



STUDENT BORROWER
PROTECTION CENTER

PROTECT
BORROWERS

The Student Loan Market

Making Higher Education Attainable

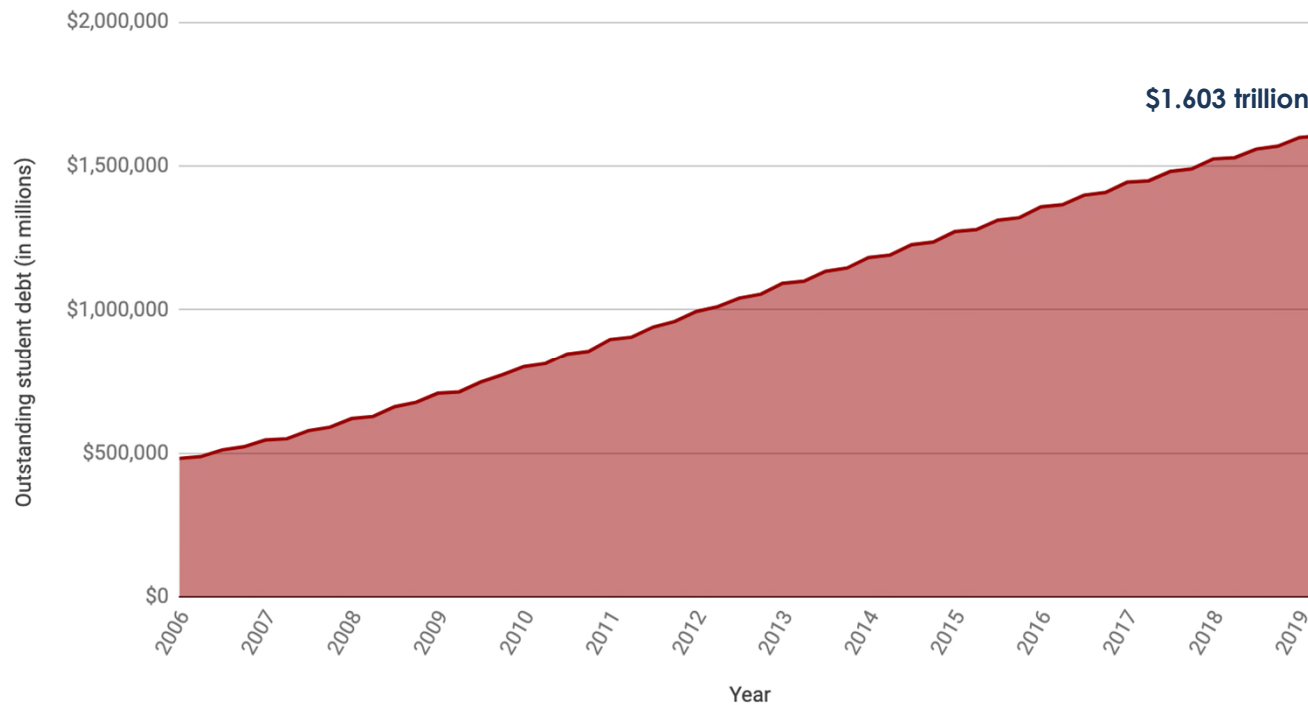
September 23, 2019

Presented By Tariq Habash

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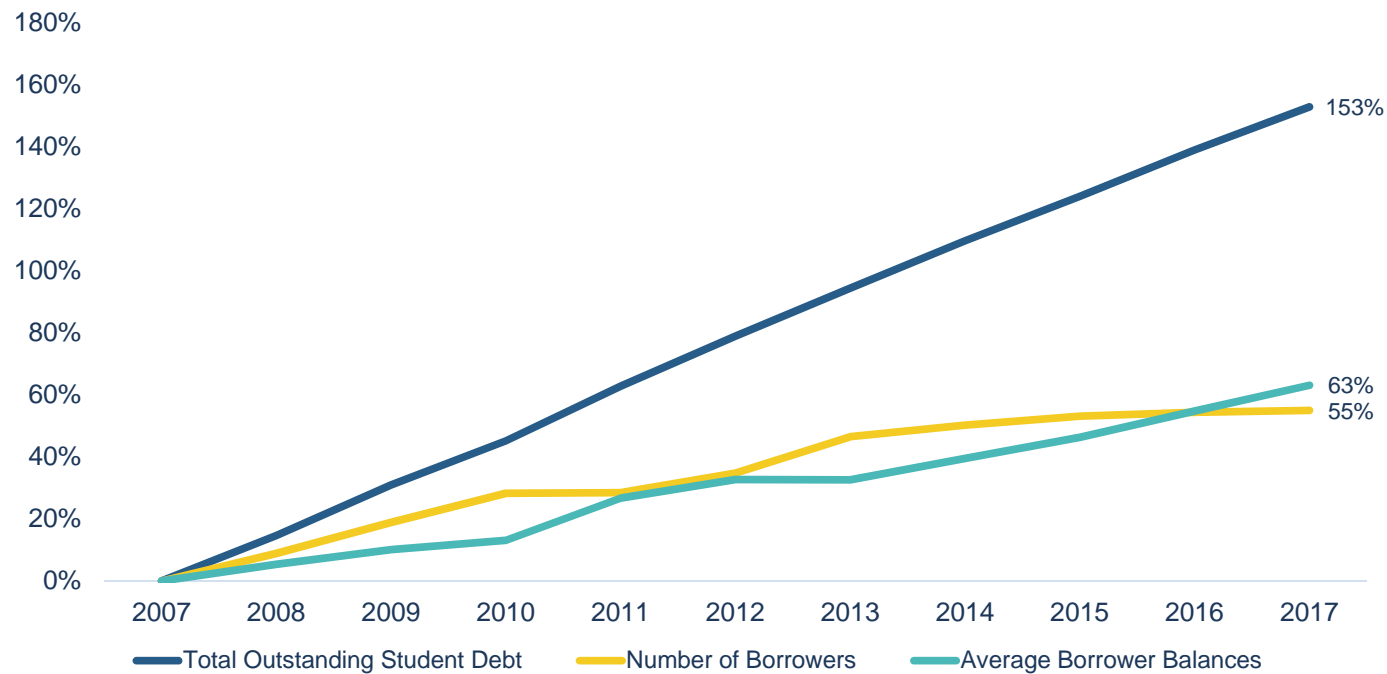
The Student Loan Market

