



## **CGHE 2020 ANNUAL CONFERENCE – PARALLEL SESSION**

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### **The cautionary tale of the United States' complex student loan repayment system**

*Presenter: KC Deane*

*Co-authors: Fernando Furquim (University of Michigan), Stephen DesJardins (University of Michigan), and Brian McCall (University of Michigan)*

Income-based loan repayment schemes are compellingly simple: students' monthly payments are capped at a set percentage of income. The straightforward design theoretically increases repayment rates and prevents students from experiencing negative consequences such as default. However, as countries with predominantly income-contingent loan programs experience lower-than-expected repayment rates and higher-than-expected costs, policymakers may question the benefits of these loans. The repayment system in the United States—which is predominantly not income-based—serves as a cautionary tale: borrowers bounce between servicers and repayment statuses as they choose (or don't) between nearly two dozen repayment plans. The result is a highly complex system that asymmetrically favors well-informed borrowers and serves up steep financial consequences to delinquent borrowers (Barr, Chapman, Dearden, & Dynarski, 2019).

Motivated by an interest to better understand the consequences of a complex repayment system, we construct detailed monthly student loan repayment histories spanning 12 years for a nationally representative sample of United States borrowers. Using social sequence analysis, we identify common patterns of repayment and assess whether these patterns differ based on student and institutional characteristics. Preliminary results reveal that nearly a third of borrowers default once and, of those, 18% default again. Strikingly, the average default spell is about three years. Some borrowers appear savvier than others, never fully repaying their loans but avoiding default by seeking out deferment or forbearance. Observing how repayment unfolds in the US context reinforces the many ways in which income-based loan repayment schemes are better able to support borrowers as they enter adulthood.