After the Fact | How Student Loans Shape Financial Futures

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TRANSCRIPT

Danielle Douglas-Gabriel, reporter, *The Washington Post*: People want an education, and oftentimes they have to borrow to get it.

Brian Denten, officer, student loan initiative, The Pew Charitable Trusts: A small balance can turn into a big one. Pretty sizable balance pretty quickly,

Danielle Douglas-Gabriel: 40 million people owe about $1.6 trillion.

Brian Denten: It's the highest it's ever been in history. It keeps just creeping up and up and up. Things have gotten complicated

Danielle Douglas-Gabriel: The programs that Congress created: well-intentioned, poorly designed and executed.

Brian Denten: The child tax credit, the earned income tax credit, even those things are on the table for garnishment if people don't repay their student loans.

Danielle Douglas-Gabriel: When you talk to someone who's in their 60s and owes 150,000 worth of debt, there's no way they're paying that back

Dan LeDuc, host, "After the Fact" Podcast: Welcome to "After the Fact." For The Pew Charitable Trusts, I'm Dan LeDuc. In the United States, getting a college degree is often seen as a pathway to a better future with a good job and financial security. But in recent decades, the price of college has skyrocketed, leaving millions of students to rely on federal loans to help cover their costs.

Today, more than 43 million Americans hold $1.6 trillion—that's with a "T"—in student loan debt. And many face high monthly payments that eat up their budgets and endanger their financial security. And changes that could be coming might mean borrowers having to make higher monthly payments.

Danielle Douglas-Gabriel covers student debt for *The Washington Post* and is here to tell us more.

Dan LeDuc: Student debt. That is a big beat in sheer number of people and dollars involved. How did you get this beat?

Danielle Douglas-Gabriel: I started out as the banking reporter at *The Post*, and honestly, I started to pay attention to some of the big banks like J.P. Morgan, Citibank, selling off their student loan portfolios. I'm like, huh, that's interesting. Why would they be doing that? We have a lot of people going to college.

And the more I dug, I started to learn about FFEL, this old bank-based lending program that had been around since the late ’60s, and wanted to really understand how the system worked and why there were all of these kinds of complexities in it. Also personally, I was a borrower. I learned about why I was in one type of federal loan versus another. And what was the history behind it? That really sparked my interest. And I just kept writing about this subject matter until our education desk was like, maybe you should come with us, and I've been with them ever since. I try to write for people like my parents, who had little understanding of the financial aid system. I'm a first-generation college graduate, and so we were just feeling around in the dark,

Dan LeDuc: That feeling around in the darkness is part of the problem, right? There's, for a lot of people, especially people who take on student debt, they're often like your circumstances. First generation, parents may not have experienced themselves with the college scene.

How did all this start? When did students start being able to even borrow money from the federal government or elsewhere for college?

Danielle Douglas-Gabriel: So, the modern federal student loan system really has its roots in the 1965 Higher Education Act. A lot of Americans were paying attention to the fact that the Soviets were advancing in math and science, and they were doing really well.

And to stay competitive, Lyndon B. Johnson was really pushing Congress in ’65 to try to expand college access, saying, “Hey, we have to find a way to support college-going.”

So he thought, we'll create a loan program, and this loan program initially was a guaranteed loan program, meaning private banks would be lending the money with the full backing of the federal government. This way, if anyone defaulted, the government would cover it.

But Johnson at the time was like, no one's going to default. Once you get an education, you'll get a job, and that job will be able to cover the cost of paying back

the loan. And so, for a while, you saw a little bit of an uptick in college enrollment, loan usage.

But not till the ’80s, you really started to see a huge uptick in loans being made, people going to college.

But then again, Great Recession hits. This is when you start to see spikes. Everyone, I think, can remember in their collective consciousness the idea of a trillion dollars of student loan debt,

The rate is still climbing. It is the second-highest consumer debt category in the country after mortgages. And I think that's something that says a lot about how we finance higher education in this country and the demand for it.

Dan LeDuc: We've seen plenty of news stories about the, the exponential increase in tuition rates over the last, gosh, four decades. What's driving the increased borrowing?

Is it those increased costs or the sheer number of people?

Danielle Douglas-Gabriel: It's both, honestly. Certainly, the increased costs, not just tuition, room and board. All of the colleges have certainly been increasing their pricing strategies. But what's interesting is when you start to pare back those numbers, the sticker prices at a lot of universities really don't tell the truth about what people are paying.

But even when you get to the net price, which is the money after grants and scholarships are taken into account, which have been relatively flat for a good decade or so, it's still a lot of money. You tell any family that they have to pay, even if it's 10,000 a year, that's not easy to come by for a lot of people.