Nationwide growth in student debt



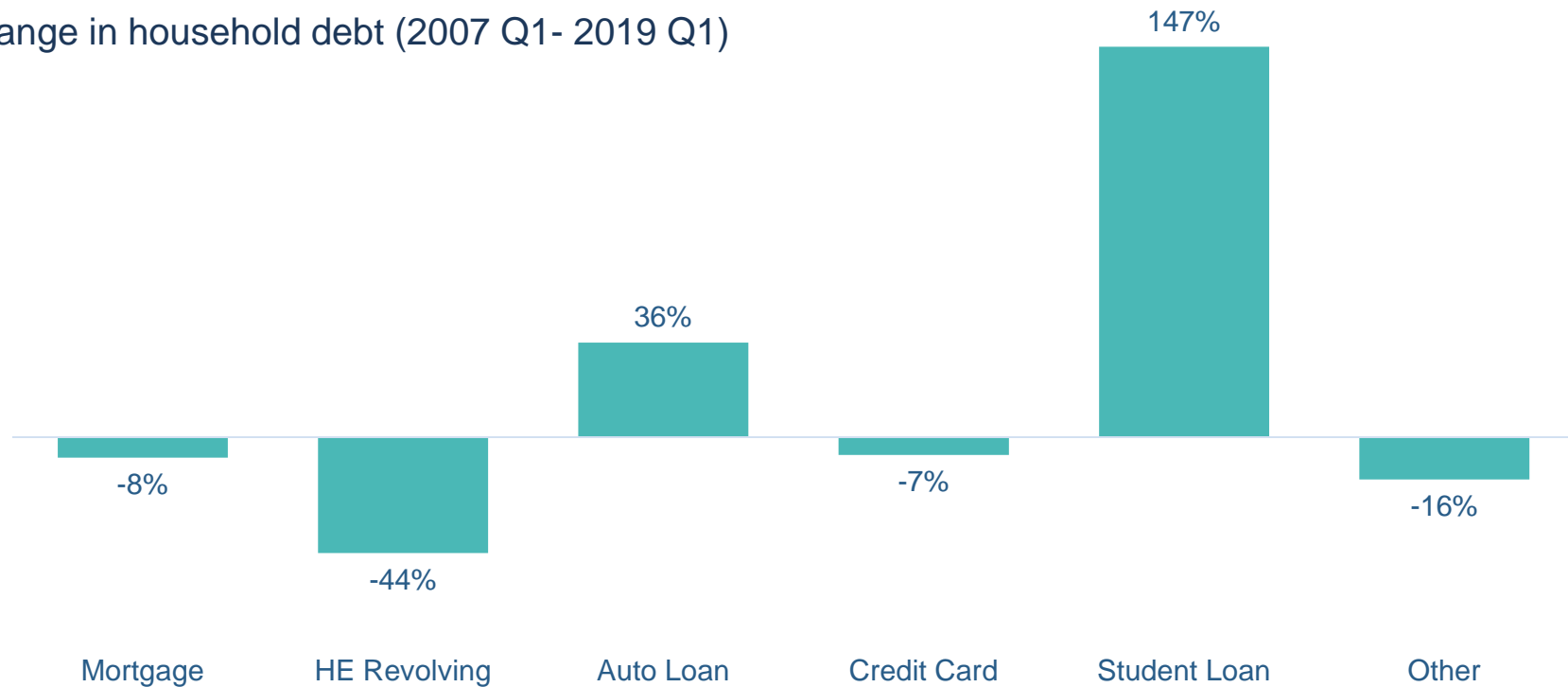
More than 1-in-5 U.S. consumers have student loan debt

Market expanding, balances climbing

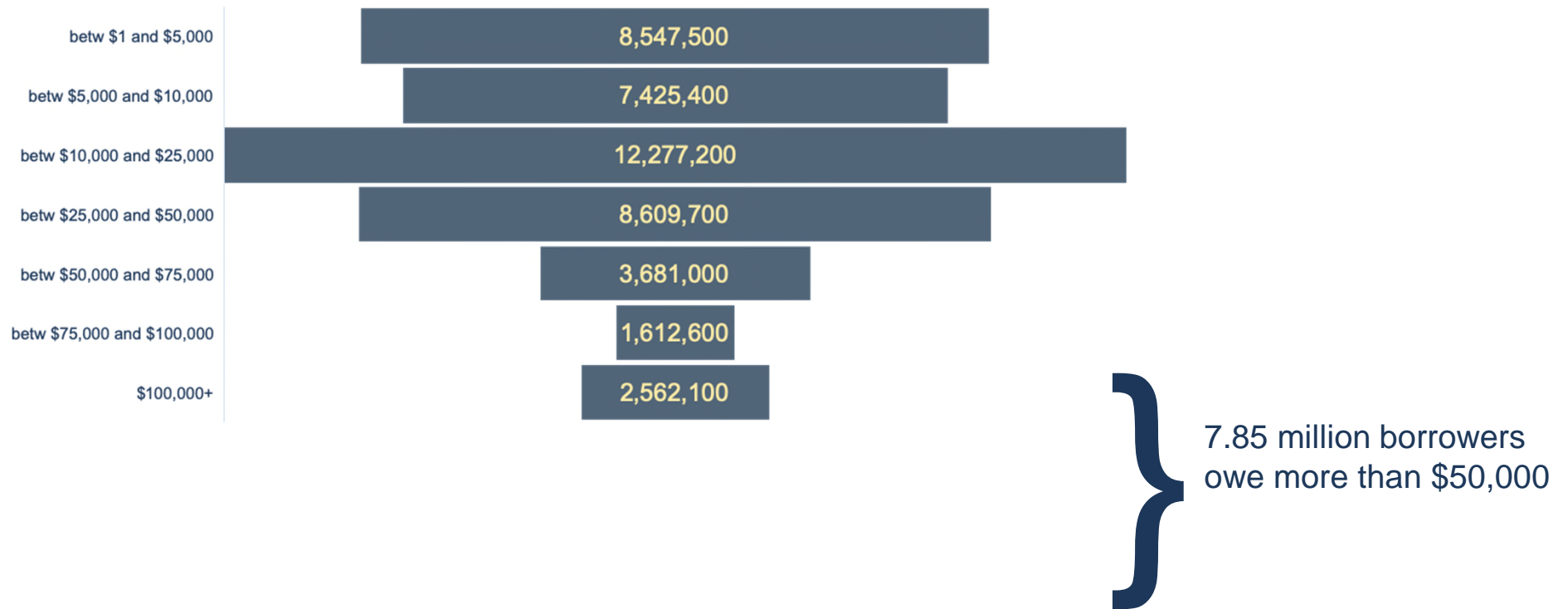


Consuming an increasing share of household debt

Change in household debt (2007 Q1- 2019 Q1)

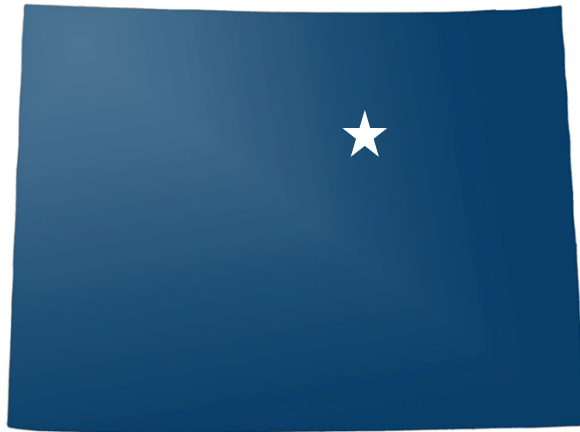


Distribution of loan balances



Student Debt in Colorado

Student debt in Colorado by the numbers

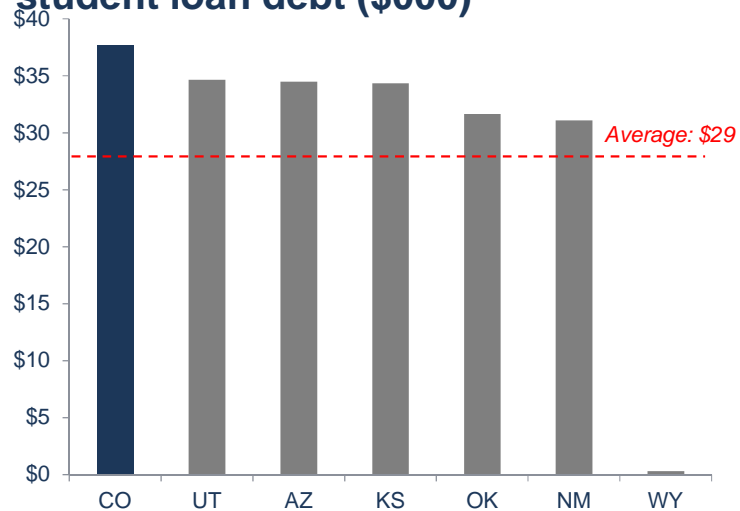


- **\$27.7 billion** in outstanding student loan debt
- **128%** increase in student loan debt in CO from 2008 to 2018
- **736,800** student loan borrowers
- **56,160** borrowers aged 60+
- **\$37,652** average student debt per CO borrower
- **1120** complaints submitted to CFPB by CO student loan borrowers

Colorado borrowers hold a relatively high debt load, and are struggling under its weight

- **101,678** delinquent borrowers
- **\$2.9 billion** in delinquent debt
- **7,536** delinquent CO borrowers aged 60+
- **54%** increase in borrowers aged 60+ (2012 to 2017)

