REPAYING COLLEGE LOANS:

HELPING STUDENTS MAKE GOOD DECISIONS

For college students looking to avoid unmanageable debt, making informed decisions about where to go, what to study, and how much to borrow is only the first step.

How students approach repayment can be equally important in determining their financial outcomes. For counselors working with students, it is important to understand both the decisions that can lead to positive repayment outcomes and the ways in which certain students might be more vulnerable than others. This resource provides basic information about loan repayment patterns and options that will help advisers better prepare students.

REPAYMENT PLANS

Once students leave school, they face a complicated array of options for repaying their loans. Those who do not choose an alternative are placed in the standard 10-year repayment plan, under which they are expected to make equal payments every month, retiring their debt after 10 years or in fewer years if the balance is low enough to be repaid more quickly with the $50 minimum monthly payment.

But about one-third of borrowers are enrolled in income-driven repayment plans that set their monthly payments at $0 if their incomes are below 150 percent of the federal poverty level or at 10 percent (or in some cases 15 percent) of the amount by which their incomes exceed that threshold. Under these plans, unpaid balances are forgiven after 10, 15, 20, or 25 years if borrowers' incomes have not been high enough to cover the full amount.

KEY TAKEAWAYS

DEFAULT
Defaulting on student loans can have a serious impact on people's lives, but advisers can help borrowers avoid default.

REPAYMENT PLANS
Borrowers can choose from an array of repayment plans when their loans come due, but navigating these options can be confusing. Income-driven plans provide the best protection.

CREDENTIALS
Borrowers who leave school without a credential are the most likely to default.

DEAFULT RATES
Default rates are highest on small debts and lowest on large debts and vary widely across demographic groups. Black borrowers have higher default rates than others. Counseling them when they take out loans and when they enter repayment is particularly important.

PAYING BACK LOANS
Students who borrow to attend community colleges and for-profit institutions have less success repaying their loans than those who attend public and private nonprofit four-year colleges and universities.

POSTCOLLEGE EARNINGS
There is wide variation in postcollege earnings among people with the same level of education. These differences make it hard for some borrowers to repay their loans. Those who are likely to have low earnings are most vulnerable and can benefit most from income-driven repayment plans.

REPAYMENT PLANS (CONT.)

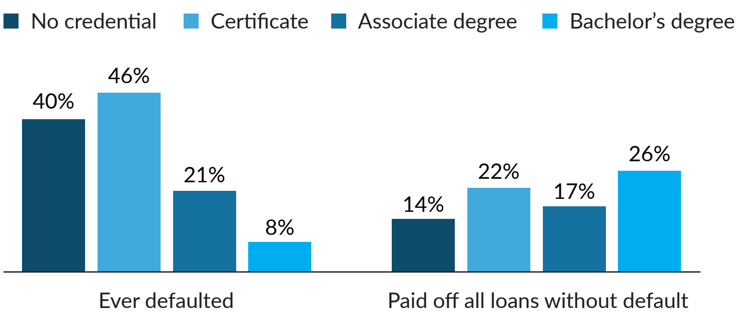
Income-driven repayment plans should prevent borrowers from defaulting because of low incomes. But there are bureaucratic hurdles to enrolling in these plans and meeting the ongoing income verification requirements. Counselors should help students understand the importance of working with their college financial aid professionals to ensure a smooth transition into the repayment plans that will work best for them.

Borrowers enrolled in other repayment plans can defer their payments when they are back in school or have inadequate incomes or can receive forbearance because of economic hardship. Those who do not make required payments for 270 days are considered to have defaulted on their obligations. Students should understand that they will have these options to avoid default. Precollege counselors cannot provide a "how-to" guide for all the situations students might face after college, but they can help students understand their options and encourage them to seek help when they need it.

