age category and highest grade level attained.

### BOX 3: Perceptions from the Field

To acquire some insight to augment the quantitative analysis, a number of people who work directly with borrowers were interviewed to get a sense of how delinquency and default affect borrowers and how borrowers in trouble can get assistance in repaying their loans. Several general themes emerged across the interviews; they are summarized below. Interviews included student loan ombudsmen and people from community-based organizations who work with thousands of borrowers in trouble, as well as experts in default risk management. Although these insights cannot be generalized to the total population of student loan borrowers, they help understand the borrower experiences reflected in the data and suggest future avenues of research that can build on this study.

In general, interviewees said that borrowers—

- were rarely familiar with all the repayment options available to them before they became delinquent or defaulted;
- do not fully understand loan terms, interest accrual, and so on, and required significant assistance in selecting a loan repayment plan;
- compounded their repayment problems by failing to fill out paperwork in time to avoid default; and

- report that wage garnishment, Social Security offsets, and not being able to use their earned income tax credit are consequences of default that concern them.

Many of the interviewees work with borrowers who are already in trouble; they help borrowers understand what is needed to get back into good standing on their loans. But they all highlighted the fact that borrowers are often not aware of options that could have helped them avoid becoming delinquent in the first place.

# What Does It All Mean?

## Summarizing the Findings

The goal of this study is to shine a light on the full range of borrower repayment patterns, particularly those of students who became delinquent on their student loans, but did not default. Historically, public debate about student loans and debt burdens has focused primarily on defaulters and default rates. In reality, the majority of student loan borrowers never default. But while that is positive news, we should not ignore the fact that many students enter repayment and encounter a range of financial challenges.

This study enables us to better understand borrowers' repayment experiences. Of the nearly 1.8 million borrowers covered by the study who entered repayment in 2005, we can see that more than a third were repaying their student loans successfully without delay or delinquency for the first five years. The remaining borrowers had either used one or more of the options in the federal loan program to postpone their payments temporarily or had become delinquent at some point during the study period. This report provides a snapshot of the characteristics and loan behavior of borrowers who entered repayment in 2005. To better understand the differences among these groups and the implications for future policy, it is helpful to group borrower behavior into the following three themes:

1. Expected path through repayment.
2. Appropriate and timely use of repayment tools and options.
3. Magnitude and impact of delinquency and default.

### **Expected Path Through Repayment**

Many borrowers were able to repay their loans on a timely basis during the first five years of entering repayment. Borrowers who were making monthly payments on time during the study period account for 37 percent (almost 667,000) of those who entered repayment in 2005. Among the 1.1 million who did not consolidate their loans, roughly half last attended four-year public (45 percent) or private nonprofit (53 percent) institutions. They made up about 48 percent of undergraduate and 68 percent of graduate student borrowers who had successfully completed their degree programs. Some of these borrowers may have had difficulty making timely payments, but used options not captured in the study data, such as income-based or graduated repayment, to make their payments on time. Still, one in three borrowers in the 2005 repayment cohort seemed willing and able to use the federal student loan repayment framework in the intended way.

### **Appropriate and Timely Use of Repayment Options**

Other borrowers used the repayment options provided by the federal government to postpone their payments, thereby avoiding delinquency. Some of these borrowers (11 percent) used deferment only, usually, although not always, because they re-enrolled in college. Twelve percent used forbearance (often in combination with deferment) to postpone monthly payments and avoid delinquency. Collectively, this group totals more than 400,000 of borrowers who entered repayment in 2005.

Similarly to the group that took the expected path through repayment, these borrowers were more likely than all borrowers to have last attended a four-year institution, but there are some differences; for example, borrowers who used both forbearance and deferment tended to be younger, more likely to attend public two-year institutions, and less likely to attend for-profit institutions than those who used only forbearance.

Although these borrowers needed a little extra assistance, it is difficult to know the specific circumstances that prompted their action because the repayment options can be used for a variety of reasons. Nevertheless, they were aware of the options and used them for the intended purpose. However, these data raise the question of why the percentage of borrowers using these options to avoid delinquency was not higher—an even larger percentage of borrowers could have applied for a deferment or

forbearance but became delinquent before doing so. Moreover, initial scans of the data reveal that some borrowers used multiple forbearances when a deferment or some other, less costly loan repayment option might have been more advantageous.