Regional comparison: Average student loan debt (\$000)



The Domino Effect

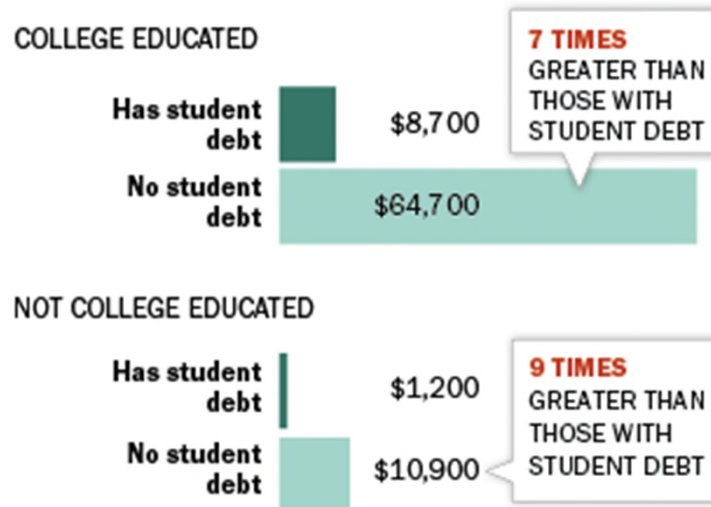
Domino effect of student debt

Research is starting to shed light on spillover effects of student debt

- Wealth Accumulation
- Racial Wealth Gap
- Increases in Financial Distress
- Creditworthiness
- Home and Auto Ownership
- And more (see appendix)

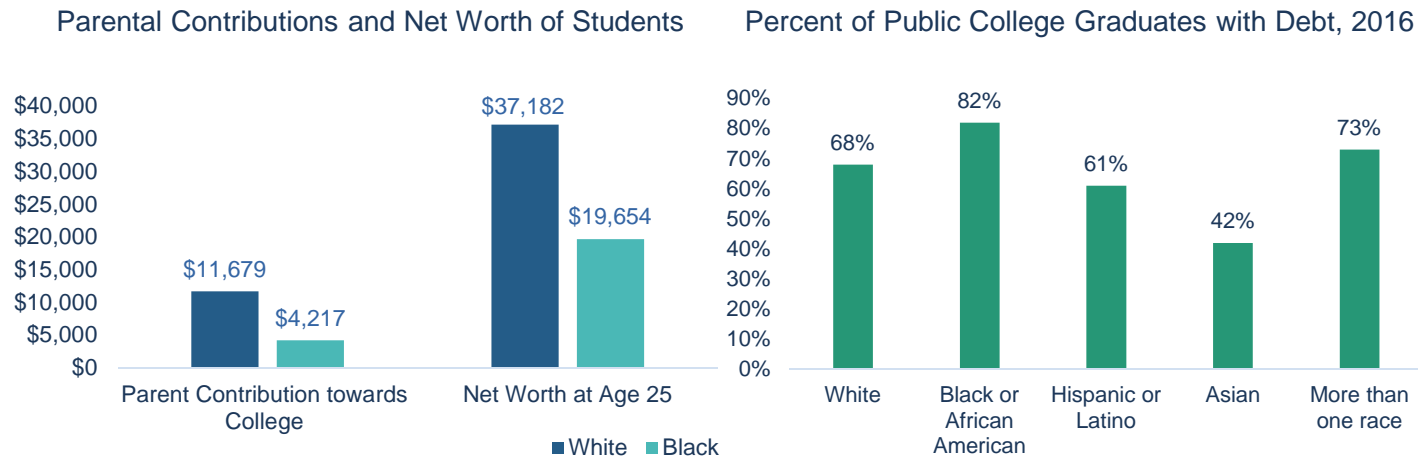
Student borrowers lag behind in wealth accumulation

Median net worth of young households



Note: Young households refers to households with heads younger than 40.

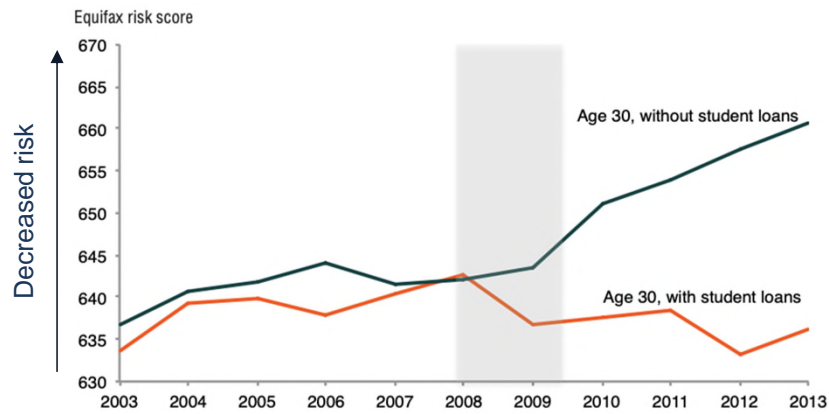
Student loans are a consequence and cause of the racial wealth gap



*“Existing racial wealth disparities and soaring higher education costs may actually replicate racial wealth disparities across generations by **driving racial disparities in student loan debt load and repayment.**”*

- Federal Reserve Bank of St. Louis

Student borrowers appear less creditworthy, creating spillover effects into the rest of the economy



NOTE: Shaded area represents Great Recession.

SOURCES: Adapted from "Young Student Loan Borrowers Retreat from Housing and Auto Markets," by Meta Brown and Sydnee Caldwell, *Liberty Street Economics* (blog), Federal Reserve Bank of New York, April 17, 2013.

Note: Shaded area represents the Great Recession

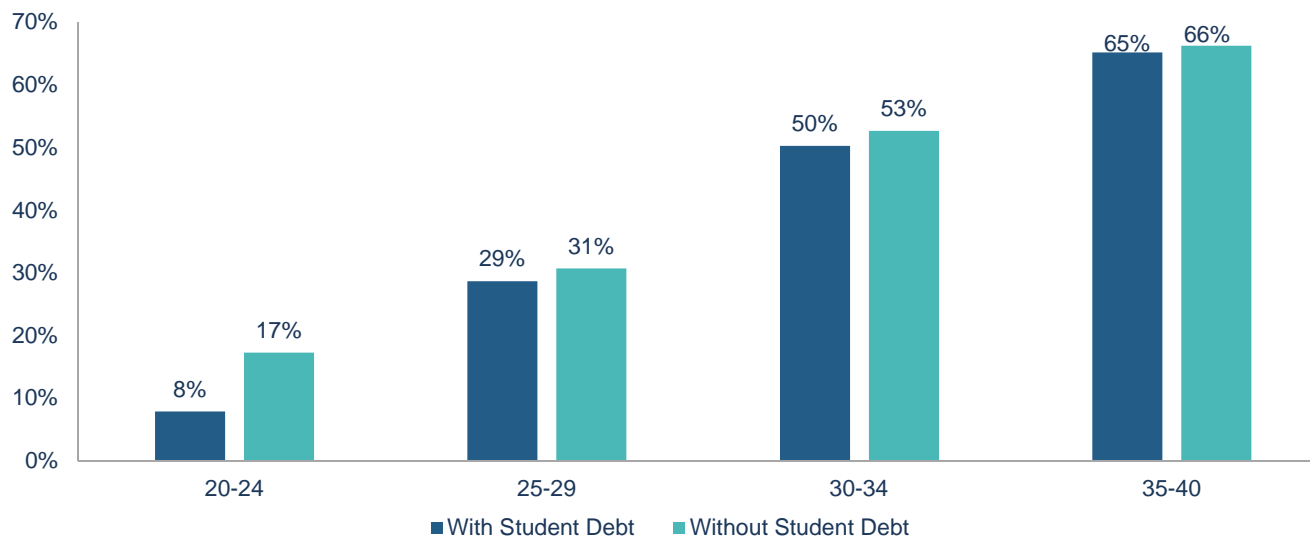
Sources: Adapted from "Young Student Loan Borrowers Retreat from Housing and Auto Markets," by Meta Brown and Sydnee Caldwell, *Liberty Street Economics* (blog), Federal Reserve Bank of New York, April 17, 2013.

