Student Debt In North Carolina – Overview of the Problem

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Overview of Presentation

I. National Landscape of Student Debt
II. A Few Facts about N.C. Student Borrowers
III. The Color of Student Debt
IV. For-Profit Colleges

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Key Facts about the National Landscape of Student Loan Borrowing

- Outstanding student loan balances stood at $1.41 trillion as of June 30, 2018. Approximately **1/5th of all households** carry student loan balances representing over 44 million borrowers.
- Aggregate Student Loan Balances **rose 170%** in the 10 Year period (2006-2016). Recent graduates left school with an average student loan balance of $34,000
- 10.9% of aggregate student loan debt was 90+ days delinquent or in default in 2018Q2. This default rate is far **higher than that of any other mainstream debt product**.
- **Approximately half of all students** who borrowed money to attend U.S. undergraduate institutions were unable to make any progress in paying down their debt for the first three years
- Repayment rates are weakest among students attending **for-profit colleges**

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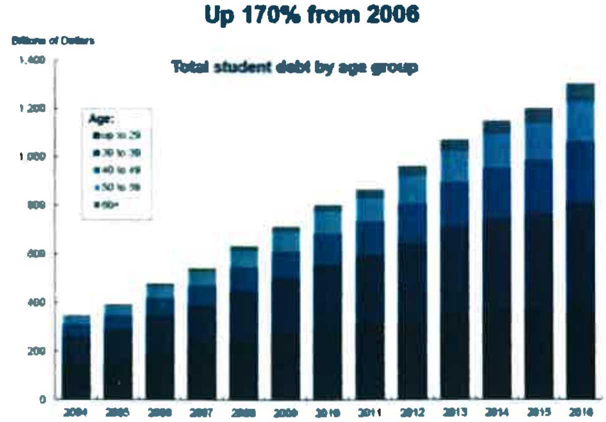
National Student Debt Balance by Age Group over Time

Student Debt Totaled $1.3 Trillion in 2016, Up 170% from 2006



https://www.newyorkfed.org/medialibrary/media/press/PressBriefing-Household-Student-Debt-April32017.pdf

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Three Key Drivers of Rapid Increase in Student Loan Borrowing

- **More students are taking out loans**
  - Enrollment growth (3 million students between 2006-2016, with particularly strong growth in for-profit enrollment in the first 5 years)
  - Expanded eligibility for Federal Loans
  - Shift from grant to loan aid at Federal, State and Institutional Levels
- **Loans are for larger amounts**
  - Rising tuition and fees
  - Longer times to completion
  - Reductions in per-capita state funding at publics
- **Students are making less progress repaying**
  - Higher balances more burdensome
  - Higher default (although stabilized since 2013)
  - Income-based repayment may be contributing, although also shown to lower default

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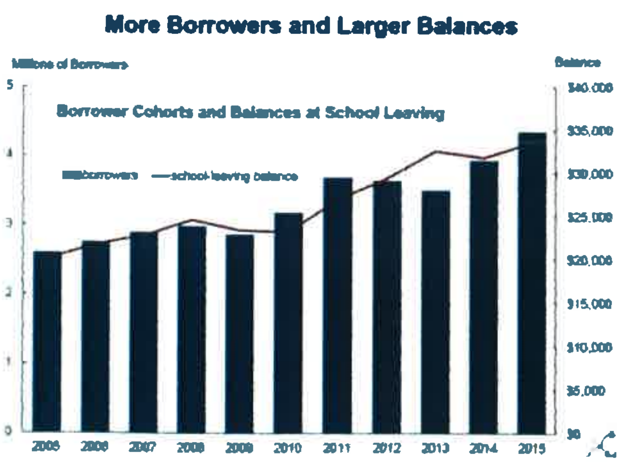
More Students are Taking out Loans and Loans are for Larger Amounts



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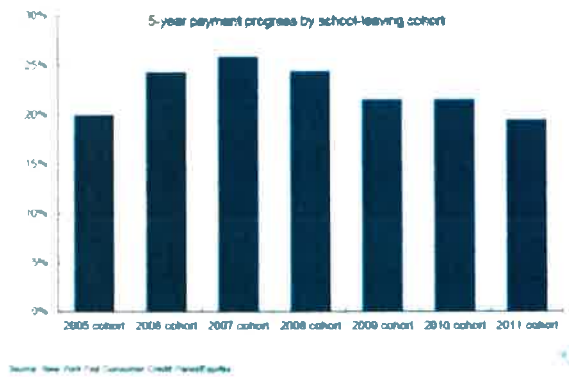
Students are Making Less Progress Repaying

Lower Repayment Rates for Recent Cohorts 5 Years After Leaving School



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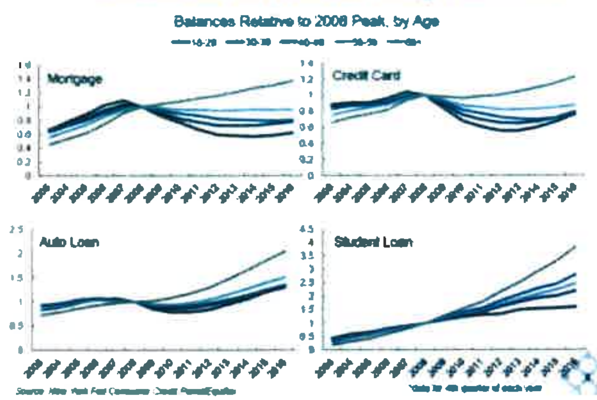
Since 2008 all types of debt increased for oldest borrowers, with Student Debt growing the most at 4X 2008 levels

All Debt Grew for Oldest Borrowers, Only Student and Auto Debt for Younger Borrowers