### **Magnitude and Impact of Delinquency**

Despite the availability of repayment options, over a quarter of the borrowers who entered repayment in 2005 (26 percent, or approximately 454,000 borrowers, representing \$8.5 billion in loans) were delinquent at some point, but had not defaulted. Much of the public debate over the past few years has focused on those who default, without looking at the substantial population of borrowers who were delinquent, but did not default. It is important to recognize that for every borrower who defaults, at least two others have been delinquent on their student loans, but successfully avoided default.

Most of the borrowers who became delinquent during the study period (21 percent out of 26 percent) used some combination of deferment and forbearance to avoid the far worse outcome of default. It is likely that these borrowers knew more about repayment options or showed greater initiative in contacting lenders, guaranty agencies, or consumer advocacy organizations to help them deal with their loan repayment problems and avoid default. The remainder of the delinquent borrowers (only 5 percent of all borrowers) managed to avoid default without using

deferment or forbearance, presumably by making payments that brought their accounts current. Further research is needed to better understand why some borrowers were successful in using available repayment options to avoid delinquency or default and others were not.

Then there are the defaulters. Fifteen percent of these borrowers (258,000 borrowers, with \$3.2 billion in loans) had already defaulted within five years of entering repayment. Many of these borrowers were either unaware of the range of repayment options available to them or failed to act before becoming delinquent and subsequently defaulting. In total, 41 percent of the borrowers (712,000 borrowers, \$11.6 billion) faced the negative consequences of delinquency or default.

These data illustrate that many more borrowers are having difficulty repaying their loans in a timely manner than is generally recognized when the focus is on default rates alone. In this study, three-quarters of a million borrowers who entered repayment in one year alone had difficulty. The study period does not capture what happened after five years, so the actual rate of delinquency and default over time may be understated. In addition, these figures do not include other FFELP or Direct Loan borrowers who entered repayment over this period, but were not included in the study data. These patterns are both cause for concern and an opportunity for improvement.

This report has sought to highlight these issues, promote greater understanding of the range of borrowers' experiences in repayment, and thereby promote a vigorous policy discussion about what steps or approaches might be appropriate to improve the circumstances faced by all borrowers (**FOR EXAMPLE, SEE BOX 4**). These challenges and opportunities have a heightened importance as the impact of the economic recession continues to affect the entire postsecondary education system. ☀

#### BOX 4: Education Debt Management

Research has shown that proactive debt management strategies can have a positive effect on borrower behavior. The strategies that appear to be most effective include engaging borrowers early, before payment problems occur; looking at a borrower's whole financial situation, including not only student loans, but other consumer debt; and delivering advice through a third party (American Student Assistance 2010; Steiner and Teszler 2003). Often, not enough information flows to borrowers between the start of the six-month grace period and their first reported delinquency 60 to 90 days after their first payment due date. Yet borrowers' ability to choose options to deal with repayment problems depends on receiving good information early in the process.

Student loan servicers, guaranty agencies, financial aid offices, and other organizations are often involved in counseling and providing information to borrowers to help them avoid repayment problems. Counseling might involve helping students manage budgets to prevent repayment problems or helping borrowers get their loans back in good standing after delinquency or default. Borrowers often have trouble understanding their loan repayment options—including loan consolidation, deferment, forbearance, and so on. The availability of timely education debt management services can be a tremendous help.

Historically, loan servicers have generally offered borrower assistance only after delinquent loans appear to be headed toward default, and they typically involve a series of attempts to contact the delinquent borrower. The federal loan program requires that mandatory entrance and exit counseling information be provided to students while they are enrolled, to ensure that they are generally

aware of their loan payment obligations and repayment options. However, this information is not always well understood or timely. Other organizations are involved in providing information to students, including community-based organizations and guaranty agencies, which provide online counseling tools, publications, and sometimes onsite assistance, but the nature and extent of this information and assistance vary widely. It is not clear what effect the recent dissolution of the FFEL program and the transition to Direct Loans for all new student loans will have on the provision of these services. Loan servicers might have an extra incentive to reach out to borrowers early to help them avoid delinquency and default. Guaranty agencies will continue to provide the services required by the FFEL program, even as they consider how they will fit into the new structure. Colleges and universities also are evaluating their options for assistance. Given current economic pressures and the potential for higher default rates, debt management and financial literacy tools are more important than ever (Lederman 2010).