When borrowers are considered less creditworthy, there are spillover effects, as they may have **difficulty starting businesses and finding employment** that requires good credit.

Research has shown younger workers with student debt may have **more limited access to housing and auto debt.**

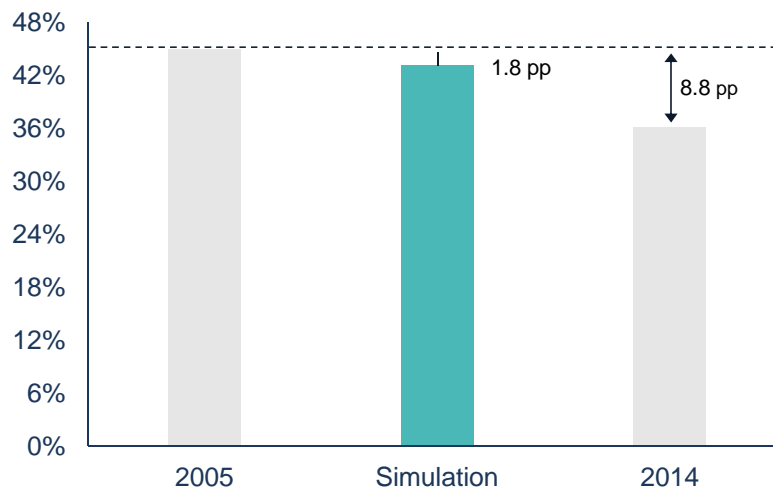
Homeownership rates are lower for households with student debt, especially among younger borrowers

Homeownership Rates by Age Group, for Households with Some College Experience



Note: Data on the presence or absence of student loan debt refer to 2011 and/or 2013. Restricted to households where the head or spouse (or both) have at least some college experience.

Student loan debt is impeding homeownership



- A little over **20 percent of the overall decline in homeownership** among the young can be **attributed to the rise in student loan debt**.
- Over **400,000 borrowers** between the ages of 24 and 32 **would have owned a home** in 2014 had it not been for the rise in student loan debt.

PP is percentage point

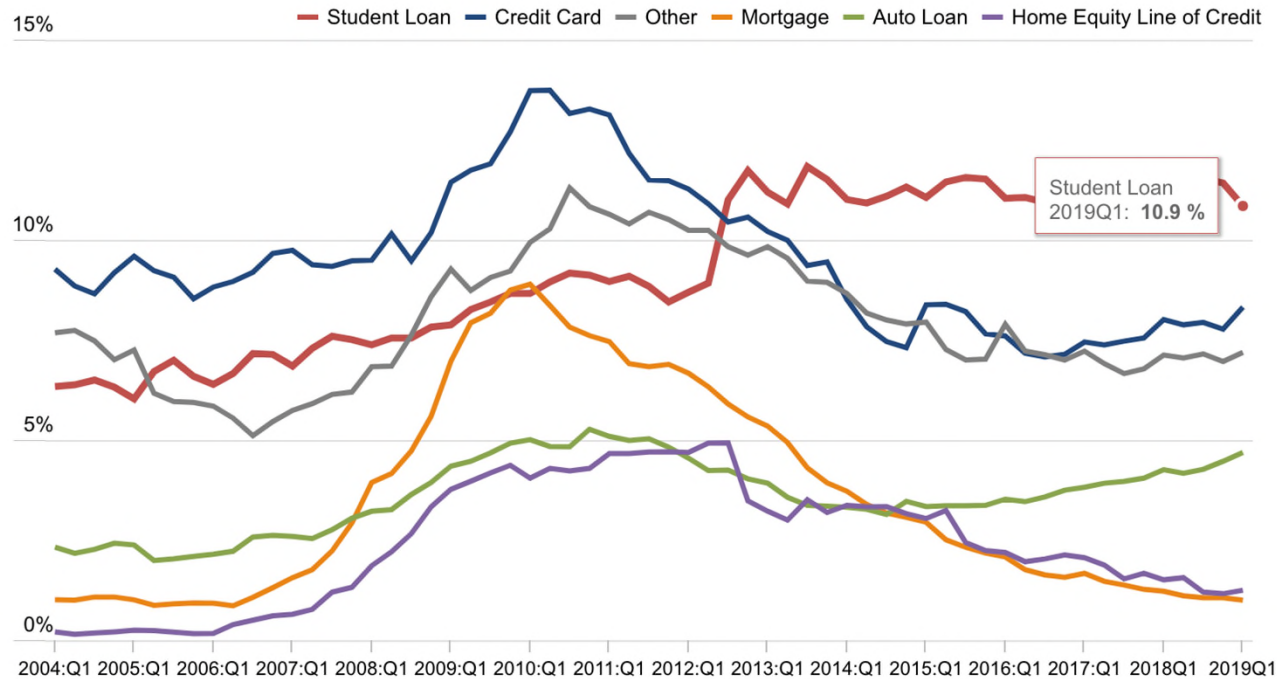
Note: Blue bars show actual homeownership rates in 2005 and 2014, constructed from Current Population Survey data. The orange bar shows the counterfactual homeownership rate simulated based on results available in Mezza (forthcoming)

Source: *Can Student Loan Debt Explain Low Homeownership Rates for Young Adults?*, Federal Reserve Board (2019)