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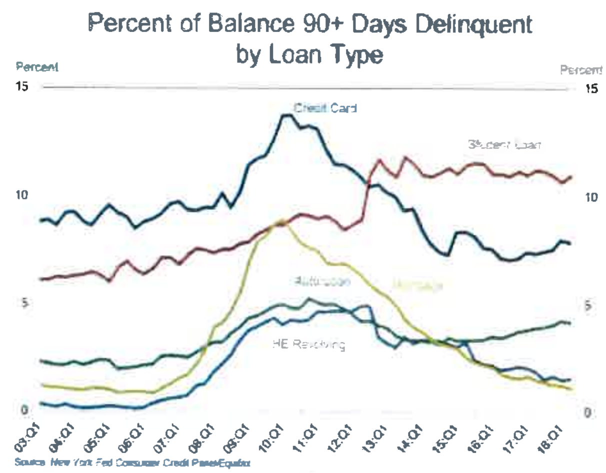
National Severe Delinquencies by Loan Type



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Consequences of Default

- Consequences (Federal):
  - Acceleration
  - No longer eligible for deferment or forbearance
  - Lose eligibility for additional federal student aid
  - Reported to credit bureaus
  - Tax Refunds and federal benefits programs withheld
  - Administrative wage garnishment
  - Lawsuit
  - Transcripts withheld
  - Almost impossible to discharge in bankruptcy
  - Penalty Interest and Default Fees added

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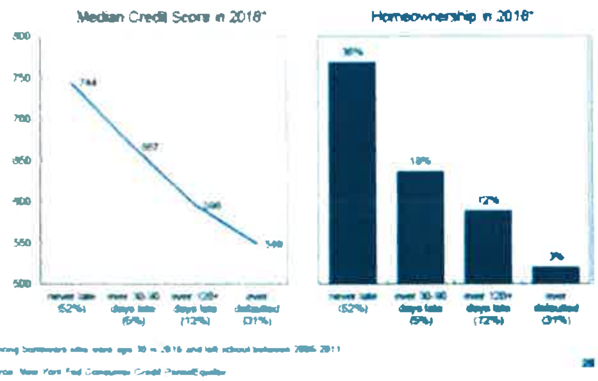
Consequences of Student Loan Delinquency and Default

Delinquency and Default Associated with Lower Credit Scores and Homeownership Rates at Age 30



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North Carolina Student Loan Landscape

- 57% of NC 4 year graduates leave school with student loan debt (TICAS)
- Approximately 1.2 Million Student Loan Borrowers in North Carolina owe $41.3 Billion in Student Debt (Dept. of Ed and Fed NY).
- Average Student Debt owed is approximately $34,000 per Borrower
- One-third of NC student loan borrowers *in repayment* are in delinquency or default on their student loans (CRL estimate based on Fed NY figures for *all* SL borrowers)
- 12.7% of Federal Loan Borrowers entering repayment 3 years ago have defaulted (generally at least 270 days past due). This compares to a national 3 year cohort default rate of 11.5% (Department of Education)
- The CFPB reported that student loan complaints in NC rose 230% Q1 2017 compared to the same time frame in 2016.

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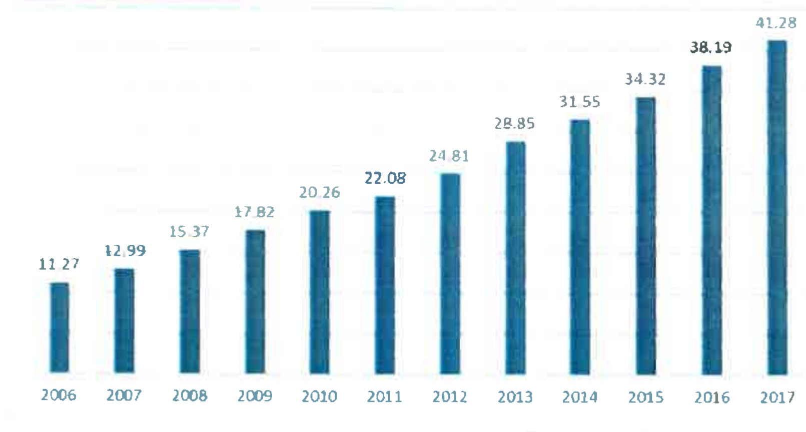
North Carolina Total Outstanding Student Debt at year end, $Billions



Source: State Level Household Debt Statistics 2003-2017, Federal Reserve Bank of New York, February, 2018

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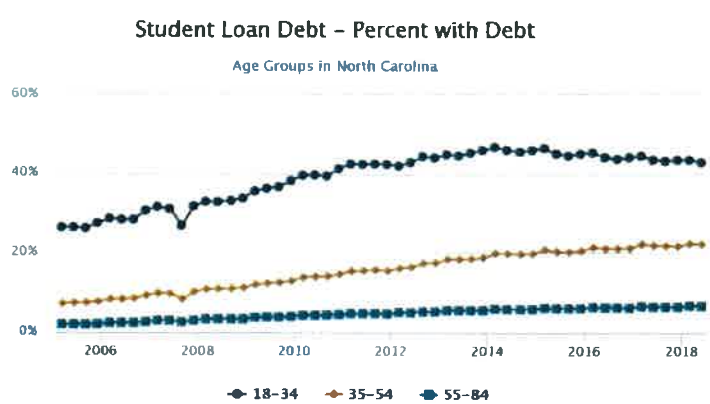
NC Percent of All Consumers with Student Loan Debt 2005-2Q 2018 by Age Group



Federal Reserve Bank of New York/Equifax Consumer Credit Panel, tabulated by the Federal Reserve Banks of Philadelphia and Minneapolis and accessed via the Consumer Credit Explorer (date accessed 11/29/2018)

