STUDENT DEBT 101

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Introduction

As of 2019, over $1.5 trillion is owed in student loan debt in the U.S., more than credit card debt and car loans, and second only to mortgage loans. While the nation has seen a 23 percent increase in student loan debt over the last three years, student loan debt in Colorado has grown 176 percent since 2007, reaching $26.4 billion.[1] This rapid escalation is a sign student debt has reached a crisis level. It's the result of a series of pressures: greater need for credentialization, rising costs of higher education, and lack of enforcement of student debt borrowers' protections under federal law.

Taking out a student loan is an easy, commonplace practice students and their families do based on assumptions about the value of an education, but it can result in devastating financial predicaments down the road. It impacts homeownership, racial inequality, labor markets, and even the important milestones in one's life. In fact, some experts say the larger system facilitating the borrowing of student loans is designed precisely to fail us.

In order to provide a foundational understanding of student debt, this brief will explore the basic components of student debt, which include a timeline of student loan development, national and Colorado specific data, the essential features of student loans and debt, and the ultimate problems with student debt.

The issue of student debt is complex; this brief isn't meant to be exhaustive. Rather, this is an introduction to the basic parts in preparation for a more in-depth conversation on the complementary issues and solutions to the student debt crisis.

A Recent History of Higher Education Costs

The cost of tuition is vastly different than what it was 30 years ago. In current dollars,[2] the tuition, fees, room, and board for a four-year public school in 1987-1988 averaged $3,860 nationally. The average cost of a private, nonprofit, four-year school was $8,340. Today, the average cost of a four-year public school is $19,900, and a private, nonprofit school is $42,260.

This increase in costs correlates with steadily decreasing federal public investment in education since the middle of the 20th century. In 1944, the GI Bill[3] demonstrated how the federal government and states were willing to spend money to expand higher education thanks to the post-war economic boom. Higher education became more accessible first for veterans,[4] then other Americans. This prompted the federal government to start the National Defense Education Act in 1958, structured to provide financial support for the increasing number of enrollees. Ultimately, women, minorities, and people from low-income households found they, too, had access to higher education, thanks to programs like the Federal Perkins Loan Program.

For a time, public investment in higher education was strong. Schools kept up with federal aid by providing grants, scholarships, and other forms of institutional financial aid, but around 1970, tuition and other college fees began to rise — thanks to explosive growth in attendance and a struggling economy — exceeding even the double-digit rates of inflation. Borrowing by families began to increase, and private loans replaced federal grants as public investment declined. To supplement the loss of federal aid, schools did as much as they could to provide aid from their own coffers. This resource quickly ran out, and schools began to charge more for tuition. This contributed to a cultural shift in our understanding of higher education costs today — namely, a bigger price tag means a better education.

The steady hikes in tuition over time can be explained by a multitude of things: demand, institutional expenses, and expanding grant and loan availability, which creates a cyclical problem between tuition and student debt.

More and more students are enrolling and attending college today than ever before. More than 19 million students were projected to attend higher education institutions in 2018, and total enrollment is expected to rise to 20.5 million by 2027. The overall college enrollment rate increased from 35 percent in 2000 to 41 percent in 2016. This demand — fed by the frenzy of prospective students realizing they need more credentials — encourages schools to invest in both necessary and unnecessary institutional expenses to compete for enrollees. Using tuition to pay for buildings, labs, and other amenities that make schools more appealing to prospective students results in higher tuition costs.

Additionally, the very accessibility of loans contributes to rising tuition costs. Since states have divested from higher education, federal spending — primarily in the form of Pell Grants and research grants — has become the main source of funding. In 2013, state revenue accounted for $72.7 billion of higher education funding, while federal spending reached $75.6 billion. Between 2000 to 2012, revenue from federal sources to higher education institutions grew by 32 percent while state revenue fell by 37 percent. While these numbers don't include private loans, several studies[5] find the cost of tuition goes up partly because of the virtually unlimited supply of both federal and private loans.