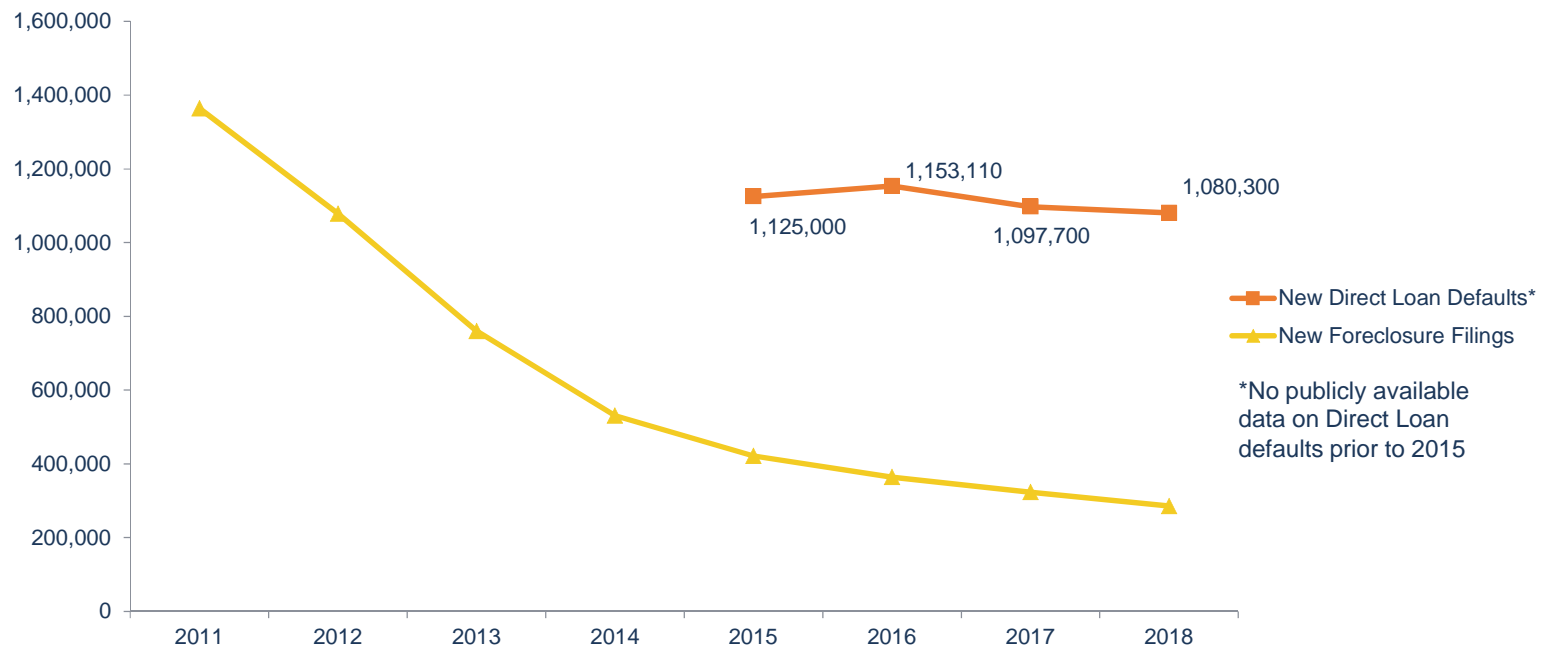
Student Loan Distress

Student loan delinquency rates remain stubbornly high

Percent of Total Balance Outstanding 90+ Days Delinquent
by Loan Type

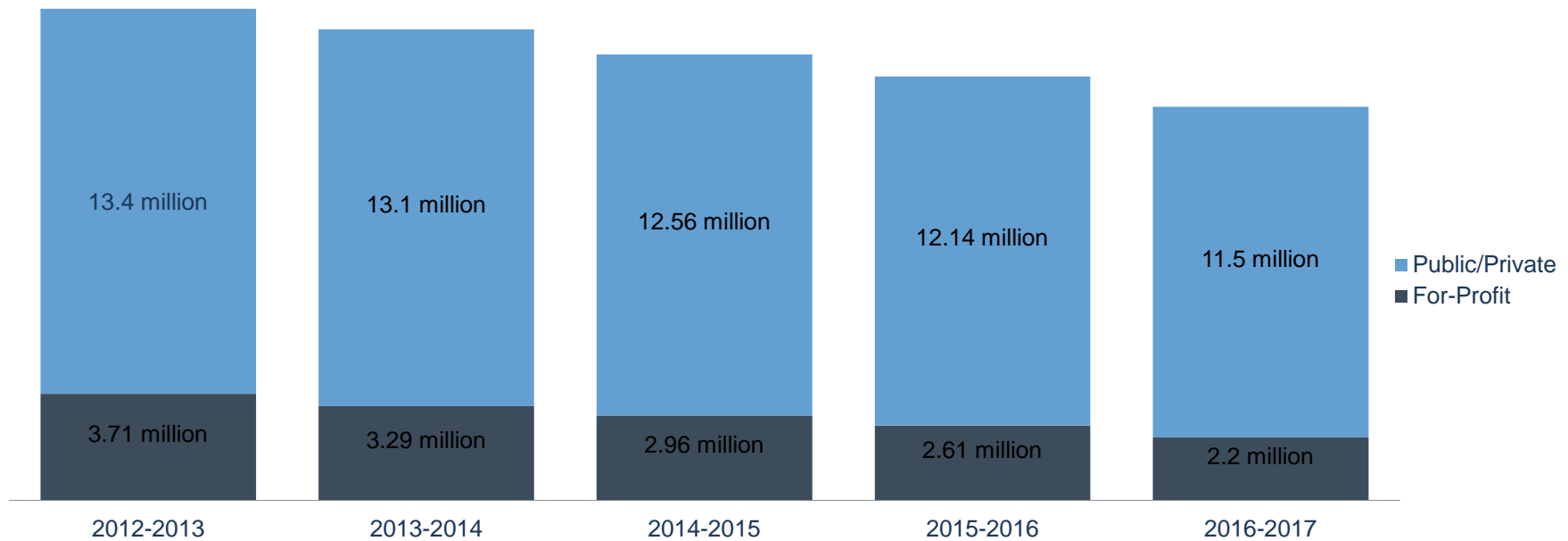


Student loan defaults and home foreclosures



For-Profit Schools are a small but significant part of the market

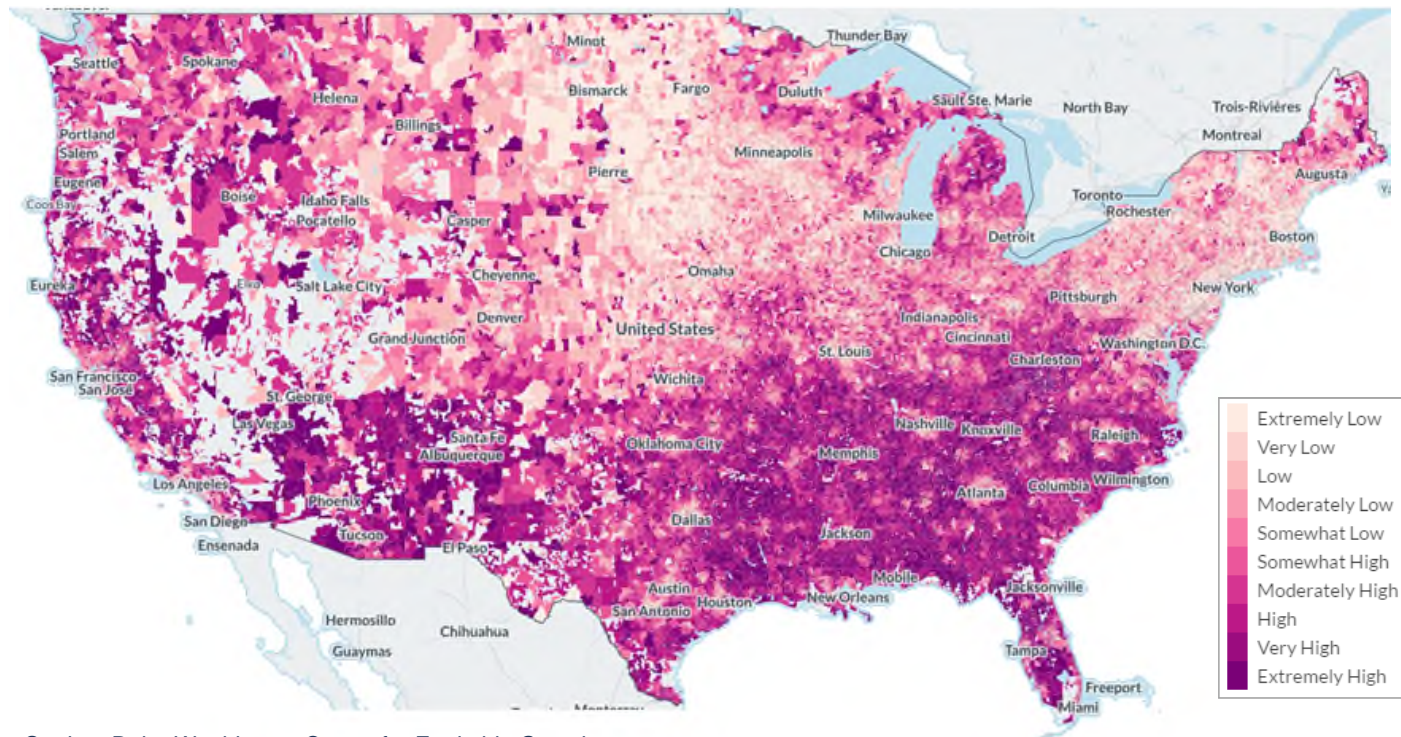
Direct Loan Originations by School Sector



Source: US Dept. of Education

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Student loan default rates across the country