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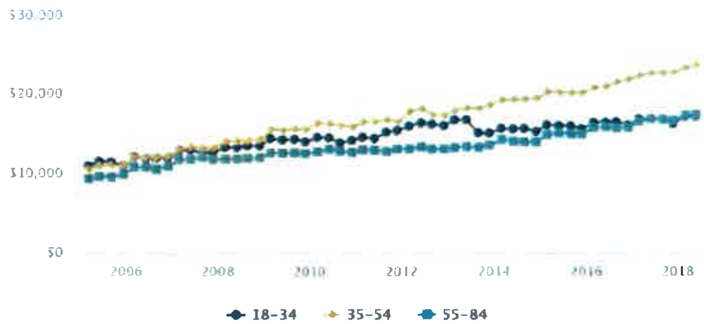
NC Median Student Loan Debt 2005-2Q 2018 by Age Group

Student Loan Debt – Median Debt (Inflation Adjusted)

Age Groups in North Carolina



Federal Reserve Bank of New York/Equifax Consumer Credit Panel, tabulated by the Federal Reserve Banks of Philadelphia and Minneapolis and accessed via the Consumer Credit Explorer (date accessed: 11/20/2018)

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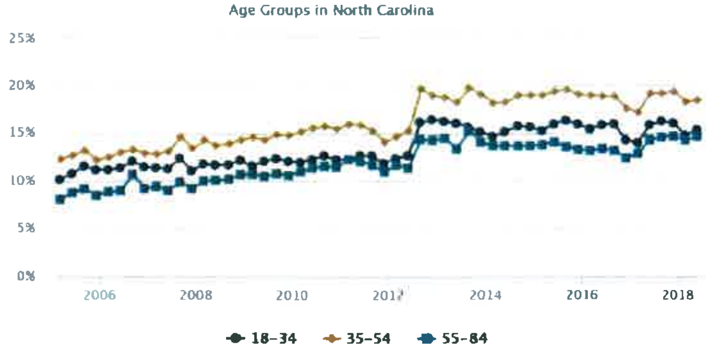
NC Severe Delinquency in Student Loan Debt 2005-2Q 2018 by Age Group

Student Loan Debt – Percent with Severely Delinquent Debt

Age Groups in North Carolina



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Share of Student Loan Holders with Student Loan Debt in Collections

	Non-White Neighborhoods	White Neighborhoods
Mecklenburg	16%	8%
Wake	14%	9%
Guilford	19%	8%
Forsyth	28%	11%
North Carolina	18%	11%

Source: Urban Institute, Debt Collection in America: Student Loan Debt, May 2018, accessed at https://apps.urban.org/features/debt-interactive-map/

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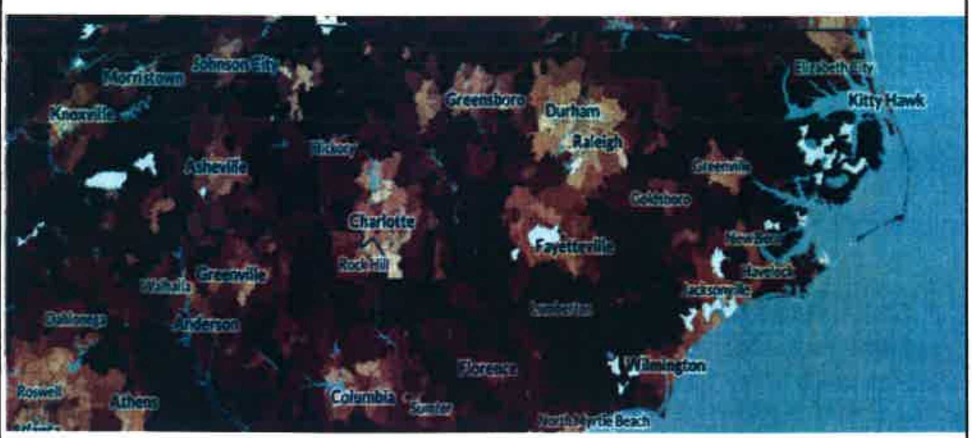
NC Student Loan Deliquency by Zip (from dark to light, extremely high to extremely low)



Source: http://mappingstudentdebt.org/#/map-1-an-introduction

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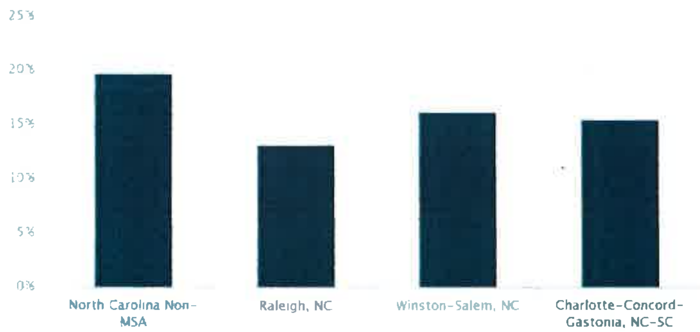
Non-metro vs. Select Metro Comparison of Consumers with Severely Delinquent Student loan borrowers in NC

Student Loan Debt – Percent with Severely Delinquent Debt

All Consumers on 6/1/18



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Overview of Higher Education Debt Problem: Who is Affected?

- A recent study from the Federal Reserve of New York has found that that student loan debt is causing a generation of Americans to delay purchasing their first home.
- Student loan debt has a disproportionate affect on economically vulnerable populations – veterans, seniors, female heads of household, communities of color.
- According to a recent study by the American Association of University Women, 2/3rds of outstanding student loan debt is held by women.
- People of color are also more likely to carry long term student loan debt. A 2015 study by Demos found that over half (54%) of young Black households have student debt, compared to 39 percent of all young white households.
- According to reports by the GAO and CFPB, older borrowers are the fastest growing demographic sector of student loan borrowers, borrowing both for themselves and their spouses and children.

