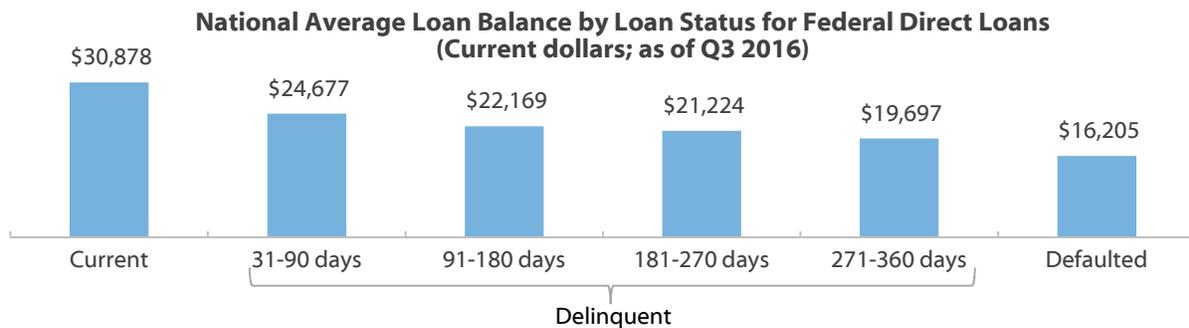


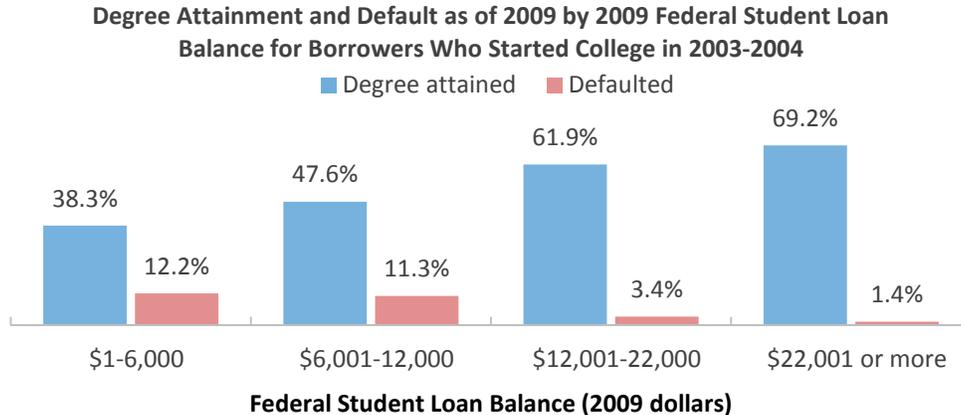
Students Who Borrow More Are Less Likely to Default

Concerns over student debt tend to focus on two trends: high default rates and high loan balances. Default rates have been slowly declining in recent years, but far too many student loan borrowers continue to default. Nationally, about one in nine student loan borrowers who entered repayment in fiscal year 2013 defaulted in that year or the next two (a three-year cohort default rate [CDR] of 11.3 percent), but lifetime default rates are much higher. Among federal Direct Loan borrowers in repayment, 17 percent – more than one in six – were in default as of June 2016. The federal Office of Management and Budget predicts that 20 to 25 percent of undergraduate Direct Loan borrowers who entered repayment in FY 2016 will default over the next 20 years.

Although the average loan balance continues to climb, the relationship between this trend and default rates is not straightforward. In fact, borrowers who are current on their loans tend to have higher balances, while those in delinquency or default tend to have lower balances.



As shown in the chart above, the most severely delinquent and defaulted loans tend to have smaller balances than loans that are currently in active repayment. This counterintuitive pattern has one key cause: Borrowers incur higher debts by staying in school longer.



The common explanation for the inverse relationship between borrowing and default is that persisting to graduation requires more borrowing but also leads to higher incomes, such that the loan payments are actually more affordable. Data support this explanation, but it is incomplete. Provisions like deferments and income-driven repayment plans offer borrowers effective means to avoid defaulting on federal student loans regardless of income. Helping borrowers acquire the knowledge and skills to navigate the repayment process early on can be an effective default prevention strategy for all borrowers, especially those who will drop out and be at greatest risk of default.

Sources: Cohort default rate: U.S. Dept of Education, "Official Cohort Default Rates for Schools", (<http://www2.ed.gov/offices/OSFAP/defaultmanagement/cdr.html>); Loan status data: U.S. Dept of Education, Federal Student Loan Portfolio, Q3 2016, (<https://studentaid.ed.gov/sa/about/data-center/student/portfolio>); Lifetime default projection: U.S. Office of Management and Budget, FY 2017 Budget for Dept of Education, (<https://www.whitehouse.gov/sites/default/files/omb/budget/fy2017/assets/edu.pdf>); Attainment and default: Author's analysis of U.S. Dept of Education, National Center for Education Statistics, 2003-04 Beginning Postsecondary Students Longitudinal Study (BPS:04/09).

