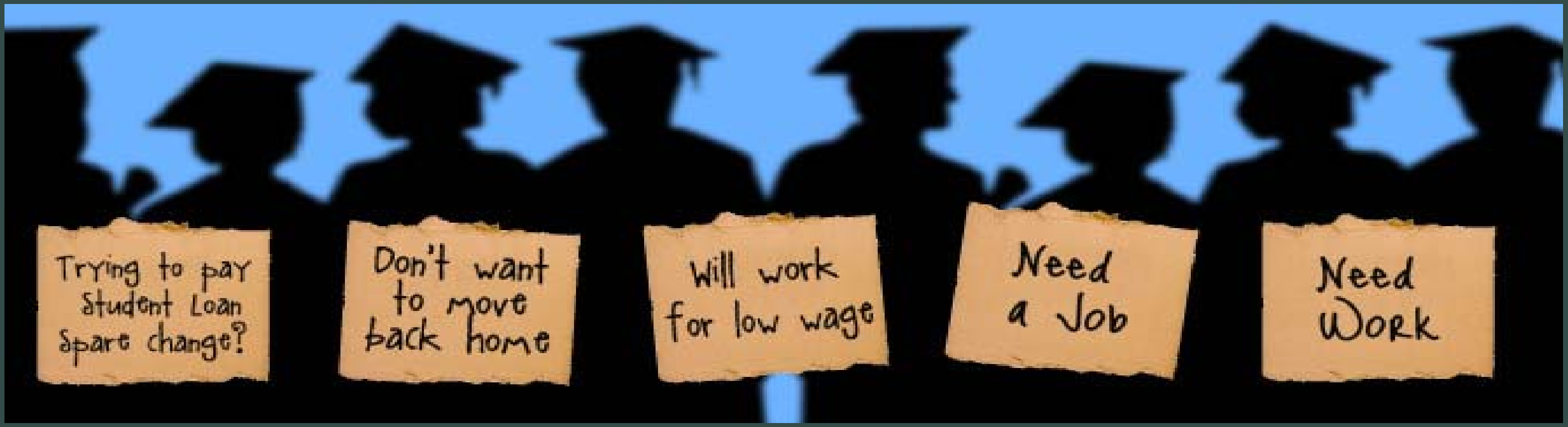
Assessing Effects of the 2008-2012 Economic Recession on Federal Student Loan Debt Repayment and Exploring Potential for Reducing The Debt In Mississippi Through Strategic Education Financing



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Overview

- Federal Student Aid, a part of the U.S. Department of Education, is the largest provider of student financial aid in the nation, providing more than $150 billion in federal grants, loans, and work-study funds each year to more than 15 million students paying for college or career school.

- Federal Student Aid is responsible for managing the student financial assistance programs authorized under Title IV of the Higher Education Act of 1965. These programs provide grants, loans, and work-study funds to students attending college or career school. (Source: FAFSA.ed.gov)

- Nearly 20 million Americans attend college each year. Of that 20 million, close to 12 million – or 60% - borrow annually to help cover costs. (Source: Chronicle of Higher Education)

Statement of Purpose

The main focus of the research is to identify any correlations between the U.S. economic recession of 2008-2012 and the rise in federal student loan default rates for the same period.

The purpose of the research is to qualify what effect national economic conditions have on the ability to repay federal student loans (without qualifying the validity of the federal student loan program).

Research Questions

- Did factors of the U.S. economic recession of 2008-2012 lead to the increase in federal student loan default, and will the debt and credit penalties incurred as a result of default lead to difficulties in economic recovery?
- Which factors of the economic recession directly impacted borrower ability to repay federal student loans?
- What is the effect of student loan default on borrower credit ratings and assets (ex: garnishments) for the years 2008-2012?