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The Color of Student Debt

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- Black students borrow more than other students for the same degrees, and black borrowers are more likely than white borrowers to drop out without receiving a degree.
- Latino borrowers are more likely to drop out because they or their families are more likely to face financial pressures than white borrowers. Overall, **31 percent** of Latino students with student debt dropped out of college in 2009. Of Latino borrowers in repayment on their student loans, **15 percent** were in default and another **29 percent** were seriously delinquent on their payments (90 days or more past due).
- Debt and default among black college students is at crisis levels, and even a bachelor's degree is no guarantee of security: black BA graduates default at five times the rate of white BA graduates (21 versus 4 percent), and are more For the 2011 cohort: When examined by race and ethnicity, Asian and white students had much higher completion rates (68.9 percent and 66.1 percent, respectively) than Hispanic and black students (48.6 percent and 39.5 percent, respectively). **Black students represent the only group that is more likely to stop out or discontinue enrollment than to complete a credential within six years (total completion rate of 39.5 percent, compared to the no longer enrolled rate of 42.8 percent).**

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Racial Disparities in Student Loan Debt, 4 Years after Graduation by Graduation Cohort (Bachelors)

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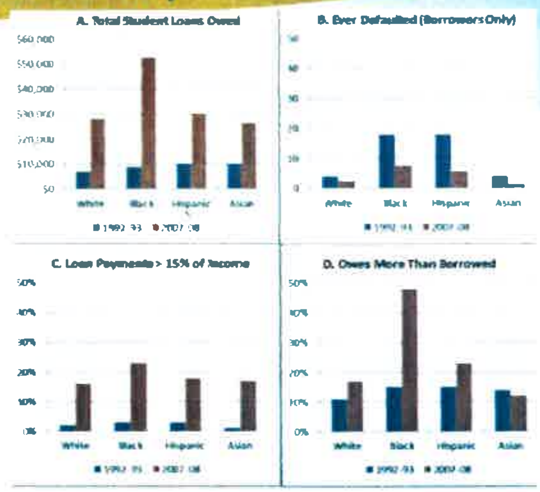

https://www.brookings.edu/wp-content/uploads/2016/10/es_20161020_scott-clayton_evidence_speaks.pdf

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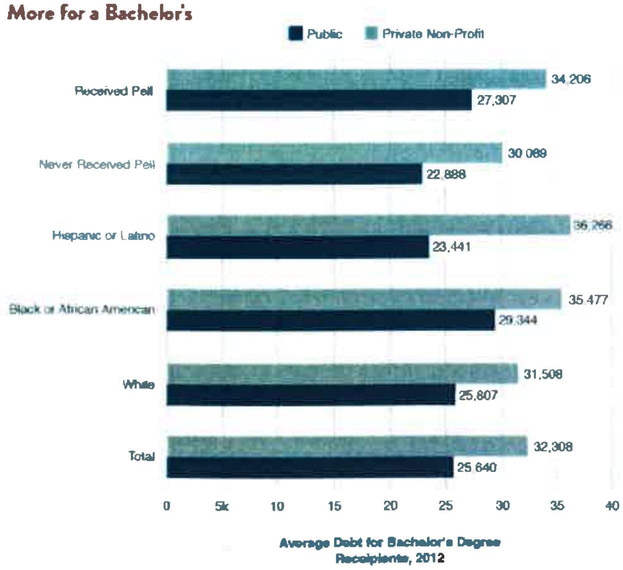
Figure 2. Black and Low-Income Students Borrow More for a Bachelor's



Source: Author's Calculations from the U.S. Department of Education, 2011-12 National Postsecondary Student Aid Study (NPSAS 12)

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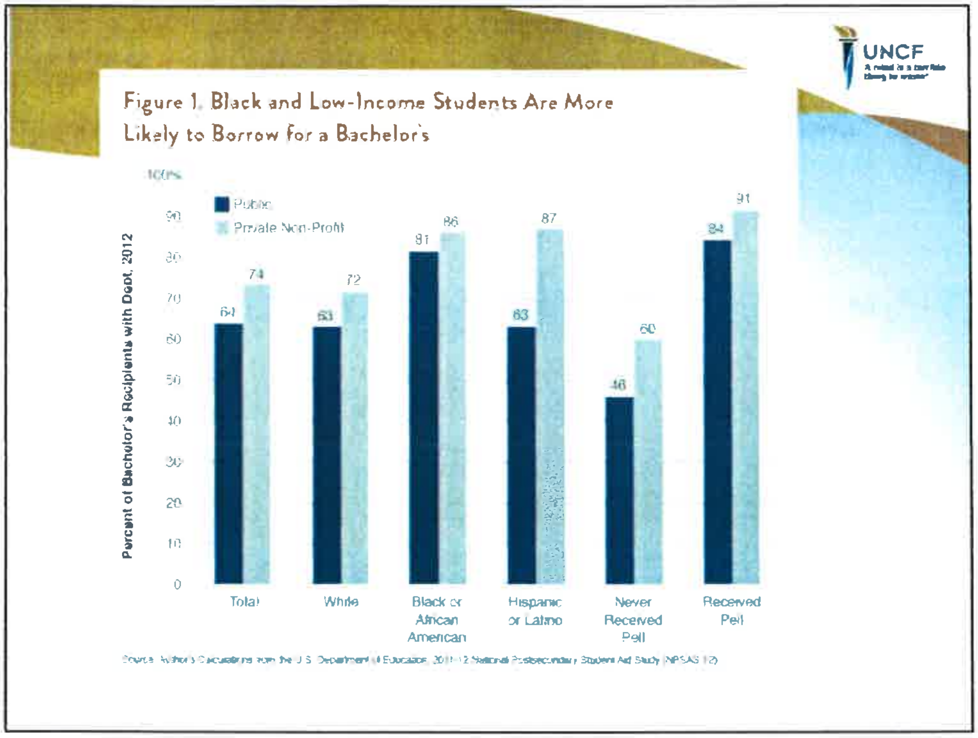
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Figure 1. Black and Low-Income Students Are More Likely to Borrow for a Bachelor's
Percent of Bachelor's Recipients with Debt, 2012
100%
90
80
70
60
50
40
30
20
10
0
Public
Private Non-Profit
64
74
63
72
81
86
63
87
46
60
84
91
Total
White
Black or African American
Hispanic or Latino
Never Received Pell
Received Pell