(Music break/pause)

Brian Denten: The data still does back this up, that higher education is a good bet to make. You go to higher education, you're going to receive higher incomes, um, better life outcomes in general

Dan LeDuc: Brian Denton works on Pew's student loan initiative.

Brian Denten: The student loan program created in the 1960s was intended to be a vehicle to help low-income families access the higher education system. The program's grown a lot since then as higher education in general has grown as an

industry. And so it has over time, I think, gone a bit afield from its original intention. People view it as necessary to really further themselves, further their children's lives.

Dan LeDuc: So how does the system work? I mean, I'm, I'm thinking about the borrower, right? A lot of these folks are first generation in college, so maybe their families don't have a lot of experience with this program. It's complicated. So how do people start learning about it?

Brian Denten: It really is very, very complicated. Even as an expert on the topic, I still feel like I'm learning new things every day. At a fundamental level, the student loan process begins with filling out the FAFSA, which is something that every college student and their family has to do to see what sort of financial aid they might receive.

After that FAFSA is processed, the student then receives an award letter, which contains both the amount of loans that they're eligible for and any grants. That process repeats every year while a student is in school and then once they separate from school either.

Danielle Douglas-Gabriel: After graduating or if circumstances lead them to have to drop out early, students receive about a six-month grace period under which no payments are due. But then that six-month grace period expires, and payments do become due after that point. From our research is that noncompletion really is one of the leading indicators of eventual student loan default. In our survey, we found that default was more than twice as likely among the group of people who were not able to complete their degree. So not only do they have the debt, but they don't have the credential to earn more to pay off that debt in a reasonable time.

Dan LeDuc: We're back with Danielle Douglas-Gabriel.

Danielle Douglas-Gabriel: A little over 40 million people in the federal student loan portfolio owe collectively about $1.6 trillion. And at this stage, 6.5 million people are in default. And the default numbers are fascinating to me. The most prominent groups are people 62 and older, they hold a disproportionate amount of defaulted debt.

Dan LeDuc: That’s really counterintuitive.

Danielle Douglas-Gabriel: That's counterintuitive, right?

Dan LeDuc: [Students] who are in colleges in their twenties, maybe their thirties, and they're struggling to get that first job and making, can't make their payments, but it's actually the fastest-growing are these older folks …

Danielle Douglas-Gabriel: Yeah.

Dan LeDuc: …On there?

Danielle Douglas-Gabriel: I think a part of it is life happens, right? Kids, mortgages, all the things that become priorities relative to the paying, repaying this debt.

Dan LeDuc: So, there's a lot to talk about here. Great Recession is a turning point for a lot of people. The economy contracted. It was bad times, so that's one of the causes. But was there other stuff at work?

Danielle Douglas-Gabriel: You definitely saw a population of people who decided, because they felt it was difficult to get a job during the Great Recession, they would go back to school, sharpen their skills, and see if they can make themselves more marketable.

About 40% of the loans that the federal government is borrowing. And then the last one, which originates is for graduate programs, and that's where you see some really high balances.

And that's a lot of the older borrowers, the 62 and older borrowers that I speak with who have this debt still. They went back during that time, oftentimes for advanced degrees that cost more money, and so …

Dan LeDuc: So …

Danielle Douglas-Gabriel: … More debt.

Dan LeDuc: Again, counterintuitive. We're talking about 62. That means like they were in their early, late 40s, early 50s when they were taking on new debt in their life.

Danielle Douglas-Gabriel: Yes. Also, think about the proliferation of all of these kinds of professional degrees that were really marketing to that population. You saw the ads on the subways and on TV that we will work with you and with your schedule as you're raising kids and everything else. And it made it really appealing.

And it, education seems like a great investment, but sometimes not every degree pays off in the same way. And for some people, they just never got the earnings in order to cover the cost.

Dan LeDuc: But older borrowers aren’t just taking out loans for themselves. Many are financing their children's education too.

Danielle Douglas-Gabriel: Parent PLUS is a program that allows parents to help their undergraduate student pay for college by taking on debt themselves, lots of Black and Brown parents who often tap this program in order to help fund their child's education. It certainly helped me.

My father had to use that program for my education. The challenge here is the interest rates are high. And when I say high, I think right now it's at 8% or so. So, you add the interest, the origination fee, and parents are paying this back while their child is in college. But the idea of asking people who are entering retirement or getting closer to it to take on another substantial debt can be a recipe for disaster.

