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PLUS Borrowing in Texas:

Repayment Expectations, Experience, and Hindsight by Minority-Serving Institution Status

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ABOUT TRELLIS COMPANY

Trellis Company (trelliscompany.org) is a nonprofit 501(c)(3) corporation with the dual mission of helping student borrowers successfully repay their education loans and promoting access and success in higher education.

ABOUT TRELLIS RESEARCH

Trellis Research (trelliscompany.org/research) provides universities, colleges, and policymakers insight into student success through the increasingly important lens of higher education affordability. With more than three decades of experience studying key issues such as student debt, student loan counseling, and the financial barriers to attainment, our research team continues to explore the roles of personal finance, financial literacy, and financial aid in higher education.

RECENT PUBLICATIONS

- Fernandez, C., Webster, J., & Cornett, A. (2019). Studying on Empty. Trellis Company. Retrieved from: https://www.trelliscompany.org/wp-content/uploads/2019/09/Studying-on-Empty.pdf
- Klepfer, K., Cornett, A., Fletcher, C., & Webster, J. (2019). Student Financial Wellness Survey Report: Fall 2018 Implementation. Trellis Company. Retrieved from: https://www.trelliscompany.org/student-finance-survey/
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The views expressed in the paper are the authors' and do not represent the views of the Federal Reserve Bank of Dallas or the Federal Reserve System.

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EXECUTIVE SUMMARY

After decades of college costs outpacing inflation, institutions of higher education have become less able to meet the full financial need of students (Clark, 2015) (Walizer, 2018). For families trying to fill this gap, the Federal Direct PLUS for parents (PLUS) has been an increasingly popular, but problematic, financing option. The program enables parents to incur substantially larger amounts of education debt than their college student children even though the parents, unlike their children, receive no direct economic returns on the investment. Eligibility for PLUS entails only a modest check for adverse credit, not a more thorough – and common – check of credit worthiness that reflects ability to repay the debt. Consequently, some parents with low credit scores may borrow more than they could reasonably be expected to repay, but lack some of the programmatic repayment options and protections available to student borrowers. And, because loan counseling is not mandatory for PLUS borrowers, some parents may be less informed than student borrowers.

For these reasons, Trellis conducted a study of parent borrower repayment patterns and a qualitative analysis of parent perceptions of the loan process and its effect on other financial experiences. In particular, Trellis examined the experiences of parents whose children borrowed while at either an Historically Black College or University (HBCU) or a Hispanic Serving Institution (HSI) since these schools serve a higher proportion of students from low-income families who might have lower credit scores. Additionally, these minority serving institutions (MSIs) historically have been under funded and, consequentially, often lack the financial strength to meet the full financial need of its students whose parents, in turn, become more reliant on PLUS loans to gain access to higher education for their children. This study found similarities and differences in borrowing experiences between MSI parents and Non-MSI parents.

While most parents who borrowed PLUS loans in this study reported struggling to repay them, those with children attending MSIs had the most difficulty with repayment. These parents had the highest rates of delinquency and default, were less likely to have reduced their original balance, and used deferments and forbearances more frequently than Non-MSI parents. MSI parents were more likely than Non-MSI parents to report that their repayment experience impaired their ability to save money or make major purchases. Nevertheless, MSI parents were more likely to report that repayment went “as expected”. Non-MSI parents were more likely than MSI parents to have repayment success – despite borrowing more -- and they reported being better able to save for retirement. While Non-MSI parents were more likely to originally expect repayment help from their children, Non-MSI parents were, ironically, more likely to repay all or part of their children’s education loans than MSI parents.

This report employs a mixed-methods approach to better understand the relatively under-examined borrowing experience of Parent PLUS borrowers. Trellis' administrative database of Federal Family Education Loan Program (FFELP) loans guaranteed in Texas was used to identify the prevalence of repayment patterns. However, quantitative data are unavailable to address important issues like the dynamics between parent and child regarding educational loans, how repayment may have impacted retirement savings, and the nature of any struggles parents may have endured in making payments. The authors used qualitative data captured during 49 in-depth interviews with parent borrowers to begin conceptualizing how parents think about the above issues. As such, the qualitative findings are suggestive; we welcome additional research — and the construction of data infrastructure — to answer these questions with more authority.