Background

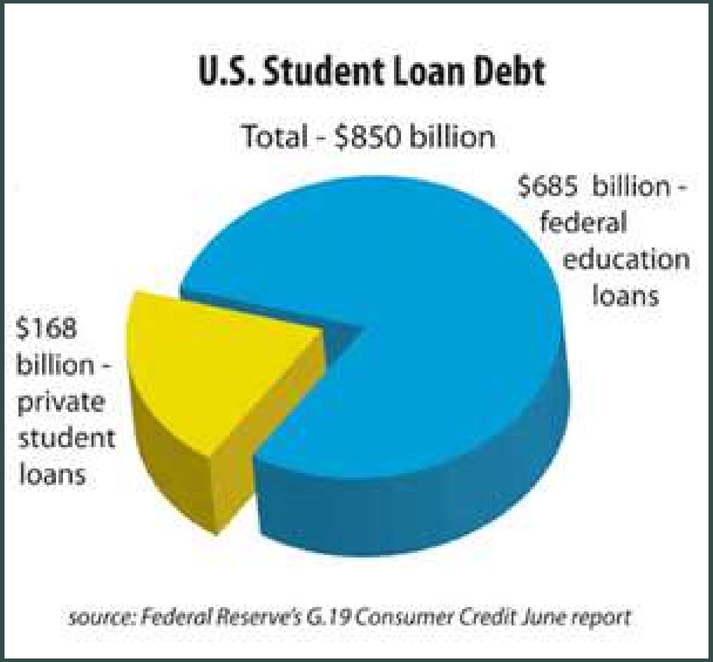
- Of the 37 million borrowers who have outstanding student loan balances, 14%, or about 5.4 million borrowers, have at least one past due student loan account.

- Of the $870B-$1T in outstanding student loan debt, approximately $85 billion is past due.

(Source: Federal Reserve Board of NY)

Background

- How does student debt impact borrowers - and the U.S. economy?



Background

• 48% of 25-34 year-olds say they're unemployed or under-employed.

• 52% describe their financial situation as just fair.

• 70% say it has become harder to make ends meet over the past four years.

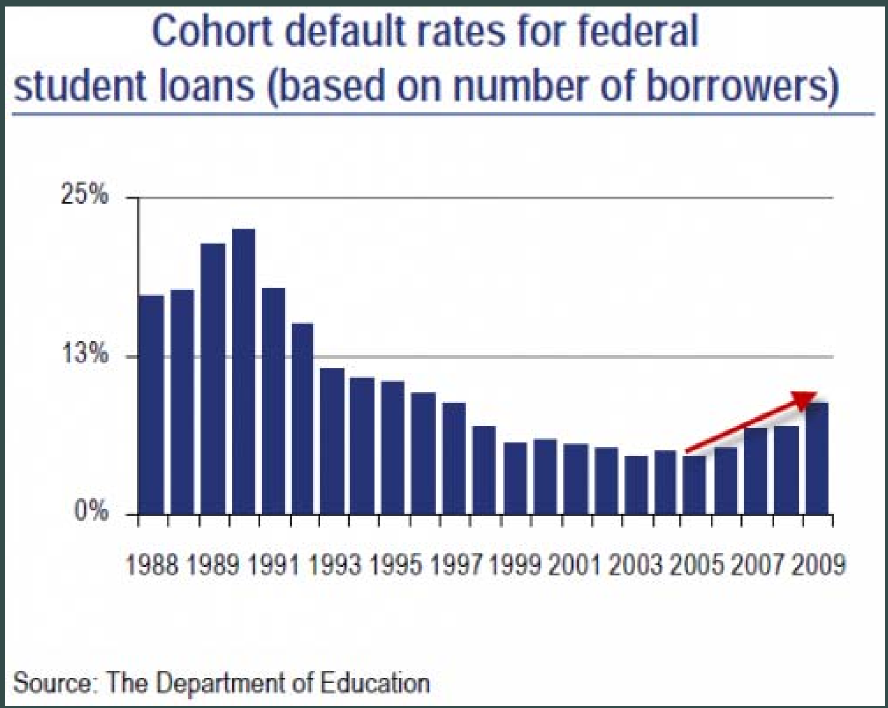
• 42% of those under 35 have more than $5000 in personal debt that does not include a mortgage.

• Student loans account for the most common form of increasing debt among ages 18-24 (54% have seen increased school loan debt) while those in the older group attribute increased debt equally to school loans (37%) and credit cards (37%).

(Source: demos.org/state-of-young-america)

Background

- Through the examination of the related factors between economic recession and borrower default, it is predicted that a positive correlation will exist between the two conditions (recession and default).



Research Methodology

Data Collection Protocol:

- Primary sources
  - Interviews of K. Corson, A. Ward (Credit Specialists), J. Eakin, V. Glover, L. Green, M. Hooker, D. Lewis-Evans, T. Pickering, D. Walker, and S. Webb-Thomas (Borrower Service/Support)
- Secondary sources
  - Library and Internet research

Research Methodology

Data Management and Analyses:

- Analysis will be performed on quantitative data obtained through library and Internet research to determine a correlative relationship between student loan default rates, and the increased adverse economic conditions identified as a "recession" in the U.S. between 2008 and 2012.