# Opportunities for Further Discussion

These research findings are only a first attempt to examine the extent of repayment problems beyond default—more work is needed to fully understand the extent and nature of borrowers' experiences. However, this report has implications for a broader discussion of student loans and how they are structured. For example, on the policy level, the focus needs to shift from simply lowering default rates to considering a wider spectrum of experiences with student loan repayment, including how to increase the number of borrowers who successfully repay their student loans and whether current programs adequately address borrowers' needs. The study raises the following questions:

- With short-term solutions such as deferment and forbearance available to help borrowers avoid delinquency, why do two out of five borrowers become delinquent during the first five years after entering repayment?
- Why is the proportion of borrowers who are actively repaying their student loans without delay so low? How can we ensure that this number is higher for future cohorts of student loan borrowers?
- The current focus on default rate measures does not fully capture the extent of borrowers' difficulties in repaying student loans. Is there a better way to track students who are experiencing difficulties with loan repayment, given a highly mobile population and the challenges of reaching cell phone users? Can we provide information about repayment options in a more targeted and timely way?
- **Borrower characteristics.** The study data had limited information on borrowers' demographic and enrollment characteristics. Other variables that might affect delinquency or default—such as income or more detailed enrollment history—should be included in future analyses. In addition, surveys of borrowers' attitudes toward repayment could provide critical information to inform policies and institutional practices.
- **Financial literacy.** Most people agree about the importance of providing students with general financial literacy information, as well as specific information on loan repayment options. However, many borrowers are unaware of their options or choose not to use them. This situation suggests other topics for discussion, including how and when information is delivered, what agencies should be providing it, and whether it should be promoted broadly or targeted to borrowers who are most likely to become delinquent.

The following are important areas to explore in the future:



- **Institutional models.** Some institutions are seeing positive results with default prevention efforts, including financial literacy. For example, IHEP’s work with minority-serving institutions has illustrated some promising examples of institutional practice (Institute for Higher Education Policy 2009 and 2010), and many guaranty agencies have supported financial literacy initiatives on college campuses. However, not enough is known about such efforts in general or about the interventions that work best.
- **Private loans.** The data for the study included federal student loans, but private loans are also a part of the equation. Private loans do not include many of the protections of federal loans; however, it is in the lenders’ interest to use debt management practices to mitigate the risks of default. Because these loans were not included in the study, it could be understating the full extent of delinquency and default.
- **Other federal repayment options.** The data for this study covered only deferment and forbearance; it was not able to include participation in newer repayment programs, such as income-based repayment, graduated repayment, and public service loan forgiveness (**SEE GLOSSARY**). For students who are currently entering repayment, restructuring their loans into an alternative repayment plan might be a better long-term solution than relying on multiple deferments and forbearances.

- **Sequencing.** This study provided a snapshot of the tools and events borrowers experienced. An important follow-up would be to see the order of events (e.g., the patterns of events occurring before and after delinquency or default), as well as the options used over a longer period of time.

The initial findings of this study provide important first steps to understanding the broader scope of borrowers’ experiences with student loans. But there is much more to do, and lowering rates of delinquency and default will require a serious commitment from many stakeholders who care about college access and success. From a public policy perspective, student success should be viewed as not only access to college, but also persistence to a degree or certificate, and the effective management of student loan debt. If, in an era of limited resources, students must increasingly borrow to cover the cost of their education, then what additional supports will be needed to help ensure that they have a successful educational and repayment experience? Reframing the debate about student loan debt to include the causes and consequences of delinquency could go a long way toward improving the borrower experience, enhancing the student loan program, saving taxpayers’ money, and perhaps contributing more broadly to higher education as a whole.

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# Glossary

*Information from the Department of Education's Student Aid on the Web or FinAid.org has been modified for this glossary.*

**Federal Direct Loan Program.** Direct Loans are low-interest loans for eligible students to help cover the cost of higher education at a four-year college or university; community college; or trade, career, or technical school. Eligible students borrow directly from the U.S. Department of Education through participating schools. The program includes Stafford Loans and PLUS loans.

**Direct subsidized loans.** Direct subsidized loans are for students with financial need. The borrower is not charged interest while in school at least half time and during grace periods and any deferment periods. The school determines the amount the student is eligible to borrow.