Using Trellis' administrative data, parent borrowers were placed into mutually exclusive categories based on their activities and outcomes during the first seven years in repayment. These categories were based on whether borrowers 1) had paid down at least a dollar on the principal balance after seven years, 2) had not reduced the principal balance after seven years, 3) had defaulted, or 4) had consolidated. Within these categories, borrowers could be further analyzed based on their use of deferments or forbearances and whether they were delinquent.

REPAYMENT CATEGORY	
Successfully Repaying	Uninterrupted Payments
	Had Deferment, Forbearance, and/or Delinquency
	Had Delinquency Only
Default	Had Deferment, Forbearance, and/or Delinquency
	Had Delinquency Only
No Reduction in Principal Balance (Could Have Been Delinquent or Used Deferments or Forbearances)	
Consolidation	

Because outcomes may vary by the type of institution attended, the study contrasted students based on whether the parent borrower's child attended a Hispanic-Serving Institution or a Historically Black College or University (referred to together as Minority-Serving Institutions [MSIs]).

KEY FINDINGS

What do parents know before they borrow?

- Most of the parents we spoke with reported learning about the Parent PLUS loan program from the financial aid office or as a result of completing the Free Application for Federal Student Aid (FAFSA).
- Most of those interviewed had planned on borrowing for college. Some had to borrow more than they expected due to tuition increases, loss of scholarship aid, or delays in graduation.
- Among those interviewed, parents who had more successful repayment outcomes were less likely to say they originally sought information or advice about the Parent PLUS program, perhaps because these parents may have already been knowledgeable and aware of their repayment responsibilities.
- Parents were interviewed about their total debt and whether the amount was roughly what they originally expected. Parents who made uninterrupted payments and those who had not reduced their principal balance reported more accurate expectations than parents in other repayment categories.

Who repays the loan?

- For the most part, parents who were interviewed expected to repay Parent PLUS loans with no help from their children. This was particularly true of the parents whose children attended Minority-Serving Institutions (MSIs) regardless of the parents' repayment category.
- The plan of who would repay the loan generally went as expected, with some exceptions due to lack of communication or unforeseen issues (e.g., financial difficulties or the death of the parent or child).

KEY FINDINGS

What does repayment look like for parent borrowers?

- The median cumulative owed in Parent PLUS loans when the loans entered repayment was $12,304, with non-MSI parents borrowing more than MSI parents ($13,740 compared to $10,000). Parents who defaulted tended to have the lowest median debt and number of loans, borrowing an average of one loan for a median of about $6,500.
- Parent borrowers whose children attended MSIs experienced higher rates of delinquency, deferment, forbearance, default, and no reduction in their principal balance compared to parent borrowers whose children did not attend MSIs.
- Forty percent of MSI parents had uninterrupted successful payments compared to 46 percent of non-MSI parents.

Do parents struggle with loan payments?

- Most of the parents interviewed said they have struggled with loan repayment at some point.
- Many experienced frequent repayment struggles, particularly MSI parents and those who had not reduced their principal balance after seven years in repayment.

How does repayment affect other financial decisions?