Compared to other states, Colorado is much more reliant on tuition. In the 1999-2000 school year, 13.5 percent of state revenue went to higher education and decreased to 8.8 percent in 2018-2019. According to data from Colorado's Department of Education, almost 70 percent of Colorado's funding for higher education comes from tuition, compared to 46.4 percent nationally. With limited resources, this means Colorado's higher education institutions depend on revenue from tuition, leaving students with no choice but to resort to readily available loans.

Student Debt by the Numbers

States vary greatly in their average student loan debt. Connecticut tops the list with a high of $38,510 and Utah has the lowest with $18,838. In Colorado, 733,7000 borrowers hold $26.4 billion in outstanding student debt. That makes Colorado's average debt $26,530, ranking 36th in the nation. Denver ranks 12th among the cities with the greatest levels of student debt with a median balance of $20,180.

For the 2017-2018 fiscal year, 66.9 percent of bachelor's degree students attending Colorado's public institutions graduated with debt, an average of $23,425. Of those earning an associate degree, 55 percent graduated with debt with an average amount of $13,261. More than 11 percent of Colorado student loan borrowers are in default, meaning they have stopped repaying their loans.

School	Average Debt of 2017 Graduates	Share of Graduates With Any Debt in 2017	Total Annual Cost of Attendance
Mines	$32,221	51%	$32,684
CU Boulder	$27,680	42%	$29,215
CSU	$26,348	51%	$24,722
DU	$31,526	42%	$62,277

Of the students enrolled in the state's 97 higher education institutions — including public, private (nonprofit), and for-profit institutions — 16 percent of Colorado's undergraduates are enrolled in for-profit schools.[6] For-profit enrollment is quite high compared to national statistics, which is 10 percent. Alternatively, enrollment in private schools is low at 7 percent, compared to the 16 percent national average.

Colorado's for-profit institutions disproportionately enroll black and low-income students. The National Center for Education Statistics (NCES) finds the largest proportion of students receiving student loans are those attending private for-profit schools at these institutions incur the most debt, have the highest default rates, and have the lowest degree completion and repayment rates of all undergrad students.

For the 2015-2016 academic year, the average rate of completion for a four-year degree was 26 percent at for-profit schools, compared to 44 percent and 53 percent at public and private schools, respectively. For-profit college attendees had an average $32,452 in debt at graduation, while public and private colleges came in at $21,345 and $24,726, respectively. The average default rate on those loans: 14 percent at for-profits schools, 7.3 percent at public schools, and 5 percent at private schools.

Features of Student Debt

Student loans are different from other types of debt: Student debt is unsecured like credit card debt, personal loans, and medical debt, but unlike them, options like repossession, foreclosure, or bankruptcy aren't available. There is no statute of limitations on federal loans, so failure to repay often means wage garnishment or lawsuits from creditors.

Student loans differ from one another other as well.[7] There are federal loans through the Department of Education, which students apply for through Free Application for Federal Student Aid (FAFSA). There are also private loans issued by banks and credit unions. In the 2017-2018 academic year, 29 percent of undergraduates borrowed federal student loans and 11 percent took out private loans.

Private loans — which take into account a borrowers' credit, income, and debt-to-income ratio — often ask for a cosigner. A cosigner is typically a parent or close family member who becomes partly responsible for the debt. Having a cosigner on a loan gives borrowers without credit access to loans they wouldn't otherwise be eligible for and can provide opportunities for lower interest rates and more desirable repayment plans. During the 2015-2016 academic year, approximately 94 percent of undergraduate private loans and 61 percent of graduate private loans included a cosigner. However, if the student is unable to repay those loans, there can be serious ramifications for both parties. *(See the section Problems with Student Debt for more details.)*

The largest student loan servicers — Nelnet, AES/Fed Loan Servicing, and Navient — accrue payments from about 30 million borrowers who owe a cumulative $950 billion, or 93 percent of outstanding government-owned student loans. Of the "best-rated" providers, Sallie Mae, Discover, College Ave, and Citizens Bank regularly top the list, based on ease of application, competitiveness of interest rates, term length offerings, eligibility requirements, and other factors. When comparing private loans, experts recommend borrowers familiarize themselves with annual and cumulative loan limits, as well as interest rates, fees, and loan terms.