Dan LeDuc: And default is one ingredient in that recipe. Nearly 6 in 10 borrowers who reported not completing their degree ended up defaulting. And default disproportionately affects Black and Latino borrowers, who face more barriers to completing their degrees than their White peers. In fact, half of Black and 40% of Hispanic or Latino borrowers have had a loan default, compared to only 29% of White borrowers.

Once in default, getting back in good standing is difficult. Loan rehabilitation adds unpaid interest to the total balance, often making monthly payments even higher than they were before default.

These factors can lead borrowers to stay in default for many years, even decades. According to a survey from the Department of Education, 45% of borrowers currently in default first defaulted seven or more years ago.

Wage garnishment is one serious consequence of default. But, according to Brian, there are other repercussions that can have just as big of an impact.

Brian Denten: If people don't repay their student loans. garnishing wages is a big one. People will receive hits to their credit score, which will persist for up to seven years. The government can offset your tax refunds, so even things like the child tax credit, the earned income tax credit, even those things that were created to really help families who are just starting out, are on the table for garnishment. Social Security benefits can also be offset. This is a growing problem for older borrowers, people who might have borrowed for their children or even themselves and now are facing retirement age.

Dan LeDuc: It sounds like, for most people who default, they can't pay because they just don't have the money.

Brian Denten: When it comes to thinking about how people stack up their financial priorities, we have found from some of our focus group research that the student loan payment sometimes falls to the bottom, not because people don't want to repay. We know overwhelmingly people do want to repay, but when faced with the circumstances of losing your home or your car versus some of the consequences that do happen when you fail to repay your student loan, it's I think a sensible choice for a lot of people based on their financial circumstances.

Danielle Douglas-Gabriel: Some of the folks that I've interviewed have been in default for seven, eight years, and they've just built it in like this is a part of my life

Dan LeDuc: So, they're saying like for the last seven, eight years, these folks have seen wage garnishment. They've seen their tax returns grabbed, and that's become their new normal?

Danielle Douglas-Gabriel: In some instances. Now, I don't want to make it seem like this is everyone, because certainly not, but I have spoken to folks who, you know, one, one man who stands out in particular, he was 68. He had nursed his wife through breast cancer.

She passed away at the end. And in that time, he just said, look, worrying about my wages being garnished while I was watching my wife die, it just didn't even enter my mind. I know that was my responsibility, but I know that the 15% garnishment that they were getting meant they were getting paid.

So, when I had to worry about getting her to her appointments and everything else, he just let that sit in the, on the back burner and didn't worry about it. I, there's no judgment on how people decide to live their financial lives, but that is the realities of what I'm seeing and hearing from folks on the ground. For everyone who's just resigned to, yeah, I'm in default and they can just garnish my wages, far more people are like, oh my God, I'm in default.

I don't want to be here. I'd like to own a house someday. How do I get out of this? But oftentimes, because the system is so complex and people's financial situation still may not have improved as they're trying to rehabilitate their loans, a lot of those people will re-default. And it becomes this unfortunate cycle that's really difficult for people to get out of.

(Music break/pause)

Dan LeDuc: Let's talk about what COVID and the pandemic did to all of this. I mean, boy, talking about it, you know, things being troubled and then …

Brian Denten: So, I think by and large it introduced a ton of confusion for people in terms of what it means for their financial lives moving forward. Student loans were paused in March 2020 in response to the pandemic and only came back online in fall of 2023 in terms of payments being due.

What wasn't publicized as much is that there was a sort of one yearlong on-ramp period from fall 2023 to 2024, where if people did miss their payments, there wasn't going to be a penalty associated with it, and so it's really only the past few months here that we've seen the system really kind of come back online. But even during that on-ramp period there was a lot of effort among the federal government to revamp the system moving forward, and one big piece of that was taking a closer look at income-driven repayment and how that could be adjusted to make sure that payments were affordable for people.

Dan LeDuc: An income-driven repayment plan—or IDR plan--calculates a borrower's monthly student loan payment based on their income and family size, unlike the standard repayment plan, which determines payments solely by the loan amount.

IDR plans can reduce a borrower's monthly payment, but they extend the loan term to 20 or 25 years. This contrasts with the standard loan plan, where repayment lasts only 10 years.

Brian Denten: Historically what we've seen is that your balance just keeps ticking up even more and more and more. No one outside of a mortgage really expects to be in debt for 20 or 25 years for something. It's a difficult choice to make between, you know, lower payments now but for a longer period of time, or just kind of getting it over with.

The Biden administration did make an effort to revise income-driven repayment through the introduction of what some listeners might know as the SAVE plan.