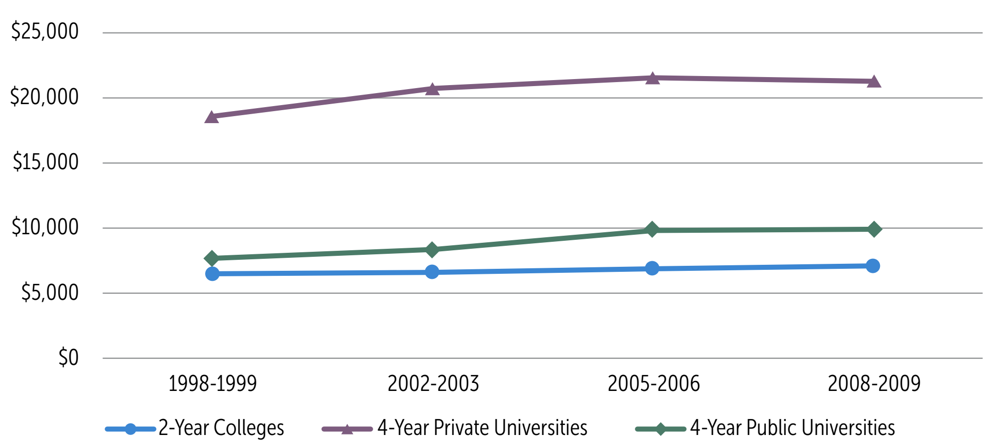
- The effect of loan repayment on parents' ability to save money and make major purchases varied among parents interviewed. Parents whose children attended MSIs and parents who defaulted on their Parent PLUS loans were more likely to describe a high impact.
- The parents who had uninterrupted payments and those who consolidated were more comfortable with their retirement savings than parents with other repayment outcomes.
- Most of the parents, especially the MSI parents and the parents who had uninterrupted payments, said that the impacts of loan repayment were expected.
- Approximately one third of the parents said there was no financial impact when their loans entered repayment and another one-third of the parents rated the impact at the highest level, illustrating the wide variability in repayment experiences.
- Among those interviewed, parents who had not reduced their principal balance were the most likely to rate the impact of their loan entering repayment as high whereas the parents who had uninterrupted payments were the most likely to say there was no impact.
- Non-MSI parents, parents who did not default, and parents who had reduced their balance after seven years in repayment were more likely to also help with their child's/children's student loan payments. This additional help eases repayment for their children, giving the students a firmer financial standing once they leave college and enter the workforce.

INTRODUCTION

The Federal Direct PLUS for parents, more commonly referred to as the Parent PLUS loan program, was introduced in 1980, as a resource for parents of dependent undergraduates. The program has undergone changes throughout the years which, in combination with rising college costs, have resulted in increases in the average amount borrowed and the number of borrowers. From program initiation until 1993, parents were held to annual and lifetime maximum limits in the amount they could borrow through the Parent PLUS loan program. Lifting the cap allowed parents to borrow up to the cost of attendance, which made college financially attainable for many low-income families and provided additional liquidity to more affluent families. However, these changes also greatly increased the total debt a parent could potentially accrue.

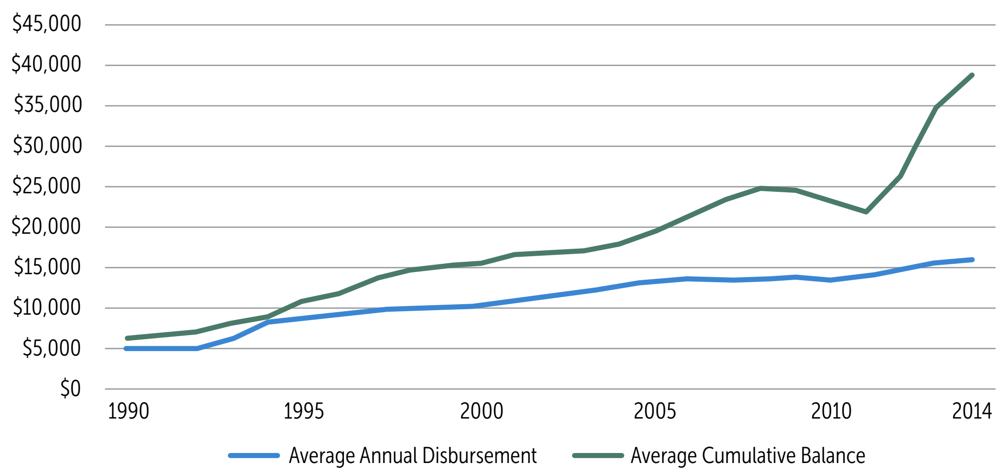
In 2011, the federal government tightened the underwriting standards to align with the lending industry. Stricter eligibility requirements were designed to better manage public funds and to prevent families from borrowing more than they could afford (Nelson, 2012). Unsurprisingly, this change resulted in an increase in loan denials. A disproportionate percentage of these denials occurred among African-American families, which had an immediate impact on enrollment rates at Historically Black Colleges and Universities (Johnson, Bruch, & Gill, 2015). After facing criticism for making this unannounced change, the Department of Education made the standards less stringent. Although the program was originally designed with middle- to upper-income families in mind, there have never been any formal income limitations as part of the eligibility standards. Increasingly, low-income families with no adverse credit experiences rely on Parent PLUS loans to access higher education amid rising costs and stagnant wages, although the debt may become especially challenging to repay.