For federal and most private student loans, repayment typically starts six months after graduation. However, private student loan providers may decide the timing and terms of repayment. On occasion, repayment may begin while a borrower is still in school. If needed, deferment and forbearance are usually available. These options allow eligible students to temporarily stop payments or reduce monthly payment amounts. It's important to consider these options carefully as interest may still accrue in some cases, but not in others. Overall, it's crucial to know all the options available when taking out a student loan, but as we will see, transparency and accessibility are not always guaranteed.

While private loans tend to have more eligibility requirements, federal loans are accessible to most students. Federal loans fall into two programs: the William D. Ford Federal Direct Loan (direct loan) and the Federal Perkins Loan Program. Applying for these loans — as well as being considered for aid from states, private funders, and other institutions — requires going through the extensive process of FAFSA. The application is 10 pages long and must include details on assets and federal tax information, both from the borrower and their family, as well as the family's expected financial contribution to the borrower's education.

FAFSA has serious implications for the aid students get, the aid they don't, and even whether or not they will attend a postsecondary institution, as students who complete FAFSA are 63 percent more likely to enroll. For the class of 2018, 60.9 percent of high school graduates filled out FAFSA, but the complexity of the application is often cited. A report published last year on the high school class of 2013 finds of students who didn't complete FAFSA, 32 percent thought they wouldn't qualify for aid, 23 percent didn't have enough information on how to complete it, 15 percent didn't know they could fill out FAFSA, and 9 percent thought it was too difficult and/or time consuming. Furthermore, 34 percent of Hispanic students and 27 percent of black students didn't complete FAFSA because they didn't have enough information to do so, as opposed to only 18 percent of white students. As such, students lacking assistance or clarity as they navigate FAFSA's application process can experience a disadvantage if it isn't done correctly, receiving less aid as a result.

Still, no matter the level of income, students and families are still taking out loans to pay exorbitant tuition costs. While there are varying definitions to qualify income levels as lower class, middle class, and upper class, data show family incomes are unable to match the growing costs of higher education.

In 2016, households with incomes above $81,140 held almost half of all student debt in the nation. Those with incomes at or above $144,720 held 24 percent, and those with household income below $22,590 had less than 10 percent of the debt. From 2000 to 2016, Colorado saw an 85 percent increase in college costs, while family incomes have grown very little comparatively. For example, income for a two-adult, two-child household only grew by 24 percent in that same time according to the Bell's report on Colorado's middle class families.

As demonstrated above, getting a loan is relatively easy. Repayment, however, is more onerous. Once the grace period has passed (usually upon finishing a degree), there are several options for repayment depending on whether a student receives federal aid or takes out private loans.

What's It Like Having Student Debt?

A 2018 Student Loan Hero survey of student loan borrowers finds that for the majority of borrowers, repayment means holding off on other life experiences.

• 60 percent of respondents say they paid more than their minimum each month, one-third made lump-sum payments when they could, and 17 percent say they made lifestyle changes and altered their budgets to repay the debt.

• Respondents say student debt delayed saving for a house down payment, saving for retirement, and even hindered their ability to pay for health insurance. They put off taking vacations, buying a home, eating out, and even starting a family.

Repaying Student Debt

Federal student loans have multiple repayment options. The standard repayment plan is the default and most common repayment plan. Payments are fixed for 10 years or 120 payments, with minimum payments starting at $50. Borrowers can enroll in graduated or extended repayment plans without demonstrating financial hardship. Other options that can significantly lower loan payments require proof of income. These include income-based repayment, Pay-As-You-Earn repayment, contingent repayment, and income-sensitive repayment. Such options are rarely pursued by borrowers, often due to a lack of knowledge.