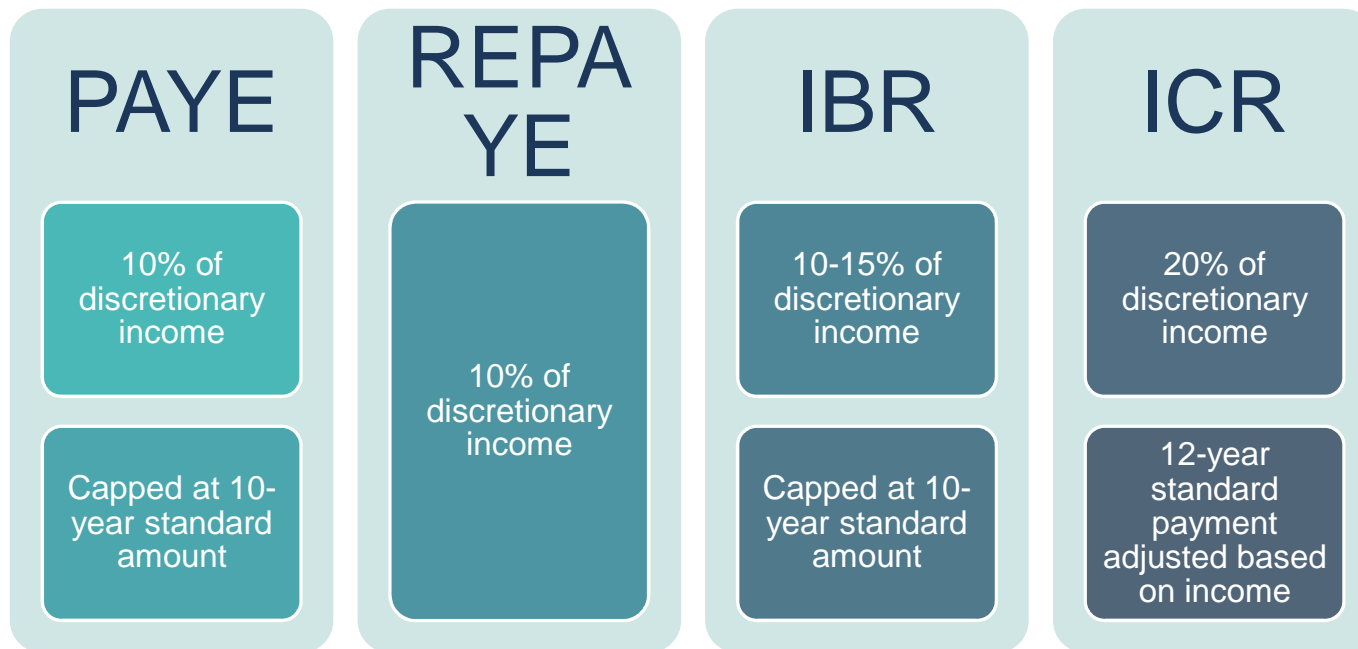
Source: Mapping Student Debt, Washington Center for Equitable Growth

Existing Federal Protections

Income-driven repayment (IDR)

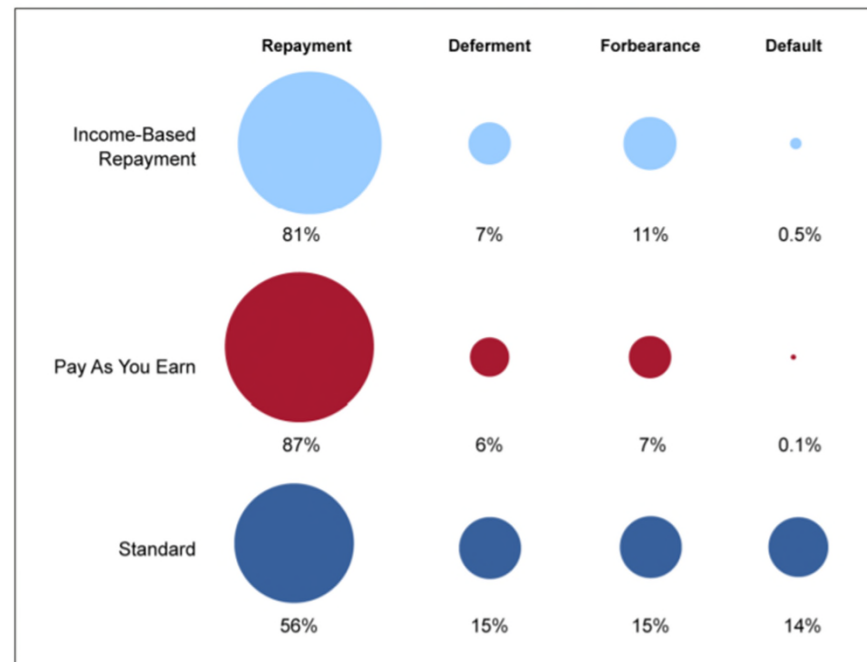
- Monthly payments based on a percentage of borrowers' income
- \$0 payments for no- and low-income borrowers (earning less than ~\$20,000)
- Recalculated each year as income changes
- Interest subsidies and protections for negatively amortizing loans
- Loan forgiveness after 20-25 years (10 years for public service employees)

Federal assistance: income-driven repayment (IDR)



Borrowers default 28 times more when not in IDR

Figure 6: Loan Status of Direct Loan Borrowers Who Entered Repayment from Fiscal Year 2010 through 2014, by Repayment Plan, September 2014



IDR works when borrowers can access it

When borrowers access IDR, they benefit across their financial lives.

Compared to non-IDR borrowers, borrowers making IDR payments:¹

- **Keep up with their payments:** Borrowers in IDR were 21% less likely to fall behind.
- **Pay down more debt:** IDR borrowers paid down \$90 more debt each month.
- **Strengthen credit profiles:** IDR borrowers' avg. credit scores improved +7.5 pts.
- **Expand access to consumer credit:** IDR borrowers showed increased access (+10%) and utilization of revolving accounts.
- **Buy houses:** IDR borrowers are more likely to have a mortgage, suggesting positive effects on homeownership.

When jobs are scarce, IDR protects borrowers from financial shocks.

As unemployment spikes in a community, borrowers in IDR:²

- Are less sensitive to drops in home values; and
- Default on student loans at lower rates.

¹ Herbst, Daniel J., *Liquidity and Insurance in Student Loan Contracts: Estimating the Effects of Income-Driven Repayment on Default and Consumption* (Working Paper, January 31, 2018)

² Mueller & Yannelis, *Students in Distress: Labor Market Shocks, Student Loan Default, and Federal Insurance Programs*, Working Paper, 2017

Federal assistance: Public Service Loan Forgiveness (PSLF)

- Offers public service workers **complete forgiveness of any outstanding balance on their Direct Loans after 120 on-time payments**
- Requirements
 1. Right type of loan – Direct Loans
 2. Right type of repayment plan – IDR or standard
 3. Right type of employment – work full-time in public service (government, 501(c)(3), or certain other not-for-profits)
 4. Right number of payments – 120 payments
- Under Temporary Expanded Public Service Loan Forgiveness (TEPSLF), borrowers repaying under the Graduated Repayment Plan, the Extended Repayment Plan, the Consolidation Standard Repayment Plan, and the Consolidation Graduated Repayment Plan are also eligible

State Role in Combating this Crisis

*We could change the cost of college tomorrow.
It wouldn't change the fate of 44 million
Americans crippled by student debt today.*

New York Get on Your Feet



- Provides **up to 24 months of federal student loan debt relief** to recent New York state college graduates
- Borrowers must be....
 - A legal resident of New York who works in New York
 - A graduate of a college or university in New York
 - A graduate of a New York high school or the recipient of a New York high school equivalency diploma
 - Enrolled in a federal IBR plan or Pay as You Earn plan
 - Below \$50,000 in income

“New York will pay your student loan bills for two years

...The governor's office estimates that 7,100 recent grads will take advantage of the New York program this year.”