National College Costs 1998-99 through 2008-09
Net Tuition, Fees, Room, and Board
In 2009 Dollars



Average net tuition, fees, and room and board increased by large amounts from 1998-99 to 2008-09, the general time period relevant to this study, after adjusting for inflation: nine percent at public two-year colleges, 15 percent at private four-year universities, and 30 percent at public four-year universities (College Board, 2018). Unmet need, the gap between the cost of college and the student's financial aid, has also increased in recent years. Nationally, the unmet need of community college students rose 16 percent between 2011-12[1] and 2015-16 (Saunders, 2015) (Walizer, 2018). As the costs of college tuition and living expenses increase and unmet need rises, a growing number of parents have decided to take out Parent PLUS loans. The average annual amount borrowed by parents has more than tripled since the annual cap was lifted in 1993. In 2014, parents borrowed approximately $16,070 per year, compared to $5,151[2] in 1990. The average cumulative[3] balance by parents has also risen sharply over the past few decades, from $6,236[4] in 1990 to $38,812 in 2014 (Looney & Lee, 2018).

Average Parent PLUS Borrowing, 1990 to 2014
In 2014 Dollars



Source: Looney & Lee 2018 report in Brookings, "Parents are borrowing more and more to send their kids to college – and many are struggling to repay"

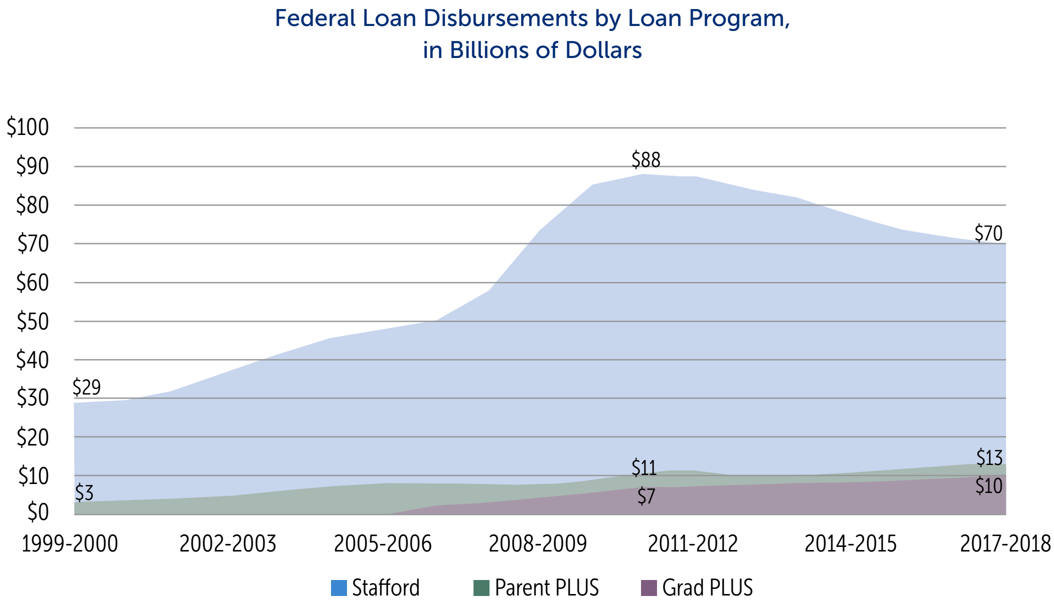
All federal student loan programs experienced an increase in total disbursements during the Great Recession between 2007-2009, due to rising enrollments as students strove to increase their skills with goals to achieve secure employment. As the economy entered recovery, Federal Stafford Loan Program disbursement totals decreased alongside declining enrollments, yet the Parent PLUS and Grad PLUS loan programs have continued their steady climbs (U.S. Department of Education, 2019).