**Direct unsubsidized loans.** The borrower is not required to demonstrate financial need to receive an unsubsidized loan. Interest accrues (accumulates) on an unsubsidized loan from the time it is disbursed. The borrower may pay the interest while in school and during grace periods and deferment or forbearance periods, or agree to have interest accrue and be capitalized (that is, added to the principal amount of the loan). If the borrower chooses not to pay the interest as it accrues, this will increase the total amount they have to repay because they will be charged interest on a higher principal amount. The loan balance cannot exceed the total cost of attendance as certified by the school.

**Direct PLUS loans.** Parents of dependent students may apply for a Direct PLUS loan to help pay their child's education expenses as long as certain eligibility requirements are met. Graduate and professional students may apply for PLUS loans for their own expenses up to the full cost of education minus other financial aid.

**Federal Family Education Loan Program (FFELP).** Before July 1, 2010, Stafford, PLUS, and consolidation loans were also made by private lenders under the FFELP, sometimes referred to as the federally guaranteed student loan program. In this program, the funds for the loans come from banks and other financial institutions.

**Student Loan Repayment Plans.** Borrowers have a choice of several repayment plans that are designed to meet the different needs of individual borrowers. The amount paid and the length of time to repay loans will vary depending on the repayment plan chosen. Federal repayment plans include (or included) the following options.

**Standard repayment.** With the standard plan—over a 10-year repayment term—borrowers pay a fixed amount each month until loans are paid in full. Monthly payments are at least \$50, and the borrower has up to 10 years to repay the loans. Monthly payments under the standard plan may be higher than they would be under the other plans, because loans are repaid in the shortest time. For that reason, having a 10-year limit on repayment, the borrower may pay the least interest under this plan.

**Extended repayment.** Under the extended plan, the borrower pays a fixed annual or graduated repayment amount over a period not to exceed 25 years. FFEL borrowers must have more than \$30,000 in outstanding loans. Direct Loan borrowers also must have more than \$30,000 in outstanding Direct Loans. The fixed monthly payment is lower than it would be under the standard plan, but the borrower will ultimately pay more for the loan because of the interest that accumulates during the longer repayment period.

**Graduated repayment.** With this plan, payments start out low and increase every two years. The length of the repayment period is up to 10 years. The monthly payment is never less than the amount of interest that accrues between payments. Although the monthly payment will gradually increase, no single payment under this plan will be more than three times greater than any other payment.

**Income-based repayment (IBR).** Effective July 1, 2009, IBR is a new repayment plan for the major types of federal loans made to students. Under IBR, the required monthly payment is capped at an amount intended to be affordable based on income and family size. The borrower is eligible for IBR if the monthly repayment amount under IBR will be less than the monthly amount calculated under a 10-year standard repayment plan. If the borrower repays under the IBR plan for 25 years and meets other requirements, the remaining balance of the loan(s) may be cancelled.

**Income-sensitive repayment (FFELP only; no longer exists except for former FFEL participants).** With an income-sensitive plan, monthly loan payments are based on annual income. As income increases or decreases, so do the payments. The maximum repayment period is 10 years.

**Income-contingent repayment (Direct Loans only).** Each year, monthly payments are calculated on the basis of the borrower's adjusted gross income (AGI, plus the spouse's income, if married; family size; and the total amount of Direct Loans. Under the ICR plan, the borrower pays each month the lesser of (1) the amount they would pay if they repaid the loan in 12 years multiplied by an income percentage factor that varies with their annual income, or (2) 20 percent of monthly discretionary income. If the payments are not large enough to cover the interest that accumulates on the loans, the unpaid amount will be capitalized (added to the loan principal) once a year. However, capitalization will not exceed 10 percent of the original amount owed when the borrower entered repayment. Interest will continue to accumulate but will no longer be capitalized. The maximum repayment period is 25 years. If the loan has not been fully repaid after 25 years (time spent in deferment or forbearance does not count), the unpaid portion will be discharged, although borrowers may have to pay taxes on the amount discharged.

**Grace period.** After the borrower graduates, leaves school, or drops below half-time enrollment, they have a period of time before they have to begin repayment. This grace period is six months for a federal subsidized or unsubsidized Stafford loan.