A recent report by the U.S. Department of Education's Office of Inspector General finds over the course of two years, almost 92 percent of monthly reports on individual servicers had at least one instance where the servicer failed to provide the borrower with necessary information on repayment options. Of the reports that reviewed servicers calculating income-driven repayment plans, 32 percent incorrectly calculated borrower's repayment amounts. Federal law states borrowers cannot be compelled to pay more than 10 percent of their disposable monthly income toward student loans, but this provision is not widely known. As such, many remain in standard repayment plans.

Federal student loans also have options for forbearance and deferment, which allow borrowers to postpone payments temporarily. Deferment has eligibility qualifications, such as being an active member of the armed forces or the Peace Corps, or being in a residency program. In deferment, the borrower is generally responsible for interest on any unsubsidized loans, whereas the government covers the interest on subsidized loans. During forbearance, the borrower must pay interest on all federal loans. Forbearance can be pursued due to hardship that keeps a borrower from making payments, such as health issues or insufficient income.

Private student loan repayment isn't as flexible. It's usually up to the lender whether to offer deferment and forbearance. Private lenders may also determine different time limits on repayment, which can vary from the 10-year standard for federal loans. If a borrower chooses full deferment, they aren't required to begin repayment while in school, although the amount owed increases as interest accrues. Other common repayment options include immediate repayment, interest-only repayment, and partial-interest repayment.

One of the most difficult aspects of private loan repayment is how stringent the terms can be. For the majority of college students, it's unreasonable to expect to be able to make full payments while in school. However, full deferment grows a loan significantly over time: Deferring payment on a $10,000 fixed-rate student loan can add more than $8,000 in additional costs.

The Problems with Student Debt

Every year, 1 million student borrowers default (stop paying) on nearly $20 billion in federal loans.[8] Today, approximately 8 million Americans are in default on more than $178 billion in student loans. There are several mechanisms that contribute to delinquency and default rates. Growing credentialization coupled with wage stagnation, the rise of for-profit colleges, and the breakdown of servicer accountability are among the primary causes. In 2018, approximately 10 percent of student borrowers from the 2015 graduate cohort defaulted within three years of getting their degree. In Colorado, more than 11 percent are in default.

A culture of credentialization motivates students to pursue higher degrees, but the growing supply of highly educated workers has been met with little reciprocal increase in wages. Data from the Roosevelt Institute show while levels of education attainment have increased across the board, median income levels have actually declined in almost every group.[9] Lower earnings means a harder time affording everything, including loan repayment.

There's also a correlation between the rise of for-profit schools and growing delinquency and default rates. According to the Department of Education, the for-profit default rate was 15 percent in 2013, 15.5 percent in 2014, and in 2015, the last year data is available, default was at 15.6 percent. Of all postsecondary institutions, for-profit schools are the fastest growing, enroll the largest proportion of nontraditional students, and get the most revenue from federal student aid. In 2000, there was only one for-profit institution among the top 25 schools whose students owed the most federal aid. By 2014, 13 of the 25 were for-profit schools, and those borrowers owed about $109 billion — almost 10 percent of all federal student loans. A high proportion of recent borrowers, and those who have defaulted on their loans, attend or attended for-profit or nonselective institutions.

The practices for-profits have been accused of using to enroll students and keep them are questionable. These institutions have directed applicants to falsify financial information, made their program's duration unclear, obscured cost and graduation rates, and have pressured students into binding contracts before letting them speak to a financial advisor. Across the country, complaints, lawsuits, and shutdowns of for-profit colleges are rampant because of these practices. Corinthian Colleges is just one example. The Consumer Financial Protection Bureau (CFPB) took legal action against the school, asserting that staff were trained to steer students into taking out Genesis loans, and purposefully hiding the incredibly high costs and high default rates.

For-profit schools use deceptive practices to entice students into enrolling, and students commonly find the steep costs don't pay off. Often, the training provided isn't up to the standards promised or career paths aren't advertised appropriately. Furthermore, these schools intentionally target students of color for enrollment — black students specifically — perpetuating existing patterns of inequality. Nationally, in 2011-2012, 26 percent of undergraduate students at for-profits were black, compared to only 16 percent at all other not for-profit institutions. In Colorado this past year, 21.9 percent of undergraduates at for-profits were black, while only 4.6 percent were enrolled in all nonprofit and public schools in the state.