[1] Adjusted to 2015 dollars.

[2] Adjusted for inflation.

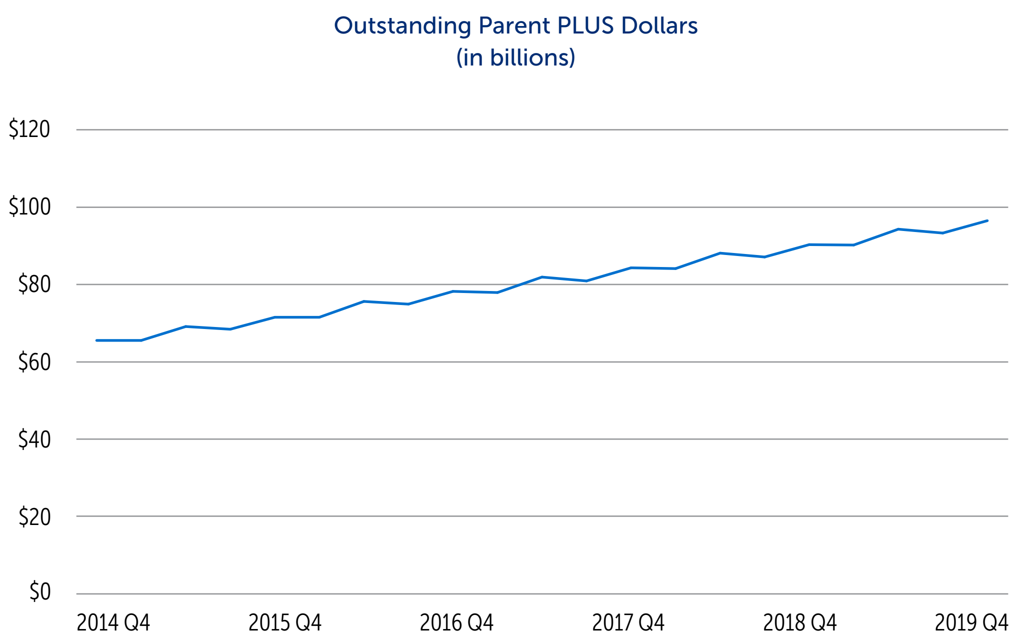
[3] Represents the average Parent PLUS loan balance in the year when the parent's last loan went into repayment.

[4] Adjusted for inflation.



Source: Department of Education, Federal Student Aid, "Title IV Program Volume Reports"

In the fourth quarter of 2014, $65.1 billion in Parent PLUS loans from 3.2 million parents were outstanding; in the fourth quarter of 2019, $96.1 billion from 3.6 million parents were outstanding. This growth represents a 36[5] percent increase in the amount borrowed, with a 13 percent increase in the number of Parent PLUS loan recipients from 2014 to 2019 (U.S. Department of Education Office of Federal Student Aid, 2019).