So, the SAVE plan was originally sort of, low-income borrowers in particular who are eligible for low payments. But also, it really importantly addressed this interest issue that was leading to growing balances by essentially subsidizing any unpaid interest that remained on a borrower's account every month.

So, while a balance might not go down, it wasn't going up. And the idea with that was that that might sort of help people kind of stay engaged in repayment longer.

Dan LeDuc: Mm hmm. And that, of course, is in a bit of disarray as well right now.

Brian Denten: That is also in disarray right now, so as of right now, the SAVE plan is fully on pause due to some legal challenges that states have made. All nearly 8 million borrowers who are enrolled in SAVE are kind of just stuck. So, they're in forbearance status right now, where no interest is accruing, no payments are due, but you also can't make progress toward your debt. And that has pretty big implications for certain subsets of borrowers.

Dan LeDuc: And one of those subsets of borrowers, Danielle Douglas-Gabriel says, are folks who are on the SAVE plan and working toward PSLF: Public Service Loan Forgiveness. Under this program, people like government employees, first responders, police officers, and nonprofit employees can get forgiveness on their remaining loan balance after making 10 years of consecutive monthly payments. The idea behind the program was to help incentivize more people to pursue a career in public service.

Danielle Douglas-Gabriel: This is particularly painful for people who are public servants. These folks aren't getting credit at the moment.

Dan LeDuc: Let listeners understand what that means. You graduate from law school or something and you go into government service, and your years of service are credits toward not having to repay some of your student loans. So, what you're saying is people are all set, they're working, they should be getting the credit, and those programs aren't working like they did.

Danielle Douglas-Gabriel: Not at this time because of that court case. If you are enrolled in the SAVE program and you're working toward public service loan forgiveness, you're not getting credit for these months for which your loans are in forbearance.

For teachers, social workers, firefighters, police officers, all the people who count on this program, that, that's a huge blow.

That means that they have to spend more months in repayment to get to that magical 120 number that yields you loan forgiveness on the remaining balance.

Dan LeDuc: As of this recording, people stuck in SAVE forbearance seeking credit for public service will have to switch back to the standard repayment plan or an older IDR plan. That means their payments will increase significantly.

Danielle Douglas-Gabriel: Even before these programs weren't available… The programs that Congress created were well-meaning, well-intentioned, poorly designed and executed. Public service loan forgiveness is a great example. I'd speak to teachers who, they're 14 years deep in their profession, constantly paying their student loans, they're on time, never missed a payment, got rejected for public

service loan forgiveness. They were in the wrong repayment plan. They had an older bank-based loan, not a direct loan. It was madness. And so, we had seen many congressional fixes to that program.

Dan LeDuc: But loan forgiveness isn't the only part of the system that could use improvements. Brian tells us more.

Brian Denten: A more thorough look and examination of the nuts and bolts of the repayment system would help people just in general feel better about repaying their student loans.

Dan LeDuc: According to Brian, student loan servicing systems often rely on outdated software, and there's a lot of ways things can improve.

Brian Denten: One really important thing that Pew helped advocate for and is now in the stages of being implemented was this sort of box that people can now check to opt in to having your income data be shared automatically from the IRS to the Department of Education and its servicers.

And the other thing that we, as Pew, still think need a closer look is just how the default system in general operates. The default system is kind of an odd thing, parallel, like, bizarro world to the repayment system where it's a different group of contractors, just recouping the money is the, is the first goal and, you know, less concerned about the borrower themselves.

Something we're continuing to focus on is how to make the default and the repayment system speak to each other better. There is a growing effort, I think, to bring all of this together, but there still is a lot of work in terms of what that means.

We see from our research and other research is that people in default, and we know struggle, we know have very low incomes, they exit default back into current repayment but then just go back to the standard repayment plan instead of an IDR plan, and then just default again.

Our lens has always been the borrower themselves and what they're telling us and what, what their financial needs are. And we continue to think that’s the most important lens with, with which policymakers should be viewing all of this, and that's where we'll be continuing to go here in the future. (Music transition)

Danielle Douglas-Gabriel: Food and shelter and transportation to get you to your job feels far more pressing than repaying a student loan. And that's oftentimes what I hear from a lot of people who fall behind, is that they need to make the right choices. Decisions about where each dollar goes, it becomes this unfortunate cycle that's

really difficult for people to get out of. And I'm really interested to see how public policy will try to solve for that.

Dan LeDuc: Thanks for listening. To hear more stories like this, visit us at pewtrusts.org/afterthefact. And if you have questions or feedback that you'd like to share, you can write us at podcasts@pewtrusts.org. For The Pew Charitable Trusts, I'm Dan LeDuc.