For-profit schools aren't the only offenders. Student loan servicers also face increasing pressure due to falling out of compliance with federal accountability regulations. Navient, the largest servicer of student loans, is one of the worst perpetrators of violations against borrowers. In 2018, Navient was the most complained about student loan company in the U.S. About 42 percent of the more than 5,000 total federal student loan complaints were filed against the company, which currently services loans for 6,660,000 borrowers. Navient also was the subject of 53 percent of all private loan complaints, the most of any servicer. Of those complaints, 65 percent were about issues with the lender or servicer across the board.

Multiple states and CFPB have filed suits against Navient as the company has been accused of "steering borrowers away from income-based repayment plans, failing to disclose renewal deadlines, handling payments incorrectly, misrepresenting how to a release a co-signer, misrepresenting the effects of loan rehabilitation, misreporting information to credit bureaus about disable borrowers, and making predatory loans to students likely to default." In its lawsuit against Navient, CFPB claims $4 billion was added to borrowers' loans between 2010 and 2015 due to abuse of forbearance. Following an audit by the Department of Education, the company was charged with directing borrowers into costly plans and forbearance despite being bad for borrowers.

Since the Navient lawsuit, the Department of Education has stopped collaborating with CFPB. In response, states have stepped up to police loan servicers on their own. Multiple states have passed regulations to oversee servicers, which include either a partial or a full "borrower's bill of rights," a set of rules and positions that allow for greater oversight and regulation at the state level. These often include provisions for a student loan ombudsman to investigate borrower complaints, data reporting, and to license servicers in the state. Even still, under direction from the Trump administration, Education Secretary DeVos seemed to side with servicers in a "notice of interpretation," telling states to back off.

Conclusion

Student debt is simultaneously an indicator and a catalyst for a plethora of issues facing Americans today. The student debt crisis lies at a critical intersection of multiple issues. Public investment in education, decent wages, and consumer protections are just a few of the components that must be considered and accounted for in the pursuit of a solution.

Former CFPB student loan ombudsman Seth Frotman and multiple other sources[10] have cited student debt as a driver of income inequality, racial inequality, and economic and racial segregation in the nation. The National Consumer Law Center (NCLC) asserts the financial security of older Americans is more at risk because of student debt. Experts are concerned outstanding student debt is keeping young people from buying homes, building equity, and even keeping them from starting families. These broad consequences show student debt isn't "good debt," but rather there are tradeoffs and long-term impacts for every stage of people's lives. Postsecondary education has traditionally been seen as a key stepping stone to the American Dream, but it's now part of a broken system that can make even basic living standards hard to meet for those with student debt.

The above introduction to the structure of our student debt system is intended to serve as the foundation for more in-depth exploration of the compounding and intersectional impacts of the student debt crisis and potential solutions for Colorado and the nation.

Endnotes

[1] New Era data.
[2] Accounting for inflation, the average cost of a four-year public and private non-profit school in 1986-87 was $8,880, and $19,190 respectively.
[3] The Serviceman's Readjustment Act of 1944, or the GI Bill, laid out a series of benefits for veterans which included covering the cost of education.
[4] This benefit was mostly limited to white veterans.
[5] See Federal Reserve Bank of New York Staff Reports, no. 733, Gordon and Hedlund 2016, and Riegg Cellini and Goldin https://www.newyorkfed.org/medialibrary/media/research/staff_reports/sr733.pdf, https://www.nber.org/papers/w21967.pdf, http://scholar.harvard.edu/files/goldin/files/does_federal_student.pdf
[6] Including Colorado-based online schools.
[7] See link for a chart on all the types of student loans and their characteristics.
[8] Data is available starting from 2007.
[9] Except Asians with a bachelor's degree or greater and Hispanics with a postgraduate degree.
[10] Houle and Addo 2018; Steinbaum 2018; McMillan Cottom 2017.