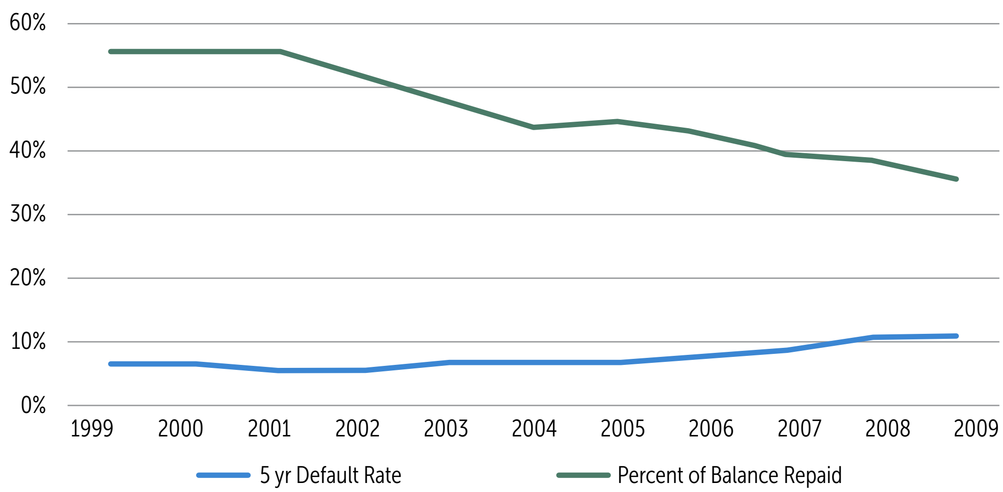


Source: Department of Education, Federal Student Aid, "Federal Student Aid Portfolio by Loan Type"

[5] Adjusted for inflation.

Alongside the growth in the Parent PLUS loan program is a trend of increasing defaults[6]. The 1999 cohort of parent borrowers had a five-year default rate of seven percent, which increased to 11 percent for the 2009 cohort. The rates of repayment have also been slowing, due in part to increases in the cumulative amounts borrowed without corresponding increases in wages. The 1999 cohort of parent borrowers had repaid approximately 56 percent of their loans after the first five years of repayment while the 2009 cohort had repaid approximately 36 percent (Looney & Lee, 2018). While some repayment difficulty may have stemmed from the Great Recession these trends were evident prior to that time.

Percent of Balance Repaid and Default Rate After Five Years into Repayment
1999 through 2009



Source: Looney & Lee 2018 report in Brookings, "Parents are borrowing more and more to send their kids to college – and many are struggling to repay"

[6] A default occurs when a borrower has not made any payments on their federal loan for somewhere between 270 and 360 days. Defaulting can carry serious consequences for the borrower, including wage garnishment, credit damage, and collection fees.

LITERATURE REVIEW

There have been little data available and minimal research published on this federal loan program. This may be due to several factors:

- The repayment rates for the Parent PLUS program have generally been very high, certainly higher than the federal Stafford loan program, therefore causing little concern.
- The debt is in the parent's name, not the child who is attending school and who is the subject of attention for college practitioners and higher education policymakers.
- The parent borrowers undergo a credit check as part of the borrowing process, further cementing the notion that this program is similar to other consumer debt products and separated from other forms of higher education financial aid.
- The performance of Parent PLUS loans does not affect schools' eligibility for federal funding, including access to the Stafford Loan and Pell Grant programs.

As the numbers of parents borrowing and the total amounts borrowed increase, the interest in understanding the impact of these loans on families has begun to grow. Examination of the socio-economic backgrounds of Parent PLUS loan recipients and types of institutions with the highest concentrations of PLUS loans helps assess the PLUS loan program. In particular, we look at age and income of borrowers, as well as institutional characteristics such as school sector and if the school is a Hispanic-Serving Institution (HSI) or a Historically Black College or University (HBCU).

AGE AND INCOME

In 2017, the Consumer Financial Protection Bureau reported that the number of individuals aged 60 or older in the U.S. with student loan debt had quadrupled in the previous decade. Student loan borrowers aged 60 or above now make up more than seven percent of the total number of education loan borrowers (Friedman, 2018). From 2005 to 2015, the number of borrowers in this age group grew from 700,000 to 2.8 million. Although some of this debt was accrued for the borrower's personal education, 73 percent of these borrowers report that their student loan debt was incurred to fund their child's or grandchild's postsecondary education (Consumer Financial Protection Bureau, 2017). U.S. Census Bureau data demonstrate that income trajectory for workers with bachelor's degrees tends to peak between the ages of 50 to 54, before declining as the worker moves toward retirement (Seeking Alpha, 2018). This decline in income would typically occur at the same time as Parent PLUS loan repayment for many parents.