1/4/2016

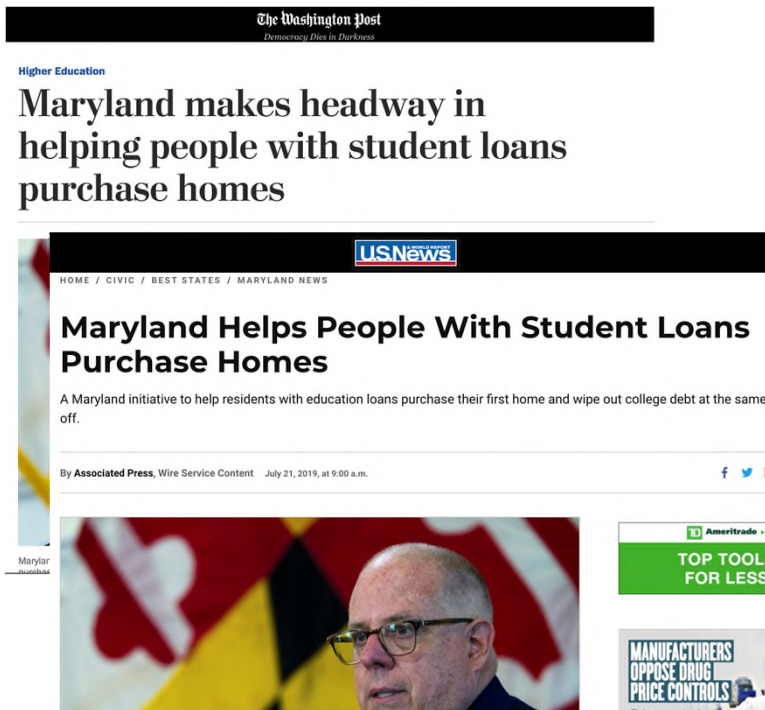
“New student loan forgiveness program unveiled in New York State

...’Ensuring students are able pay for college and not saddled with debt is critical for both their individual success and the continued economic growth of New York State,’ Governor Cuomo said.”



3/9/2019

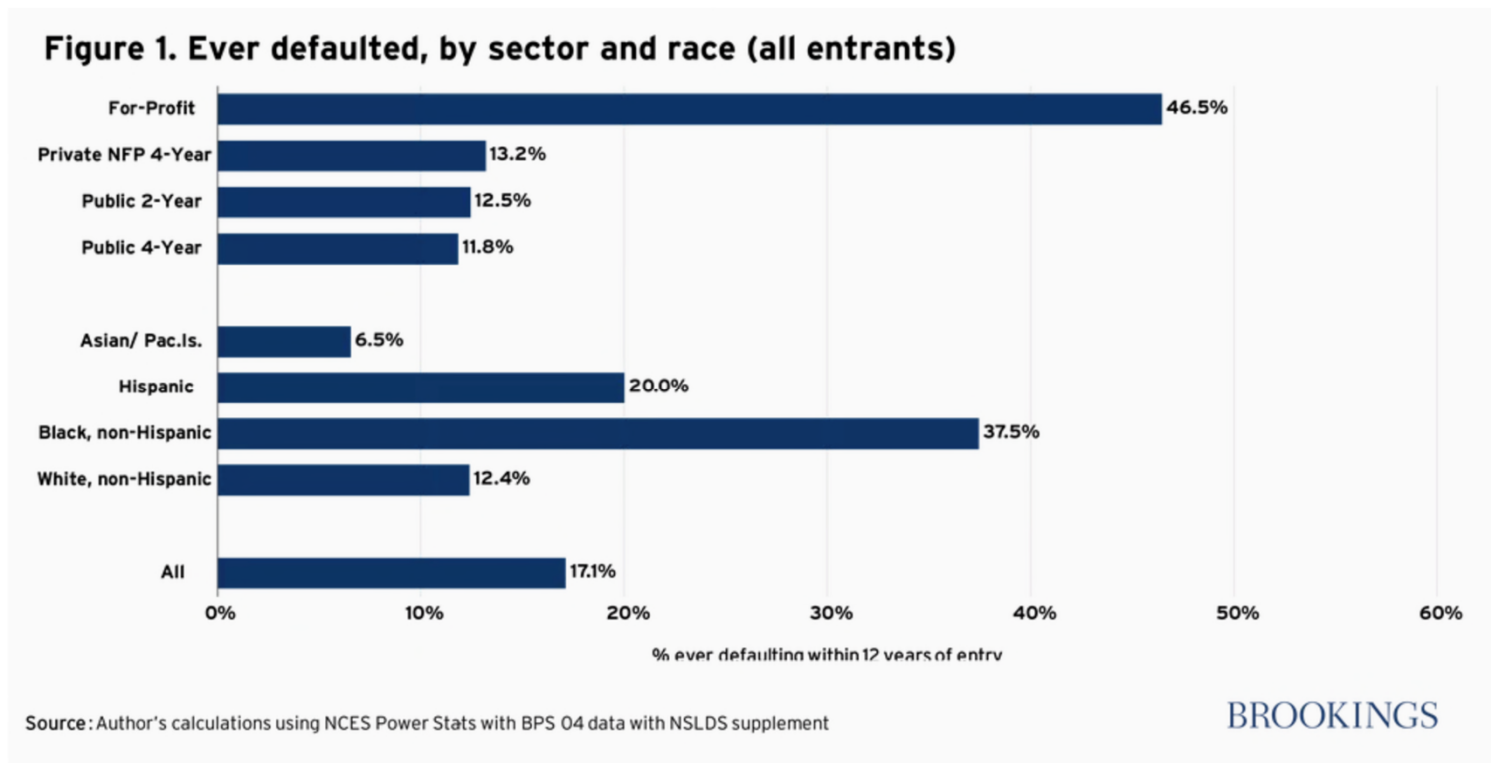
Maryland SmartBuy



- Provides incumbent home buyers **up to 15 percent of the purchase price of their home** to put toward their student loan debt
- Forgiveness capped at **\$40,000**
- Has helped home buyers pay off **\$7 million in student debt** and buy houses worth a cumulative **\$47 million** since its inception in 2016
- Borrowers must
 - Be buying their first home
 - Remain in the house for at least five years, or pay the state back

