

May 2013

# **BORROWER IN DISTRESS:**

A Survey on the Impact of  
Private Student Loan Debt

an issue brief by

 **YOUNG INVINCIBLES**

# BORROWER IN DISTRESS

## Executive Summary

For most, a college degree is a path to economic security. These days, that path is bumpy for many, and leads to years of indebtedness that delay steps into adulthood that were once a given - buying a home, buying a car, starting a family. For some, it gets worse: that path turns into a dead end of debt and distress. Recently, the Federal Reserve of New York released data demonstrating that student loan debt is constraining this generation from participating in broader economic activities such as purchasing homes and cars.<sup>1</sup> During the housing boom, homeownership among student debtors was actually 4 percentage points higher than among non-student debtors. Homeownership rates fell across the board during the recession - 30 year-olds with no student debt saw their homeownership rates decline by 5 percentage points - but 30 year-olds with student debt fell more than 10 percentage points. **The homeownership rate for 30 year-olds with student debt is now almost 2 percentage points lower than for non-student debtors.**<sup>2</sup>

This report adds to that growing body of data, providing a snapshot of predominantly overburdened private loan debtors, many of whom fall into the category of borrowers who no longer see homeownership or car ownership as a part of their American Dream. In March - April of

2013, Young Invincibles conducted an online, self-selected survey of 9,523 private student loan borrowers. The survey sought to explore the issues facing private debtors in trying to make their monthly payments. While many federal loan borrowers face high debt burdens, those borrowers at least have access to protections such as income-based repayment or deferments and forbearance. But private loan borrowers - or borrowers who have both types of loans - have few options to lower payments or defer during times of personal hardship.

**About 15 percent of borrowers said they had been denied a mortgage because of their debt.**

As one unemployed borrower stated, lenders "are totally unwilling or unable to negotiate a lower rate or lower payment ... I believe my loan has been turned over to a collection agency, however I have never received that notification in writing." Lenders are giving struggling debtors no chance to even keep up on their payments.

But even those in this survey who have some income had high debt levels and often faced lenders unwilling to negotiate terms. The median private debt held by these respondents was between \$25,000 and \$35,000. But to make matters worse, almost all of these borrowers held federal debt as well. **These high-debt borrowers replied in high numbers that their debt was constraining their ability to purchase homes and other big-ticket items:**

- ▶ About 15 percent of borrowers said they had been denied a mortgage because of their debt.



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- ▶ About 28 percent of respondents had taken on credit card debt to keep up with loan payments; 46 percent cut out services like cable or internet.
- ▶ 35 percent borrowed from friends or family to keep up.
- ▶ About 47 percent said they put off buying a house, and the same percentage said they put off buying a car, to keep up with their payments.

As the survey shows, a sizable number of high-debt borrowers find themselves cut off from affordable payment options and traditional economic opportunity. These trends should serve as a wake-up call to legislators, regulators, industry, and all interested parties about the potentially devastating impact that high, restrictive student loan debt can have on both individual financial opportunity and the health of our economy as a whole.

## About the Survey

This spring, the Consumer Financial Protection Bureau released a “Request for Information Regarding an Initiative to Promote Student Loan Affordability.” The Bureau’s Request for Information (“RFI”) included several key questions about the experience of distressed borrowers in trying to secure affordable payment plans. In order to investigate those questions, Young In-

What is the highest level of education you have completed?		
Answer options	Response Percent	Response Count
▶ High school	0.7%	69
▶ Some college	10.0%	950
▶ Associate's degree	7.8%	739
▶ Bachelor's degree	34.1%	3251
▶ Some post-graduate school	8.7%	828
▶ Master's degree	27.3%	2599
▶ Professional degree	11.4%	1087

vincibles partnered with groups such as Student Debt Crisis to convert the key consumer experience questions into a survey, and sent an invitation to take the survey to over 1 million people on our joint email lists. Of those invited to participate, 9,523 individuals with private loans completed the survey.<sup>3</sup> It was open from March 20th, 2013 to April 3rd, 2013.<sup>4</sup>

This is a self-selected cohort of borrowers, and so our results do not necessarily represent the experiences of larger population of individuals. Moreover, all participants in this cohort stated that they have at least some private student loans, so any conclusions that can be drawn are particularly relevant for private borrowers or dual borrowers (those who have both federal and private loans). However, most, if not all, of the participants joined our online membership to participate in our work around student loan issues. This online participation in both our actions and a survey of this nature further indicates a high level of concern, if not distress, about their private loan payments – and the substance of these responses corroborate that indication. In other words, many of these respondents are the borrowers that most need help.