25

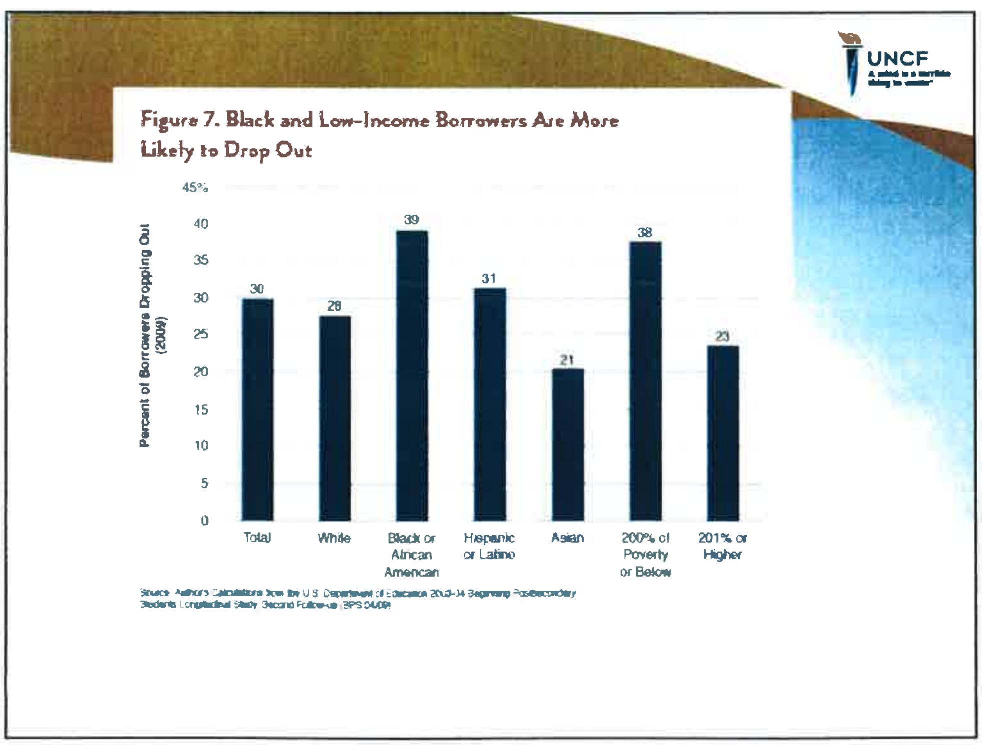
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Figure 7. Black and Low-Income Borrowers Are More Likely to Drop Out
Percent of Borrowers Dropping Out (2009)
45%
40
35
30
25
20
15
10
5
0
30
28
39
31
21
38
23
Total
White
Black or African American
Hispanic or Latino
Asian
200% of Poverty or Below
201% or Higher

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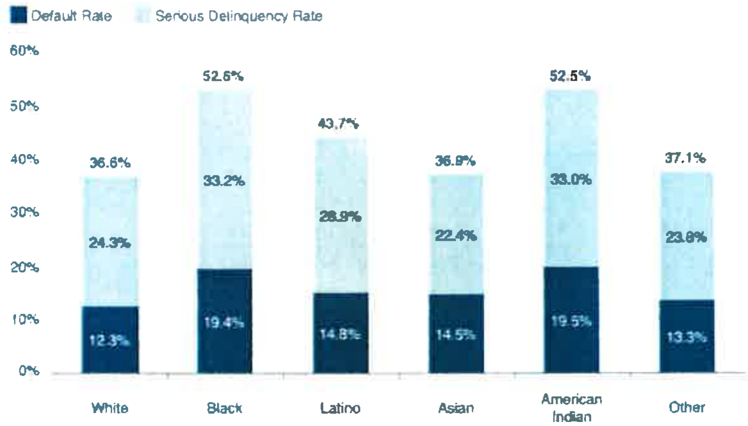
Figure 3. Default and Delinquency Rate by Race, 2014



Source: Demos analysis of 2014 Experian data

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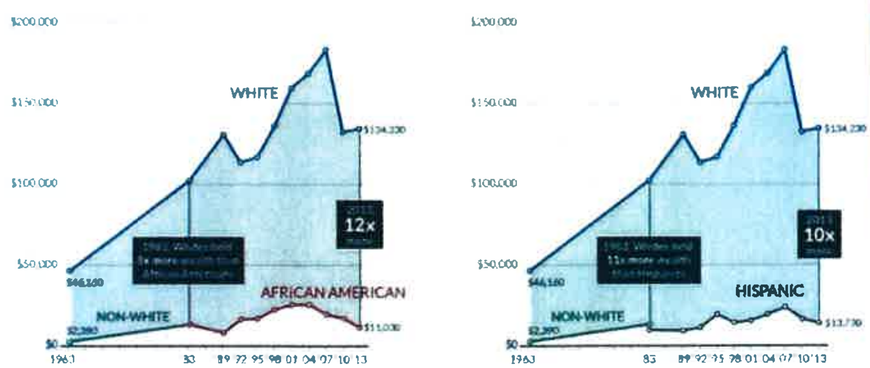
Persistent and Growing Racial Wealth Gap

Median Family Wealth by Race/Ethnicity, 1963–2013



Sources: Survey of Financial Characteristics of Consumers 1962 (December 31), Survey of Changes in Family Finances 1963, and Survey of Consumer Finances 1983–2013.
Notes: 2013 dollars. No comparable data are available between 1963 and 1983. African American/Hispanic distinction within nonwhite population available only in 1983 and later.