WHO STRUGGLES WITH REPAYMENT

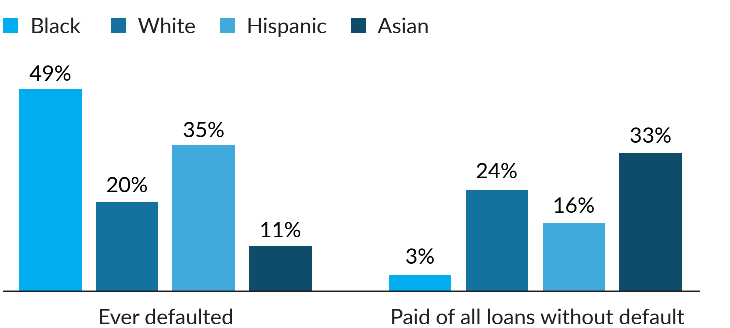
There are two common ways of measuring repayment success. The default rate is one. Another measure is whether borrowers reduce the amount they owe—whether they make payments that are larger than the amount necessary to cover the interest charges. But borrowers can struggle even if they make payments. It is not easy to quantify the difficulties borrowers may face, but higher incomes—and more family support—make it easier to handle education debt.

Loan Default and Repayment Rates within 12 Years of Beginning College in 2003–04



Source: Beginning Postsecondary Students Longitudinal Study, 2004/09.

Default Rates by Race or Ethnicity among Bachelor's Degree Recipients First Enrolling in 2003–04



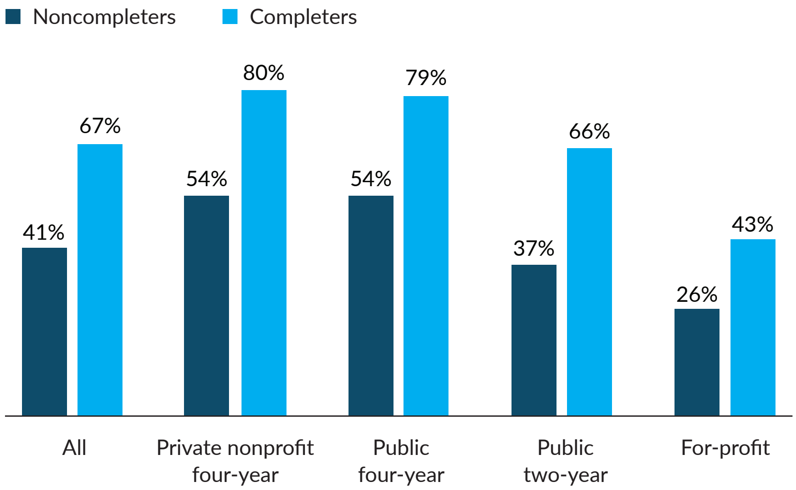
Source: Beginning Postsecondary Students Longitudinal Study, 2004/09.

Students who leave school without a degree or certificate have the biggest problems with repayment.

DEFAULT RATE BY DEGREE TYPE

Borrowers who earn a certificate, as opposed to an associate or bachelor's degree, also have particularly high default rates. Within each category of educational attainment, however, Black borrowers have higher default rates than others. Even among those who earn bachelor's degrees, Black borrowers are more likely than others to default. Among borrowers who began college in 2003–04 and earned a bachelor's degree by 2009, 23 percent of Black borrowers defaulted on a loan within 12 years.

Federal Student Loan Five-Year Repayment Rates, by Sector and Degree Completion, among Borrowers Entering Repayment in 2011–12



Source: Sandy Baum, Jennifer Ma, Matea Pender, and CJ Libassi, *Trends in Student Aid 2019* (New York: College Board, 2019), figure 13B.

Among both students who complete programs and those who do not, those who attended for-profit institutions are least successful repaying their loans. Just over 40 percent of the borrowers who completed their programs at for-profit institutions have reduced their loan balance by even $1 after five years.