**Loan consolidation.** A consolidation loan allows a borrower to combine multiple federal student loans into one loan. The result is a single monthly payment instead of multiple monthly payments.

**Deferment.** A deferment is a temporary suspension of loan payments for specific situations, such as re-enrollment in school, unemployment, or economic hardship. The borrower does not have to pay interest on the loan during deferment if they have a subsidized Stafford loan or a federal Perkins loan. Borrowers with an unsubsidized Stafford loan are responsible for the interest that accrues during deferment. If the borrower does not pay the interest as it accrues, the additional interest will be capitalized

(added to the loan principal), and the amount that has to be repaid in the future will be higher. The borrower has to apply for a deferment to the loan servicer and must continue to make payments until notified that the deferment has been granted.

**Forbearance.** Forbearance is a temporary postponement or reduction of payments for a period of time because of financial difficulty. Borrowers can receive forbearance if they are not eligible for a deferment. Unlike deferment, interest accrues whether loans are subsidized or unsubsidized, and the borrower is responsible for repaying it. The loan holder can grant forbearance in intervals of up to 12 months at a time for up to three years. The borrower must apply to the loan servicer for forbearance and must continue to make payments until notified that the forbearance has been granted.

**Delinquency.** A delinquency is a late payment on a loan. When a borrower becomes 60 to 120 days delinquent, the delinquency is reported to consumer credit agencies.

**Default.** If delinquencies continue for nine months (270 days), the lender will declare the borrower in default and file a claim. If the borrower defaults, it means they failed to make payments on the student loan according to the terms of the promissory note; in other words, they failed to make loan payments as scheduled. The college, the financial institution that made or owns the loan, the loan guarantor, and the federal government all can take action to recover the money owed.

**Cohort default rate.** The cohort default rate is defined by the U.S. Department of Education as the percentage of borrowers who enter repayment during a particular federal fiscal year, October 1 to September 30, and default or meet other specified conditions before the end of the next year. Historically, the cohort default rate has been calculated over two years; recently, however, the Department of Education has introduced a three-year rate.

For more information, go to:

- <http://www.finaid.org/loans/RepayingStudentLoans.pdf>
- <http://studentaid.ed.gov/PORTALSWebApp/students/english/aboutus.jsp>
- <http://federalstudentaid.ed.gov/datacenter/cohort.html>

# Appendix

APPENDIX TABLE 1

## Categorization of 2005 Borrowers by Loan Status

	INCLUDING BORROWERS WITH CONSOLIDATION LOANS		EXCLUDING BORROWERS WITH CONSOLIDATION LOANS	
	NUMBER	PERCENT	NUMBER	PERCENT
Repayment with no event	666,863	37	450,145	39
Deferment only	193,049	11	92,180	8
Forbearance only	106,930	6	61,780	5
Deferment and forbearance	100,235	6	28,978	3
Delinquency only	87,108	5	63,579	6
Deferment and delinquency	88,346	5	67,947	6
Forbearance and delinquency	144,469	8	101,240	9
Delinquent with deferment/forbearance	133,818	8	68,727	6
Defaulted at some point	258,404	15	209,702	18
Number of borrowers	1,779,222		1,144,278	

SOURCE: GUARANTOR DATA FILES, AUTHORS' CALCULATIONS

APPENDIX TABLE 2

### Percentage Distribution of 2005 Borrowers by Loan Type and Graduation Status

UNDERGRADUATE STUDENT AT LAST LOAN	% DISTRIBUTION			% GRADUATED	
	LEFT WITHOUT CREDENTIAL	GRADUATED	ALL	NO	YES
Repayment with no event	26	48	35	42	58
Deferment only	8	7	7	62	38
Forbearance only	5	5	5	56	44
Deferment and forbearance	3	2	2	66	34
Delinquency only	6	6	6	55	45
Deferment and delinquency	8	4	7	74	26
Forbearance and delinquency	11	7	9	66	34
Delinquent with deferment/forbearance	8	4	7	73	27
Defaulted at some point	26	16	21	69	31
Total	100	100	100	58	42
<b>GRADUATE STUDENT AT LAST LOAN</b>					
Repayment with no event	47	68	58	38	62
Deferment only	12	11	11	50	50
Forbearance only	9	7	8	53	47
Deferment and forbearance	3	2	3	58	42
Delinquency only	5	2	3	62	38
Deferment and delinquency	5	2	3	72	28
Forbearance and delinquency	10	4	7	67	33
Delinquent with deferment/forbearance	4	2	3	70	30
Defaulted at some point	5	2	3	73	27
Total	100	100	100	47	53