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Great Recession Wipes Out 30 Years of Homeownership Gains

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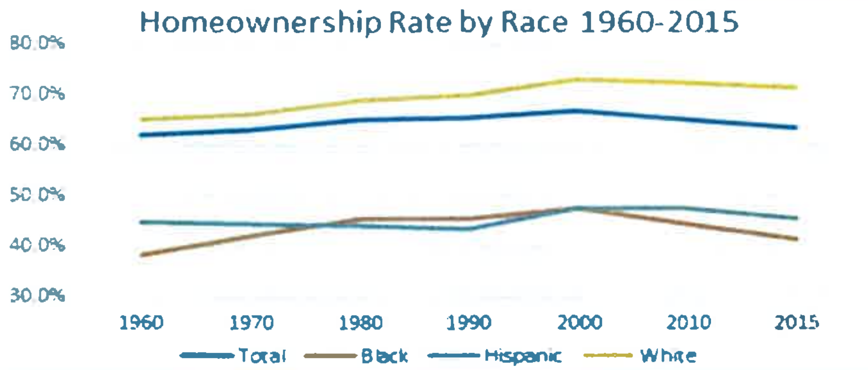

Source: Urban Institute data from US Census.
Available at: http://www.urban.org/urban-wire/are-gains-black-homeownership-history

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African Americans are disproportionately impacted by exploitive financial practices.

- African Americans are **2.5x times** as likely to use payday loans.
- **28%** of for-profit graduate school enrollees are Black.
- Black-white disparity in student loan debt more than **triples** after graduation.

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HBCUs: An Outsized Impact

- Today, there are 101 accredited HBCUs, public and private, concentrated in **19 states, the** District of Columbia and the U.S. Virgin Islands.
- They enroll almost 300,000 students, **approximately 80 percent of whom are African American, and 70 percent are from low-income families**.
- In 2013, over 80 percent of undergraduates enrolled at HBCUs were African American, whereas only 10 percent of undergraduates enrolled at non-HBCUs were African American.
- **71 percent of undergraduates at HBCUs received the Pell Grant, and 41 percent were the first in their families to attend college.** For non-HBCUs, these estimates were 39 percent and 35 percent, respectively.
- For the 2015-2016 academic year, **the maximum Pell Grant award covered 30 percent and 13 percent of the total cost to attend a four-year public college and a four-year private, non-profit college, respectively**. This is the lowest proportion of college costs covered since the inception of the program.
- HBCUs annually generate **134,090 jobs and $14.8 billion in total economic impact** for their local and regional economies.
- HBCU graduates from 2014 can expect total earnings of **$130 billion over their lifetimes— 56 percent more than they could expect to earn without their college degrees.**

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HBCUs: An Outsized Impact

- **The value of HBCUs is not confined to economic impact. In 2014, for example, HBCUs:**
  - Accounted for only 3 percent of public and not-for-profit private institutions receiving federal student aid.
  - Enrolled 10 percent of African American college students nationwide.
  - Accounted for 17 percent of the bachelor's degrees earned by African Americans and 24 percent of the degrees earned by African Americans in "STEM" fields: science, technology, engineering and math.
  - **In North Carolina, HBCUs are 16 percent of the four-year institutions, but enroll 45 percent of all black undergraduates and award 43 percent of all black bachelor's degrees in the state**

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Figure 1: Average Net Price for UNCF-Member Institutions and Comparison Groups, Academic Years 2011-2012

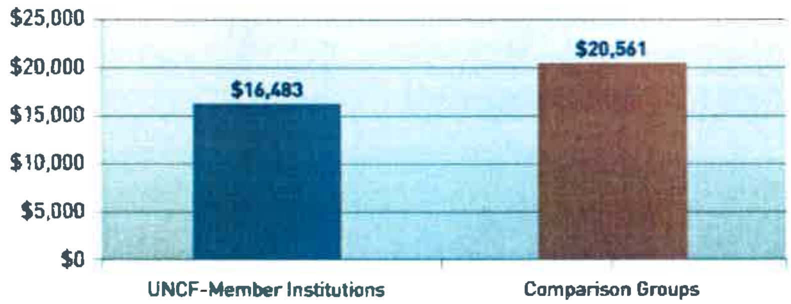

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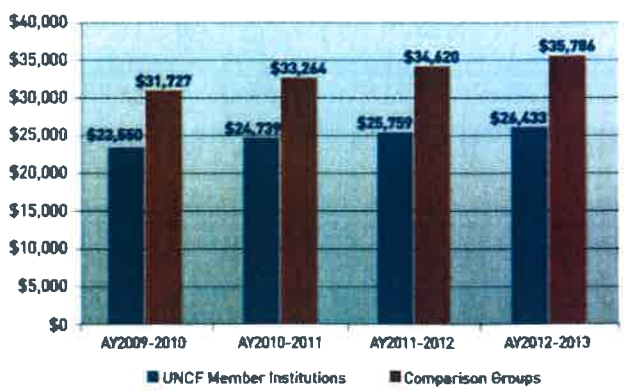
Figure 1: Average Total Price for UNCF-Member Institutions and Comparison Groups, Academic Years 2009-10 to 2012-13.



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HBCUs and Student Debt

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1.
A higher percentage of students attending HBCUs use federal loans to finance college compared to their non-HBCU peers.

In 2013, the proportion of HBCU students who borrowed federal loans was 25 percentage points higher than that of their non-HBCU peers (80 percent vs. 55 percent).

2.
HBCU graduates borrow substantially greater amounts of federal loans than their non-HBCU peers.

In 2012, HBCU bachelor's degree recipients borrowed nearly twice the amount of federal loans as their non-HBCU peers ($26,266 vs. $14,881).

3.
The percentage of HBCU graduates who borrow large amounts ($40,000 or more) of federal loans to finance their degrees is four times that of non-HBCU graduates.

For HBCU bachelor's degree recipients who borrowed a federal loan in 2012, one in four students, or 25 percent, borrowed $40,000 or more. Only six percent of non-HBCU bachelor's degree recipients borrowed $40,000 or more.