EARNINGS AFTER COLLEGE

There is wide variation in earnings after college among people with the same level of education. For example, Black and Hispanic four-year college graduates earn less, on average, than their White and Asian peers. This makes it more difficult for them to repay their student loans.

Median Earnings among Adults Ages 25 to 34 Whose Highest Degree Is a Bachelor's Degree, 2018

BLACK	$41,100
WHITE	$51,800
HISPANIC	$41,300
ASIAN	$58,900

There is considerable variation across states in postcollege earnings. Both average earnings and differences between demographic groups vary widely across states. In 2017, average earnings for adults with at least a bachelor's degree ranged from $55,800 in Mississippi to $95,600 in Washington, DC. The gaps in earnings by race or ethnicity are larger in some states than in others.

For more information, see the technical appendix.

WHO STRUGGLES TO REPAY?

The borrowers who have the most difficulty repaying their debts are those who leave school without a degree or certificate, not those with high levels of debt. Most students who stay in college long enough to accumulate a lot of debt complete at least a bachelor's degree and are likely to have the earnings they need to cover repayment costs. Of students who first enrolled in college in the 2003–04 school year but never completed a degree, nearly half have defaulted on their loans. **About one-fifth of borrowers who began college in 2003–04 had paid off all their loans without a default within 12 years of starting college**. Only 15 percent of those who left school with debt but no degree had completely repaid their loans.

ADVISING STUDENTS

REPAYMENT RESPONSIBILITIES

Students should think about their repayment responsibilities before they borrow. Counselors and other advisers should be sure students understand that unlike grants and scholarships, loans must be repaid. Repayment means not all future earnings will be available for other expenses.

FEDERAL VERSUS PRIVATE LOANS

Students should understand the importance of federal loans, which offer income-driven repayment and other protections, rather than private loans, which should be a consideration only for students for whom federal loans are unavailable or insufficient.

MANAGING DEBT

Students should know that most borrowers who complete degrees can manage their debt, but not repaying debts has serious repercussions.

LOAN REPAYMENT PLANS

Students should know in advance about the various loan repayment plans and understand the advantages of enrolling in income-driven plans that keep payments affordable.

FUTURE INCOME

The ability to repay debts depends on future income. There is wide variation in earnings across occupations, geographic regions, and demographic groups, even among adults with similar levels of education.

COMPLETION

Much of the benefit of investing in college depends on completing a credential. From the time they enroll and borrow, students should be aware of the importance of persisting to achieve their goals.

COMPLETION

One-third of students who began college in 2011–12 had not earned a degree or certificate and were no longer enrolled in 2017. This outcome was most common for those who attended public two-year or for-profit institutions. Within each sector, Black students were more likely than others to leave school without a credential, which makes loan repayment particularly challenging. Asian students were least likely to be in this situation.

Share of Students Beginning College in 2011–12 Who Had Not Earned a Degree and Were No Longer Enrolled in 2017

	ALL SECTORS	PUBLIC FOUR-YEAR	PRIVATE NONPROFIT FOUR-YEAR	PUBLIC TWO-YEAR	FOR-PROFIT
ALL	32%	20%	15%	46%	42%
BLACK	43%	31%	30%	54%	55%
WHITE	29%	17%	13%	46%	43%
HISPANIC	35%	23%	12%	47%	32%
ASIAN	19%	15%	7%	32%	27%

Source: Beginning Postsecondary Students Longitudinal Study, 2012/17, PowerStats.

RESOURCES

COLLEGE NAVIGATOR
Learn more about net prices paid by students at different income levels to help students estimate how much they will pay.

https://nces.ed.gov collegenavigator/

COLLEGE SCORECARD
This resource provides information about a school's published prices, available financial aid, graduation rates, employment outcomes, and the average time to degree.

https://collegescorecard.ed.gov/

URBAN INSTITUTE REPORT
The information in this fact sheet is based on larger research. Learn more about students, borrowing, and repaying by reading the report below.

https://urbn.is/38n624W

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