A New America report noted that the Parent PLUS loan program was created to provide middle-income and upper-income parents with fixed-rate and lower-interest loans to fund their children's postsecondary education at expensive institutions. Rising tuition costs and limited financial aid have increased the proportion of low-income borrowers using the program. Roughly one half (49 percent) of the Parent PLUS borrowers in the 2011-12 academic year had family incomes of less than $75,000, varying from 41 percent of White borrowers to 71 percent of African-American borrowers. Additionally, approximately 16 percent of Parent PLUS borrowers had incomes so low that they were not expected to be able to contribute any money to their child's educational costs (determined through a federal calculation). This also varied widely by race, with nine percent of White Parent PLUS loan borrowers determined to be unable to contribute compared to 33 percent of African-American Parent PLUS loan borrowers (Fishman, 2018).

TYPE OF INSTITUTION

An average of nearly six percent of students across higher education had parents who borrowed Parent PLUS loans for them in 2014 and this varied by sector. Parent PLUS loans are taken out most frequently at private (for-profit and non-profit) schools and universities. Approximately eight percent of parents borrowed close to $13,200 in PLUS loans at private, non-profit schools in academic year 2013-14, while approximately seven percent of parents borrowed close to $7,600 at for-profit schools. Nearly five percent of parents borrowed approximately $10,700 in PLUS loans at four-year public institutions and less than one percent of parents at two-year institutions borrowed approximately $6,100 (Dancy, 2016).

Given the important and sustaining roles that Parent PLUS loans have played at HBCUs, there is a benefit to looking at experiences and outcomes through the lens' of Minority-Serving Institutions (MSIs). This study focuses on HBCUs and HSIs. HBCUs are institutions that were established prior to 1964 and designated as an HBCU by the federal government. There are roughly 100 HBCUs in the U.S., including nine in Texas. HSIs are determined based on the characteristics of their student population. An institution may be eligible to receive federal funding if they have an undergraduate enrollment that is at least 25 percent Hispanic. The number of institutions eligible to be HSIs has increased 59 percent between 2010 and 2017 (Hispanic Association of Colleges & Universities, 2019).

MSIs serve larger numbers of low-income and underrepresented students compared to non-MSIs, and MSIs tend to have lower retention and graduation rates (Gasman & Conrad, 2013; Cunningham, Eunkyoung, & Engle, 2014). Two-thirds of undergraduate students at HBCUs in 2011-12 received Pell grants, compared to 38 percent of undergraduates at non-MSI institutions (Cunningham, Eunkyoung, & Engle, 2014). In 2016, HSIs represented four percent of all postsecondary institutions nationwide and enrolled 13 percent of all Pell grant recipients (Center for MSIs, 2017).

As part of determining financial aid distribution, the federal government, through its FAFSA processor, calculates the amount the student and their family will be expected to pay out-of-pocket based on factors such as income and family size to determine the student's expected family contribution (EFC). In Texas, White students have an EFC nearly twice as high as African-American and Hispanic students at public two- and four-year institutions, due largely to higher incomes of White families (Fletcher, 2019). Most parents are not borrowing Parent PLUS loans just to pay for their EFC. Sixty-two percent of parents who borrowed in the 2015-16 academic year borrowed more than their calculated EFC (Baum, Blagg, & Fishman, 2019).

MSIs also tend to receive less funding compared to non-MSIs. HSIs, for example, receive 68 cents for every dollar that non-HSIs receive from all federal funding sources (Hispanic Association of Colleges & Universities, 2019). Revenue per full-time equivalent student has also been decidedly lower at MSIs - $16,648 compared to $29,883 at non-MSIs in fiscal year 2010. Funding for Title III and Title V programs, the federal programs that provide funding to eligible MSIs, has not kept up with the increases in the number of MSIs. Both programs experienced funding decreases of about 12 percent between 2010 and 2013 (Cunningham, Eunkyoung, & Engle, 2014).