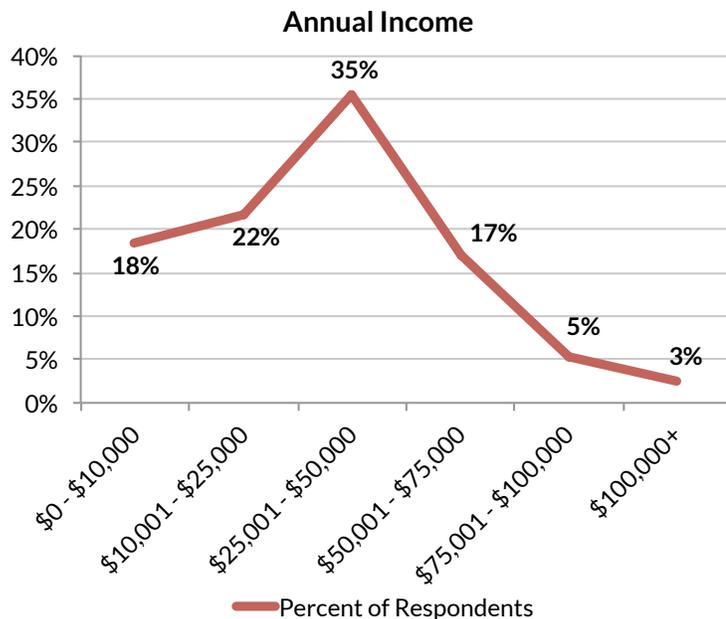
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## Demographics of the Participants

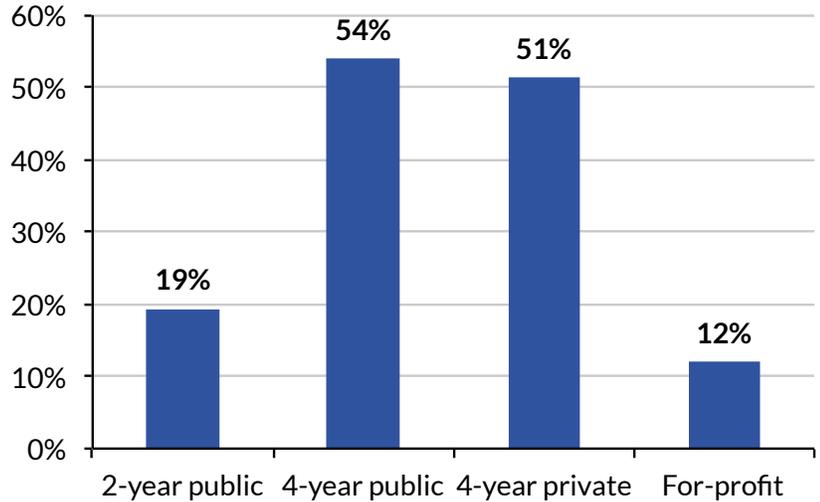
We asked each participant for level of education, the type of institution, and income. Most survey respondents had a bachelor's degree, although a disproportionate number also had a master's or professional degree, when compared to the population as a whole.

Respondents attended a wide range of types of institutions. About half said they had attended a four-year public school at some point and half said that they attended a four-year private school at some point. Almost 20 percent had attended community college and another 12 percent had attended a for-profit institution. Because students transfer or obtain advanced degrees, respondents could select more than one type of institution.

Survey respondents were generally low to moderate-income. About 40 percent of borrowers earned below \$25,000 per year, and more than



## What type(s) of institutions of higher education have you attended?



three-quarters of respondents said that they earned below \$50,000 per year.

## Burdensome Debt, High Interest Rates

About 28% of respondents held up to \$10,000 in debt, while about 43% of respondents had between \$10,000 and \$50,000 worth of private student debt. About 12% had between \$50,000 and \$75,000 in private debt, and about 16% had \$75,000 or more in private loan debt.<sup>5</sup> However, their total debt burden could have been much higher, because about 94% of respondents also stated that had federal debt in addition to their private loan debt.

With relatively high debt burdens, and over 20 percent of respondents with interest rates at 9 percent and above, it is unsurprising that monthly payments for many of these borrowers were quite high – at times reaching levels that one would pay for rent or a mortgage.