For-Profit Schools

For-profit colleges and default rates by race



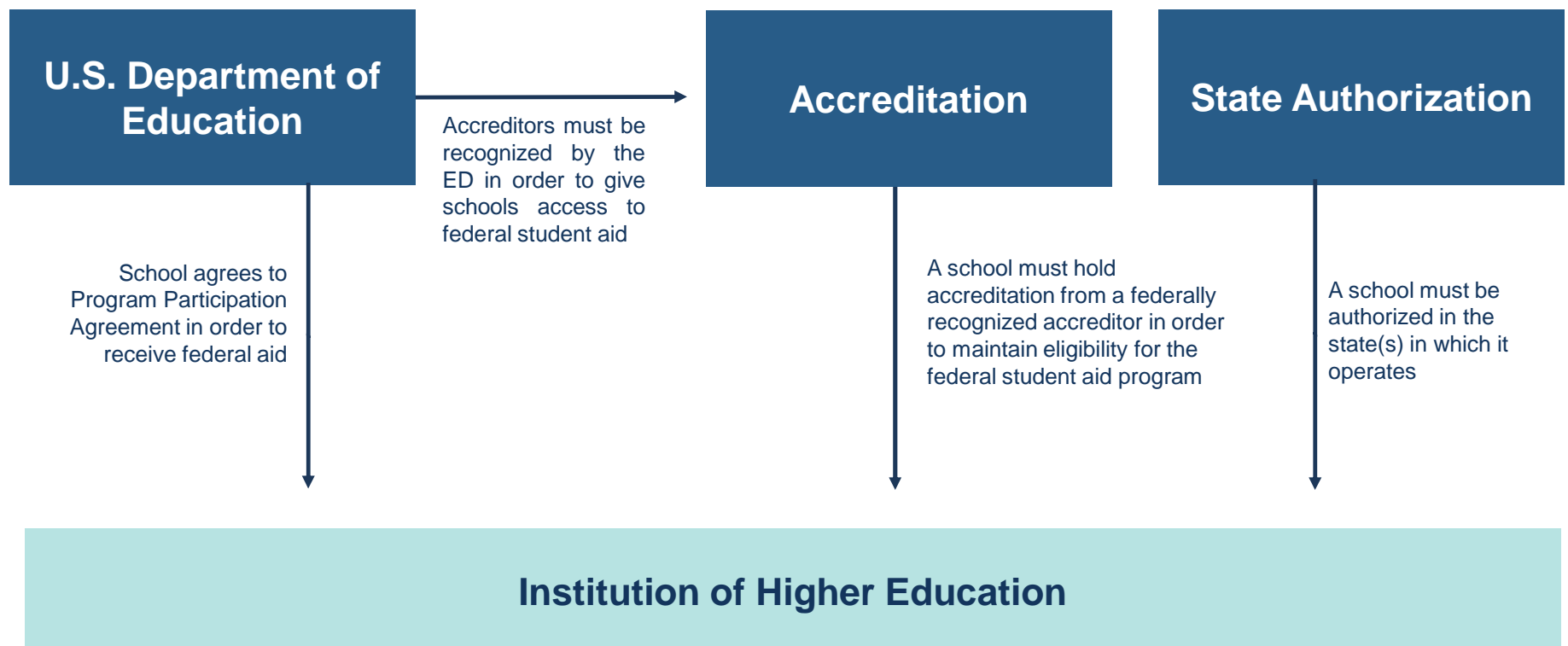
For-profit market participants

Corporations	School Brands	Status	Complaints (2017)
Corinthian Colleges	Heald College, Everest College, Wyotech	Closed	84,362
ITT Educational Services, Inc.	ITT Technical Institutes, Daniel Webster College	Closed	10718
Adtalem Global Education, Inc. (formerly DeVry Education Group, Inc.)	DeVry University, Carrington College, Chamberlain University, Keller Graduate School of Management, Ross University	New Ownership	8574*
Education Management Corporation / Dream Center	The Art Institutes, Argosy University, South University, Brown Mackie College	Closing	3540*
Education Corporation of America	Virginia College, Brightwood College	Closed	98*
Apollo Education Group	University of Phoenix, Western International University	New Ownership	3083
Career Education Corporation	American InterContinental University, Brooks institute, Briarcliffe College, Colorado Technical University, Le Cordon Bleu College of Culinary Arts, Missouri College, Sanford-Brown College	Offshored or operating	2415*
InfliLaw Corporation	Charlotte School of Law, Arizona Summit Law School, Florida Coastal School of Law	Closed or operating	697
Alta Colleges, Inc.	Westwood College, Redstone College	Closed	1030
Globe Education Network	Globe University, Minnesota School of Business, Broadview U	Closed	834

Issues and potential claims

- Aggressive recruiting practices
- Misrepresentations of job placement, work opportunities, and post-graduate salaries
- Deceptive marketing and advertising
- Predatory institutional loan products
- Creating outstanding amounts owed directly to the school through accounts receivable
- Steering borrowers into forbearance to skirt default rate metrics
- Use of pre-dispute arbitration clauses to limit borrowers' access to justice

The regulatory “triad”



Federal Oversight Takes a Step Back

Rollback of Federal Protections for Defrauded Student Loan Borrowers

- Over the last 2 years, the Department of Education has started aggressively rolling back important protections for student loan borrowers
 - Increasing the burden for borrowers to prove that they were defrauded
 - Making it harder for borrowers to access loan discharges if their school shutdown unexpectedly
 - Allowing programs with extremely high debt levels and poor earnings upon graduation to continue enrolling new students
 - Allowing schools to once again force students to sign away their ability to take complaints to court

Forced Arbitration

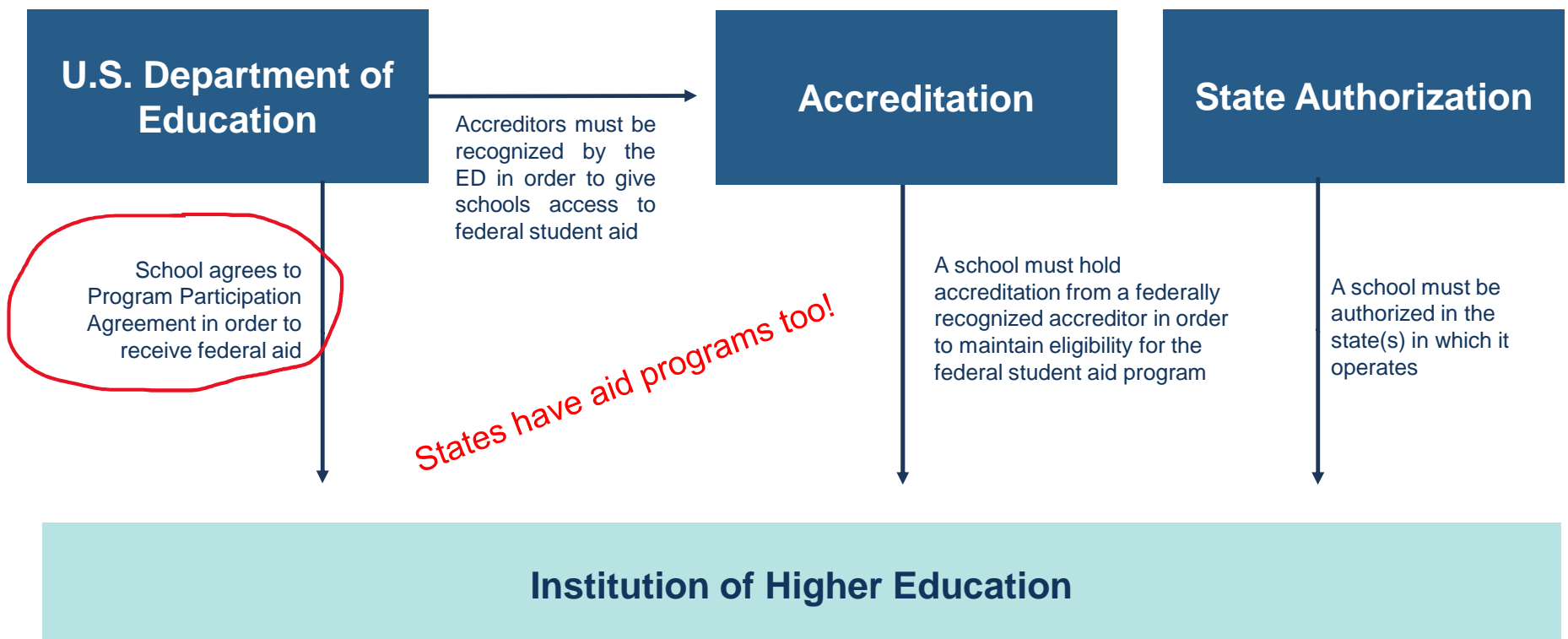
- For-profit schools overwhelmingly use restrictive clauses like forced arbitration to limit students' ability to go to court to resolve disputes
 - These clauses are found in the fine print of enrollment contracts students sign, often consisting of dozens of pages
 - Schools like Corinthian Colleges, ITT Tech, Art Institutes, and Argosy all used these clauses to silence students from publicizing their complaints
 - These schools all eventually shut down leaving thousands of students with mountains of debt
 - Because the nature of these clauses are so restrictive, federal and state law enforcement often missed out on critical information while schools and their executives profited off students

Class Action Waivers

- For-profit schools often take these restrictive clauses a step further, requiring students to not only submit to a private resolution process, but to also do so individually
 - Corinthian Colleges and ITT Tech used these waivers to limit information flow to law enforcement, students, and arbitrators determining validity of complaints

What Can States Do About Arbitration

The regulatory “triad”



State aid programs

- Each state has its own financial aid program(s)
- 25 states provide state aid to for-profit schools
- These programs often have their own terms and conditions that schools must abide by in order to remain eligible
- These terms are separate from the requirements under state authorization
- Colorado is one of the states that provides financial aid \$\$ to for-profit schools
- States can strengthen the terms of these financial aid programs to stop the enforcement of restrictive clauses like pre-dispute arbitration

Thank You



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