NOTE: DOES NOT INCLUDE BORROWERS WITH CONSOLIDATION LOANS.  
SOURCE: GUARANTOR DATA FILES, AUTHORS' CALCULATIONS

APPENDIX TABLE 3

### Percentage Distribution of 2005 Borrowers by Loan Status and Last Institution Attended

	PUBLIC FOUR-YEAR	PRIVATE NONPROFIT FOUR-YEAR	FOR-PROFIT FOUR-YEAR	PUBLIC TWO-YEAR	PRIVATE NONPROFIT TWO-YEAR	FOR-PROFIT TWO-YEAR	PUBLIC LESS THAN TWO-YEAR	PRIVATE NONPROFIT LESS THAN TWO-YEAR	FOR-PROFIT LESS THAN TWO-YEAR	ALL
Repayment with no event	45	53	35	24	27	32	26	35	15	39
Deferment only	11	10	6	8	5*	3	4	5	3*	8
Forbearance only	7	7	5	4	3*	1	5	3	3	5
Deferment and forbearance	3	3	1	4	3*	1*	5	3	1*	3
Delinquency only	5	4	6	5	5*	10	4	5	5	6
Delinquency and deferment	6	4	7	8	4*	6	5	3	4	6
Delinquency and forbearance	8	8	12	11	8*	7	13	8	12	9
Delinquent with deferment/ forbearance	6	4	4	12	15	4	20	14	12	6
Defaulted at some point	10	8	24	24	31	36	18	25	44	18
Total	100	100	100	100	100	100	100	100	100	100

\*BASED ON FEWER THAN 1,000 OBSERVATIONS.  
NOTE: DOES NOT INCLUDE BORROWERS WITH CONSOLIDATION LOANS.  
SOURCE: GUARANTOR DATA FILES, AUTHORS' CALCULATIONS

**APPENDIX TABLE 4**

### Percentage Distribution of 2005 Borrowers by Loan Status and Highest Grade Level Before Entering Repayment

	1ST YEAR	2ND YEAR	3RD YEAR	4TH YEAR	5TH YEAR	GRADUATE STUDENT	ALL
Repayment with no event	26	34	43	52	50	58	39
Deferment only	5	8	10	10	10	11	8
Forbearance only	3	5	7	8	8	8	5
Deferment and forbearance	2	3	3	3	3	3	3
Delinquency only	6	7	6	5	5	3	6
Delinquency and deferment	7	7	6	4	4	3	6
Delinquency and forbearance	9	11	10	8	8	7	9
Delinquent with deferment/forbearance	8	7	5	4	5	3	6
Defaulted at some point	34	18	11	6	6	3	18
Total	100	100	100	100	100	100	100

NOTE: DOES NOT INCLUDE BORROWERS WITH CONSOLIDATION LOANS.  
SOURCE: GUARANTOR DATA FILES, AUTHORS' CALCULATIONS

**APPENDIX TABLE 5**

### Percentage Distribution of 2005 Borrowers by Loan Status and Age at Start of Repayment

	UNDER 21	21-24	25-29	30-44	45+	ALL
Repayment with no event	28	39	41	39	50	39
Deferment only	8	10	8	7	6	8
Forbearance only	2	5	6	6	8	5
Deferment and forbearance	3	3	2	2	2	3
Delinquency only	6	6	5	6	5	6
Delinquency and deferment	9	7	5	5	3	6
Delinquency and forbearance	8	8	9	10	9	9
Delinquent with deferment/forbearance	7	6	6	6	4	6
Defaulted at some point	28	18	17	18	12	18
Total	100	100	100	100	100	100