## Interaction With Lenders

There were clear trends in respondents' interactions with their private lender. About two-thirds of respondents had experience trying to negotiate better payment options due to distress. Just 27 percent said that they found their lender was "very willing" or "somewhat willing" to negotiate a lower monthly payment or terms due to financial distress. **Almost 40 percent of respondents said that either their lender was very unwilling to negotiate any new terms, or that they could not even reach someone to receive an answer.** Lenders, for their part, are not connecting with borrowers. Just 11 percent of borrowers stated that their lender had reached out to them to offer alternative repayment options or other help when they struggled to make payments. One borrower told us:

"I asked if we could work out a deal to lower my payments because both my grace period and forbearance terms were up ... and I had just started part-time work and could not afford payments. They told me there was 'nothing they could do' repeatedly, and repeatedly tried to get me to

make a payment right then. I still can't make payments, my account is months past dues, and they contact me at least 6 times a day, but are still unwilling to work out a more manageable payment amount."

## Financial Distress

The subset of borrowers who participated in the survey is struggling. Most borrowers found it difficult to afford payments, and reported altering financial behavior significantly in an attempt to deal with their struggle.

These borrowers are left with few options, with unwilling lenders, no refinancing options, and even bankruptcy – the last resort in almost every other personal financial crisis – off the table. As a result, these borrowers find themselves piling on credit card debt, relying on close family and friends, working a second or third job, and cutting down on basic services like cable and internet. Respondents were given the option of writing in additional problems they face: many open-ended responses also discussed an inability to cover payments even after taking these

steps, resulting in default, debt collectors, and wage garnishment.

The recession's unemployment rates have made the impact of uncooperative lenders much worse. As one borrower told us,

"I ran into a bit of financial trouble

How would you consider your ability to pay your monthly private loan payment?		
Answer options	Response Percent	Response Count
▶ Affordable, the required monthly payments are reasonable	6.9%	655
▶ Somewhat difficult, but still consider the monthly payments reasonable	23.3%	2215
▶ Difficult, the monthly payments are unreasonably high	27.0%	2568
▶ Very difficult, the monthly payments are causing financial distress	42.9%	4085

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when I lost my job and when I was finally working it was for a lot less pay. I tried to work with my lender and they told me that I had to pay them \$1,200 in order for my loan to not go into default. I cleaned out my savings to pay them and then they still put my loan in default because they said too much time had passed from when they contacted me to when I paid them (it was 5 days and I explained that my money was in a savings account that took a couple of days to become available).”

But the impact on the financial lives of these 9,523 borrowers is not limited to what they must do to make it by. It also impacts what they cannot do – and those limitations are sure to have an impact on the broader economy.

## Economic Impact

Borrowers were asked whether they had made major sacrifices in their life to afford their monthly private loan payments, and it was clear that this was the experience of many of these borrowers. As one borrower who said she was putting off buying a car and saving for the future stated, “I have a steady income with which I can pay off my loans, but the high monthly payments keep me from saving enough money to get my footing in this economy.” She wasn’t alone:

▶ About **47 percent**

said they had **put off buying a house**;

- ▶ About **47 percent** said they had **put off buying a car**;
- ▶ About **35 percent** said they had **put off starting a family**;
- ▶ Most borrowers said that they **put aside less to save for the future** – a full **76 percent** of respondents.
- ▶ Almost **23 percent** of respondents stated that they **put off starting a business**.

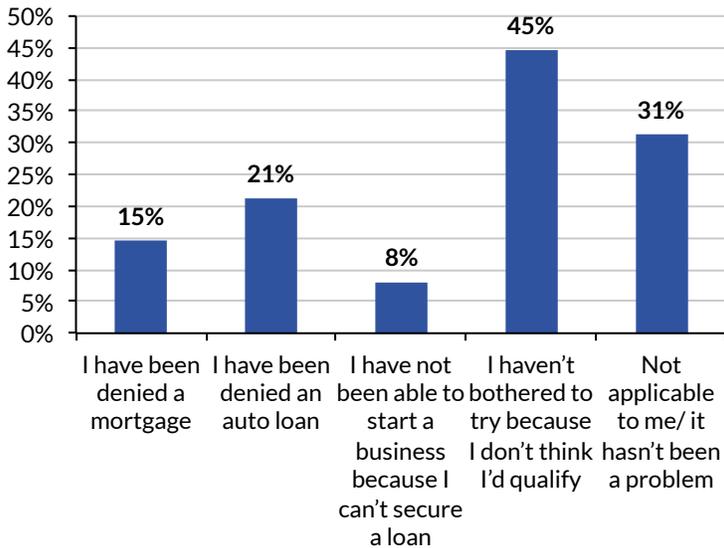
Given these stated sacrifices, it should surprise no one that when we asked borrowers whether their debt levels had cut them off from certain economic opportunities, the number of responders who said yes was disturbingly high.