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HBCUs and Student Debt

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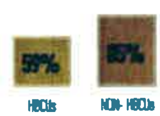
4.
A higher percentage of HBCU students borrow not only federal subsidized loans, but also more costly federal unsubsidized loans and Parent PLUS Loans.

Sixty-five percent of HBCU students borrowed a federal unsubsidized loan, and 10 percent borrowed a Parent PLUS Loan, whereas 36 percent of non-HBCU students borrowed a federal unsubsidized loan, and only six percent borrowed a Parent PLUS Loan.

5.
A higher percentage of HBCU students combine federal, state and private loans to pay for college than their non-HBCU peers.

Twelve percent of bachelor's degree recipients at HBCUs borrowed a combination of federal, state and private loans compared to only eight percent of non-HBCU graduates.



6.
HBCU students have lower loan repayment rates than non-HBCU students.

Seven years after leaving college, the average cohort repayment rate for HBCU students is considerably lower than that for students at non-HBCUs (59 percent vs. 85 percent). However, these figures alone do not take into account several important factors that impact repayment rates, such as student economic status, labor market conditions and choice of educational program.

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HBCUs: An Unequal Playing Field

- **On average, HBCUs tend to have small endowments and rely more heavily on student tuition and fees to operate.** In 2015, the top 10 HBCU endowments ranged from $34 million to $660 million, while the top 10 non-HBCU endowments ranged from $10 billion to $36 billion.
- Average unmet need for students at non-HBCUs in 2012 was about $7,810. **For students at HBCUs, however, unmet need was about 26 percent higher, averaging nearly $10,000.**
- **Historically Black Colleges and Universities (HBCUs) pay higher underwriting fees to issue tax-exempt bonds**, compared to similar non-HBCUs. For the typical non-HBCU, 81 cents out of every $100 raised flows to underwriters. The average for HBCUs is 11 basis points higher, at 92 cents per $100 dollars raised.
- **HBCU graduates are more likely to select majors and related career paths that offer lower salaries.** African Americans are underrepresented in college majors associated with the fastest growing and highest paying occupations. Instead, they are highly represented in majors associated with serving the community, such as human services and social work, which tend to have relatively lower earnings.

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HBCUs: An Unequal Playing Field

Title III, Part B, Section 323, Discretionary Funding History	
FY 2010	$267 million
FY 2011	$237 million
FY 2012	$228 million
FY 2013	$216 million*
FY 2014	$224 million
FY 2015	$228 million
FY 2016	$245 million
FY 2017	$245 million
HBCU Coalition FY 2018 Request	$375 million

*Reflects across-the-board sequestration cut, pursuant to the Budget Control Act of 2011.

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For-Profit Schools and Student Debt

- **For-profit colleges are big business, primarily funded by taxpayers.**
  - In 2012, a Congressional investigation into the nation's 30 largest for-profit schools found that the 15 publicly-traded schools received 86% of their revenue from taxpayers.
  - On average, for-profit colleges spent just 17% of revenues on instruction, while much more was spent on marketing.
  - Veterans are particularly targeted, allowing the for-profit to siphon off taxpayer-funded GI tuition benefits.
- **Poor quality and high cost:**
  - Students are often unable to graduate and get jobs in their field.
  - They bear high burdens of debt and often default on that debt.

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For-Profit Schools and Student Debt

- More debt: Over 70% of four-year for-profit college attendees borrow, while 48% of four-year public and 60% of four-year private, non-profit attendees do so.
- Fewer good jobs: Students who attend for-profit colleges are **less likely** to be satisfied with their job and more likely to be unemployed than those who attend public and private, non-profit schools
- Higher Defaults: A recent NCES study shows that for-profit students default at more than twice the rate of public school students over a twelve year period for the cohort starting undergrad in 2003 (52% compared to 17% for those attending 4 year publics and 26% for those attending community colleges)
- Disparate Impact: Poor for-profit outcomes fall disproportionately on African Americans due to their outsized enrollment share. African Americans represent 29% of for-profit college enrollment but only 12.9% of all public school enrollment (IPEDS 2014).

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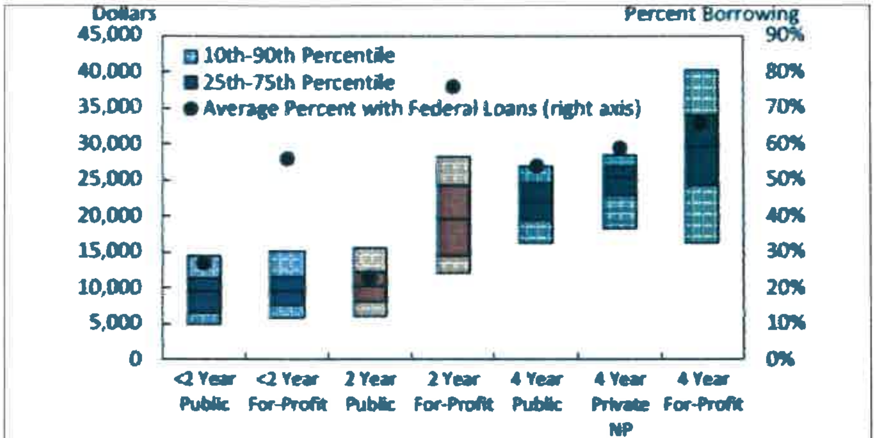
For-profit students borrower in much greater percentages and for larger amounts than public school peers



Note: Debt data are for the 2013 and 2014 pooled exit cohorts.
Source: Department of Education, College Scorecard Data

https://collegescorecard.ed.gov/assets/UsingFederalDataToMeasureAndImprovePerformance.pdf

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For-Profit Schools and Student Debt

"I got my license in December of '09, and I've been on countless interviews. And they all ask if I've ever been in a hospital, and I would have to tell them we never set foot in a hospital, ever. We went to a museum of Scientology for our psychiatric rotation."