- Defining conditions of economic depression, recovery, and prosperity will be compared to qualitative data to reach a predictive conclusion based on previous economic cycles and current conditions.

Findings

- Secondary data largely supports the information gathered through interviews of primary sources.
- The student debt crisis in fact has its roots in state cuts to higher education that began in the 1980s.
- Several factors have contributed to the market imbalance which created this new "debt bubble."

Findings

- **Secondary data also supports the idea that the burden of federal student loan debt will have a detrimental effect on economic recovery in the coming decade, particularly in the housing market.**

- The significant share of consumer incomes consumed by student debt loan servicing will cause a drag on the economy for the foreseeable future.

Findings

What observations have you made regarding student loan defaults after the year 2008 and the onset of economic recession for that period?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Accelerated defaults	3	20.0	20.0	20.0
	Higher debts	2	13.3	13.3	33.3
	Borrower credit negatively affected	2	13.3	13.3	46.7
	No significant change observed	2	13.3	13.3	60.0
	No employment in field of study	3	20.0	20.0	80.0
	Shared debt in families	2	13.3	13.3	93.3
	EdFin industry negatively impacted	1	6.7	6.7	100.0
	Total	15	100.0	100.0	

Findings

What circumstances do borrowers cite regarding their delinquencies and default?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Lack of information about loan debt	1	6.7	6.7	6.7
	Unemployment (no income)	9	60.0	60.0	66.7
	Underemployment (income insufficient to meet obligations)	5	33.3	33.3	100.0
	Total	15	100.0	100.0	

Findings

Based on your observations, what implications do these defaults have on economic growth and recovery (as it pertains to these borrowers)?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Borrower credit histories negatively impacted	6	42.9	42.9	42.9
	Financial penalties (garnishment of wages, tax refunds, benefits)	3	21.4	21.4	64.3
	Better training for future student borrowers	5	35.7	35.7	100.0
	Total	14	100.0	100.0	

Discussion

- **An early goal of the researcher was to better understand the relationships between both student loan debt and economic conditions, and between borrower and lenders.**
  - Student debt is a long-term commitment— ten to fifteen years for standard Stafford guaranteed federal loans. With consolidation or refinancing, the length of term frequently extends to thirty years.
  - It is a major constraint that looms over the lives of those so contracted, binding individuals for a significant part of their future work lives.
  - Student debt now fuels a financial services system that trades in and profits from contracts of indebted individuals.

Discussion

- Need for risk-based pricing of student loan interest

Policy Implications

- Although economic recovery will certainly be impacted by student loan debt, adjustments can be made to help facilitate a smoother and faster recovery.
- Administrators and counselors should work more closely together to inform students on how to reduce and manage their student loan debt.
- There are several ways students can reduce their student loan debt burdens while simultaneously engaging in community development.

One Policy Alternative: Public Service Loan Forgiveness

- The Public Service Loan Forgiveness Program is a product of the College Cost Reduction and Access Act of 2007 and allows for forgiveness of unpaid loan balances after 10 years of working in public service.

- Only Direct loans qualify – however borrowers may consolidate their loans from other federal loan programs (FFELP or Perkins) into a new Direct loan in order to qualify.

- Loans qualify for forgiveness after the borrower has made 120 on-time, qualifying payments.