- ▶ Almost **15 percent** of respondents said that they had been **denied a mortgage**;

If you have found repayment difficult, what methods, if any, have you used to help cover your monthly payments?		
Answer options (could choose multiple)	Response Percent	Response Count
▶ Taken on credit card debt	28.4%	2705
▶ Borrowed money or received help with payments from family or friends	35.4%	3374
▶ Negotiated lower payments on federal student loan payments in order to make private loan payments	26.8%	2556
▶ Taken a second or third job in order to afford payments	26.4%	2512
▶ Cutting out “non-essential” payments like cable or Internet	45.7%	4348
▶ Not applicable to my situation	17.8%	1696

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Have you ever been denied a mortgage, auto loan, small business loan because of your debt?



- ▶ About **21 percent** said they had been **denied an auto loan**;
- ▶ About **8 percent** said they **could not start a business** because they were denied a loan;
- ▶ About **45 percent** said they hadn't bothered trying to secure any of these loans, because they **didn't think they would qualify**.

Another borrower explained, "My private lender was willing to lower the payments somewhat, but not without impacting my credit score. Without a high credit score I would be unable to find a realtor willing to deal with me or take out other loans in the future for things such as grad school or transportation."

## Conclusion

We are only beginning to understand the economic impact of student debt. This snapshot of private borrowers not only paints a picture of the problematic private market, but also provides a warning as to what the federal loan pro-

gram must avoid.

Private student debt payments are causing severe financial distress to the borrowers that we interact with. High payments, harsh terms, and inflexible lenders restrict borrowers from fully participating in the economy – which ultimately extends their personal distress outward. Some of these borrowers have truly devastating situations, and need significant help to ease the financial pain they feel. Others may face high payments, and while they can make those payments, have no refinancing or affordable repayment options, limiting other economic behavior that they would otherwise engage in.

As the new Federal Reserve data shows us, a rise in student debt has led debtors to decrease their home purchases when compared to the rest of the population. And as this data demonstrates, those limitations are unlikely to be limited to just homeownership. Buying cars, saving for the future, and starting businesses are just a few of the activities that many of these debtors cannot engage in, and these limitations will surely have an impact on the economy as a whole.

Of course, it's not just about big-ticket items and macroeconomic impact. One borrower told us: "I lose a lot of time with my family as I scarp for extra income. My credit is destroyed because loans are consistently being traded without my knowledge and I get 'dinged' before I find out I missed payments." Another borrower sounded a dire warning about other generations, stating that her parents have put off retirement and retirement savings. Medical bills, saving for kids' college, marriage, "my daughter's braces," and food were all things that these borrowers stated they forgo.

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Perhaps the combination of personal struggle and broader macroeconomic impact will finally begin to turn heads and spur action from policymakers. Whether it's default, a rejection on a mortgage application, or stopped a young entrepreneur from starting a business, this survey points to an impact on individuals and the economy that could be enormous. Relevant actors must take steps to provide help to borrowers by:

- ▶ Paving the way for expanded repayment, loan modification, and refinance options for borrowers;
- ▶ Allowing truly distressed borrowers to find some relief by repealing the 2005 law that limits bankruptcy for private student debtors;
- ▶ Ensuring that borrowers first turn to more manageable federal debt before taking out private loans;
- ▶ Requiring and enforcing fair practices for consumers in lending, servicing, and collections.

Policymakers and stakeholders across the spectrum – at the state level, in Congress, through agencies such as the CFPB, on college campuses, and within student groups – must come together to give overburdened borrowers a pathway out of debt and on with their life. ■

## End Notes

1. Meta Brown and Sydnee Caldwell, Federal Reserve Bank of New York, "Young Student Loan Borrowers Retreat from Housing and Auto Markets," April 17, 2013, <http://libertystreeteconomics.newyorkfed.org/2013/04/young-student-loan-borrowers-retreat-from-housing-and-auto-markets.html>
2. Ibid.
3. Over 7,600 of the 9,523 indicated that they would like their full responses, which included many open-ended responses that are not included here, submitted as a direct response to the CFPB. Those comments were submitted separately.
4. Not every question required an answer, so some questions have fewer than 9,523 responses. Some questions allowed for more than one response.
5. A small percentage said they held \$0 in private loan debt, presumably because they had paid off that debt previously. However, as with all surveys, it is possible that some subset of respondents mistakenly identified their private debt as federal debt or vice versa.