– Corinthian nursing graduate with $30,000 in student loan debt, "College Inc.," PBS Frontline

"If they told you ahead of time 'you're not going to make enough money to pay this back,' nobody would be coming [. . .] So I think there's a little -- it's predatory in that way, you know. They'll tell you every way you can get money and every form you can fill out. I think there's some responsibility there. If you are going to say 'hey, you have all this money available to you' ... they should say 'by the way, you're not going to make enough money in your lifetime to pay that back.'"

– For-profit college student in Florida, from CRL focus group research, June 2017

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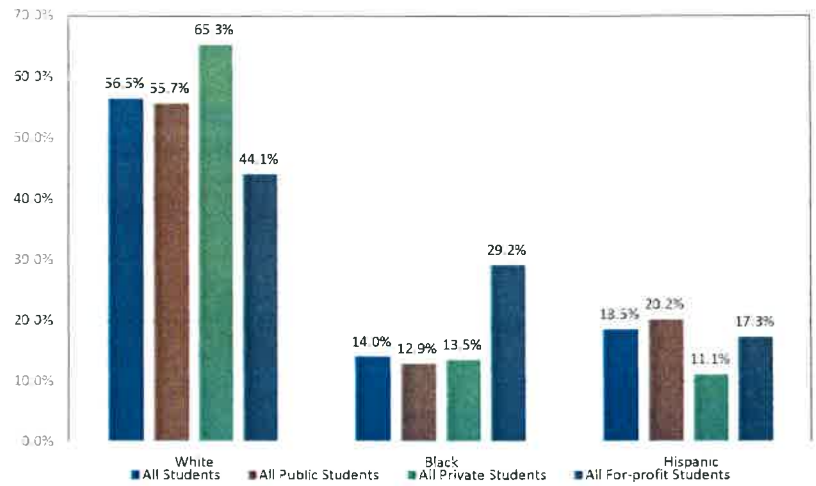
African Americans Enroll Disproportionately in For-Profit Schools (IPEDS Fall 2014)



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NC for-profit colleges Disproportionately harm: low-income families, communities of color, and women

Undergraduate enrollment at North Carolina for-profit colleges is:

- **65.3% low-income,** compared to 42.2% low-income for all nonprofit undergraduate institutions in the state.
- **53.6% African American,** compared to 23.3% African American for all nonprofit undergraduate institutions in the state.
- **66.5% female,** compared to 58% female for all nonprofit undergraduate institutions in the state.

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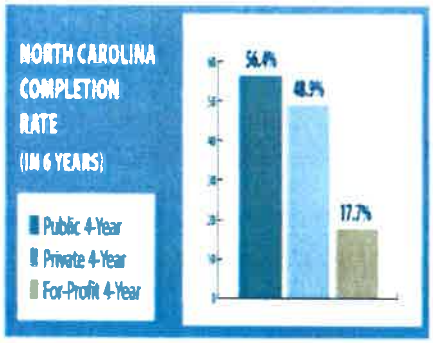
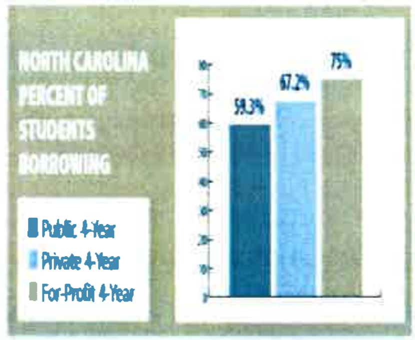
NC for-profit students are less likely to Graduate and more likely to Borrow





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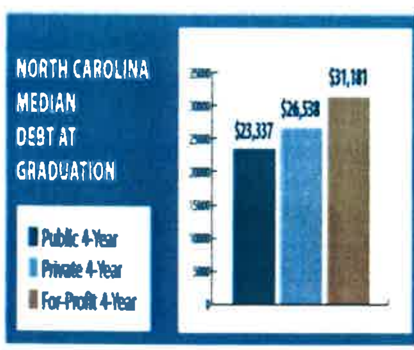
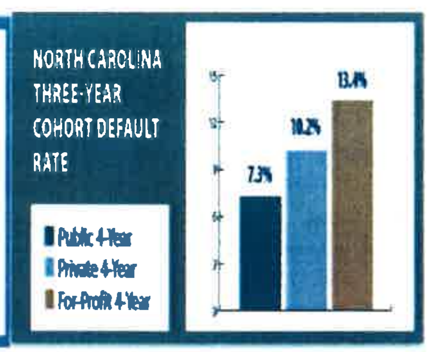
NC For-profit student graduate with higher debt level and default more frequently





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Student Loan Servicing: What's the Problem?

In early 2017, the Consumer Financial Protection Bureau and states Attorneys General in Illinois and Washington sued Navient, the nation's largest student loan servicer, for allegedly:

- Failing to qualify borrowers for income contingent repayment plans, adding an additional $4 billion in outstanding student loan debt.
- Failing to properly discharge the debt of disabled veterans
- Failing to properly apply payments
- Failing to remove eligible co-signers from loans.

Attorneys General in Pennsylvania, California, and Mississippi have since joined the suit.

"There is no expectation that the servicer will act in the interest of the consumer" – Navient CEO Jack Remondi

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Student Loan Servicing: State Policy Solutions

- States can and must play a role to **ensure that students are treated fairly when repaying their loans**, and to prevent servicers from engaging in abusive practices that prolong the problems of mounting student loan debt
- States can ensure these protections against abusive practices **extend to non-bank servicers, such as Navient, as well as banks**, such as Wells Fargo and Sallie Mae
- **State-level servicing protections are not preempted by federal law.** In fact, even in the Department of Education's rollback of existing protections, it requires servicers of federal student loans must abide by state servicing rules, laws, and regulations

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QUESTIONS?

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