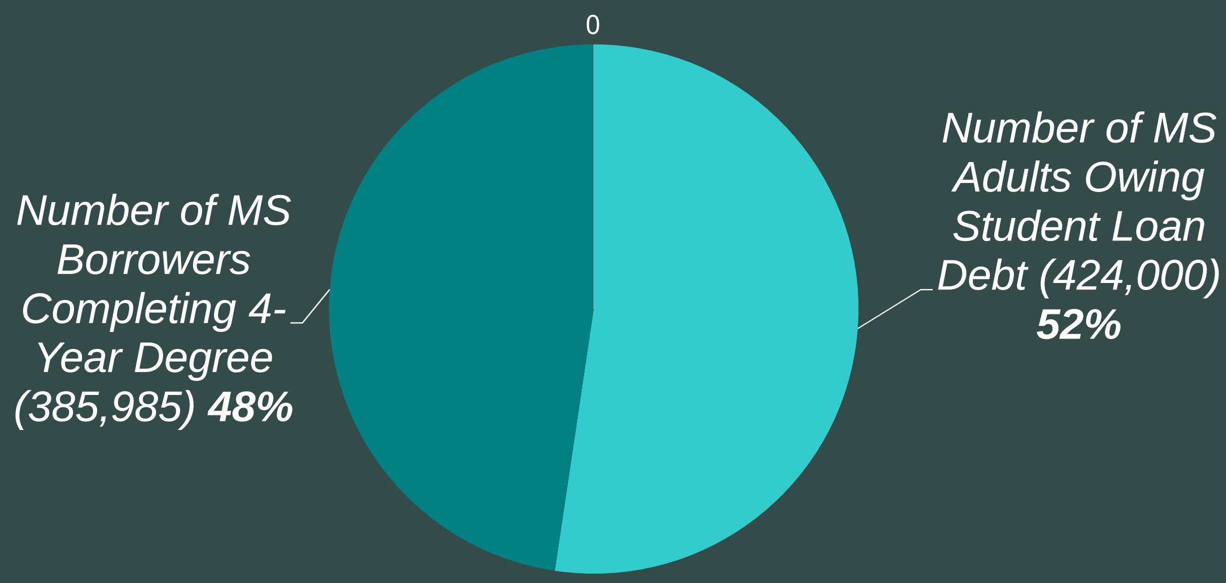
Mississippi's Debt Burden

Mississippi ranks as 51st, or the *WORST* state for student loan debt. This includes last place rankings in:

- 51st in Home Ownership for People Between Ages 25 – 34
- 51st in Highest Unemployment Rate for People Aged 25 – 34
- Highest Percentage of Student Loan Borrowers in Past Due Status or Default (25%)
- 49th in Highest Percentage of Student Loan Balances Past Due or in Default
- 46th in Student Debt as Percentage of Income (Adjusted by Cost of Living)

- The percentage of students defaulting has been on the rise over the last three years, including in Mississippi.
- According to a report from the White House released in March 2015, Mississippi borrowers owe more than $11.2 billion in student loans – an average of $26,420 per borrower.
- More Mississippians have college debt than have college degrees.

(Source: 2014 U.S. Census Bureau American Community Survey)



- The Mississippi Teacher Loan Repayment Program encourages the development and deployment of high-quality teachers to areas of need throughout the state.
- Additional scholarship funds are also available to students who commit themselves to a career in education:

Undergraduate

MS Excellence in Teaching Program (METP)

Teach Grant

William Winter Teacher Scholar (and Alternate Route) Program

Teacher Education Scholars Scholarship

Critical Needs Teacher Scholarship

Graduate

Graduate Teacher Counselor / School Administration Scholarship

MS Teacher Fellowship Program

Teach Grant

Critical Needs Teacher Scholarship

CRITICAL TEACHER SHORTAGE AREAS IN MISSISSIPPI:		
Benoit	Hazelhurst City	Noxubee County
Canton	Hinds AHS	Quitman County
Carroll County	Hollandale	Shaw
Claiborne County	Holly Springs	South Delta
Clarksdale Separate	Holmes County	South Pike
Cleveland	Humphreys County	Sunflower County
Coahoma Agricultural HS	Indianola Separate	Tate County
Coahoma County	Jefferson County	Tunica County
Copiah County	Kemper County	West Bolivar
Drew Separate	Leflore County	West Jasper
Durant Separate	Leland Consol.	West Tallahatchie Consol.
East Jasper	Marshall County	Western Line Consol.
East Tallahatchie	Montgomery County	Wilkinson County
Greene County	Mound Bayou	Yazoo City
Greenville Public	North Bolivar	Yazoo County
Greenwood Public	North Panola Consol.	**34% of MS COUNTIES**

Critical Subject Areas:

Math, Science (Biology, Chemistry, Physics), Special Education, Foreign Languages (French, German, Spanish)

Conclusion

The negative effects of federal student loan debt on borrowers and on economic recovery after periods of recession should compel us to improve and innovate upon new ways to open doors to higher education without having to sacrifice economic prosperity and ignore practicality.

The Critical Needs Teacher Scholarships, Mississippi Teacher Loan Forgiveness, and the national Public Service Loan Forgiveness program can help create paths to affordable education while facilitating community development through improved educational and economic opportunities for citizens.

Policymakers should devote effort to:
-Research which tracks the real value of the programs
- To establishing tax policy which keeps loan forgiveness penalty-free
-Promoting these programs to students and the public

Questions & Feedback