NOTE: DOES NOT INCLUDE BORROWERS WITH CONSOLIDATION LOANS.  
SOURCE: GUARANTOR DATA FILES, AUTHORS' CALCULATIONS



APPENDIX TABLE 6

### Median Amounts of Loans for Borrowers Who Entered Repayment in 2005 by Repayment Status

BORROWER TYPE	WITH CONSOLIDATION LOANS			WITHOUT CONSOLIDATION LOANS		
	OVERALL	UNDERGRAD	GRADUATE	OVERALL	UNDERGRAD	GRADUATE
Repayment with no event	\$9,250	\$6,625	\$23,679	\$8,057	\$6,625	\$18,500
Deferment only	\$13,148	\$8,065	\$37,521	\$7,563	\$5,893	\$23,501
Forbearance only	\$13,211	\$9,155	\$31,000	\$9,709	\$7,445	\$20,879
Deferment and forbearance	\$25,880	\$15,354	\$80,351	\$11,649	\$9,625	\$34,563
Delinquency only	\$6,625	\$6,129	\$18,500	\$6,272	\$5,740	\$18,085
Deferment and delinquency	\$6,125	\$5,290	\$23,787	\$5,475	\$4,999	\$18,500
Forbearance and delinquency	\$6,625	\$5,962	\$21,245	\$6,232	\$5,313	\$18,500
Delinquent with deferment/forbearance	\$10,885	\$8,982	\$48,698	\$7,500	\$6,625	\$32,804
Defaulted at some point	\$6,625	\$6,625	\$31,617	\$6,625	\$6,625	\$25,103
Total	\$8,500	\$6,625	\$30,065	\$6,625	\$6,625	\$19,813

SOURCE: GUARANTOR DATA FILES, AUTHORS' CALCULATIONS

APPENDIX TABLE 7

### Average Number of Loans for Borrowers Who Entered Repayment in 2005 by Repayment Status

BORROWER TYPE	WITH CONSOLIDATION LOANS			WITHOUT CONSOLIDATION LOANS		
	OVERALL	UNDERGRAD	GRADUATE	OVERALL	UNDERGRAD	GRADUATE
Repayment with no event	3.7	3.3	4.7	3.4	3.0	4.4
Deferment only	5.0	4.1	6.8	4.0	3.4	5.9
Forbearance only	4.9	4.3	6.4	4.4	3.9	5.8
Deferment and forbearance	6.7	5.2	9.2	4.4	3.9	6.5
Delinquency only	3.3	3.1	5.1	3.1	2.9	4.6
Deferment and delinquency	3.9	3.5	6.7	3.6	3.3	6.3
Forbearance and delinquency	4.2	3.8	6.4	3.9	3.6	6.1
Delinquent with deferment/forbearance	4.7	4.2	7.9	3.8	3.6	6.5
Defaulted at some point	3.0	2.9	6.0	2.8	2.7	5.3
Total	4.0	3.5	5.9	3.5	3.1	5.0

SOURCE: GUARANTOR DATA FILES, AUTHORS' CALCULATIONS

APPENDIX TABLE 8

### Percentage of Borrowers Entering Repayment in 2005 by Last Institution Attended and Highest Grade Level Borrowed

	1ST YEAR	2ND YEAR	3RD YEAR	4TH YEAR	5TH YEAR	GRADUATE
Public four-year	20	13	13	29	6	20
Private nonprofit four-year	14	11	11	22	4	37
For-profit four-year	43	18	13	8	3	15
Public two-year	58	33	3	4	1*	1
For-profit two-year	74	24	1	0*	0*	0*
Total	37	18	9	15	3	17

\*BASED ON FEWER THAN 1,000 OBSERVATIONS.

NOTE: DOES NOT INCLUDE BORROWERS WITH CONSOLIDATION LOANS.

SOURCE: GUARANTOR DATA FILES, AUTHORS' CALCULATIONS

APPENDIX TABLE 9

### Percentage of Borrowers Entering Repayment in 2005 Who Graduated by Last Institution Attended and Highest Grade Level Borrowed

LAST INSTITUTION ATTENDED	% LEFT WITHOUT CREDENTIAL	% GRADUATED
Public four-year	58	42
Private nonprofit four-year	51	49
For-profit four-year	64	36
Public two-year	77	23
For-profit two-year	31	69
<b>HIGHEST GRADE LEVEL</b>		
First-year undergraduate	64	36
Second-year undergraduate	55	45
Third-year undergraduate	57	43
Fourth-year undergraduate	47	53
Fifth-year undergraduate	56	44
Graduate student	47	53

NOTE: DOES NOT INCLUDE BORROWERS WITH CONSOLIDATION LOANS.

SOURCE: GUARANTOR DATA FILES, AUTHORS' CALCULATIONS





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