Families across all types of institutions already rely on financial aid, including Parent PLUS loans, to close the gap between the cost of attendance and the resources available to pay for college. Given that students attending HSIs and HBCUs tend to come from lower-income families than students attending predominantly White institutions, these students are particularly reliant on loans to access postsecondary education. A higher percentage of students at HBCUs borrowed loans, both Stafford and Parent PLUS, to finance their education compared to students at non-HBCUs, and HBCU graduates borrowed a cumulative amount that was almost double that of their non-HBCUs peers (UNCF, 2016).

These trends are also seen in Texas, with nearly 80 percent of HBCU bachelor's degree graduates and 62 percent of HSI graduates borrowing loans compared to 56 percent of graduates from non-HBCUs/non-HSIs. As shown in the national data, Texas HBCU bachelor's degree graduates borrowed nearly twice as much in student loans compared to their peers who attended non-HBCUs/non-HSIs. However, bachelor's degree graduates from HSIs cumulatively borrowed somewhat less than their non-HBCU/non-HSI peers (Fletcher, 2019).

Given that individuals have access to large amounts of credit through the Parent PLUS program that would, in some cases, be considered unmanageable using conventional measures of credit worthiness, low-income PLUS borrowers may be at greater risk of default unless sufficiently informed about the terms and conditions of the loans. However, there are questions about the level of knowledge parents have about this loan program and how repayment may impact other financial decisions such as retirement savings.

PROBLEMS WITH UNDERSTANDING PLUS LOAN REPAYMENT

Even after some families may have decided who will be responsible for Parent PLUS loan payments, parent borrowers often do not understand the process of repayment. Parent PLUS loan repayment begins after the full amount of the loan has been disbursed[7] (U.S. Department of Education Office of Federal Student Aid, 2019). Parent PLUS borrowers have fewer repayment options than do Stafford loan borrowers and parents are often not aware of these limitations, perhaps because loan counseling[8] is not federally mandated as is required with Stafford loans (Pentis, 2017). Some parents may be unprepared for the realities of PLUS loan repayment.

[7] Unless the borrower requests an in-school deferment, which allows the borrower to delay payments on the Parent PLUS loan while their child is enrolled at least half-time, and for six months after their child stops being enrolled at least half-time.

[8] The exception is that parents who were informed that they have an adverse credit history and either obtained an endorser or informed the Department of Education of their related extenuating circumstances are required to complete the Department of Education's PLUS Credit Counseling online module.

HOW DO PLUS LOANS AFFECT RETIREMENT?

The $93.9 billion of Parent PLUS loans borrowed is a significant financial burden, but the toll that this debt has on parent borrowers in other ways may be particularly consequential. When a parent borrower defaults on their PLUS loan, the government can garnish wages, tax refunds, and Social Security checks. Forty-one thousand Parent PLUS borrowers were garnished in 2015 (Snider, The Problem with PLUS: How Parents Buckle Under the Weight of College Debt, 2018). One third of defaulted student loan borrowers aged 65 or older who had their Social Security checks garnished had outstanding Parent PLUS loan debt either alone, or in addition to, student loans for their personal education (U.S. Government Accountability Office, 2016).

Large gaps in the research literature on Parent PLUS borrowing remain. Repayment outcomes are typically thought of in absolute terms: in repayment or in default. However, there are more nuanced ways to look at repayment experiences that can indicate struggles without defaulting. Additionally, there have been no large-scale, in-depth studies looking at what parents know before they borrow, their expectations of costs and repayment, and how repayment impacted other financial decisions. This study aims to fill these gaps analyzing 1) Trellis' administrative records of its large portfolio of PLUS loan guarantees and 2) in-depth telephone interviews with borrowers several years removed from their borrowing decision to ascertain current impact and retrospective assessments of their borrowing experience.

METHODOLOGY

This study provides new insights into the repayment pathways of parent borrowers. While the Department of Education (ED) provides broad information on loan amounts and default rates, this analysis reports delinquency, deferment, forbearance, and progress made on the principal balance. Additionally, interviews with parent borrowers' shed light on issues that available quantitative data cannot, such as:

- the dynamics between parent and child regarding educational loans, including who is expected to pay the loan and what they understand about the process,
- how repayment may have impacted other financial decisions including retirement savings and major purchases, and
- whether or not borrowers ever struggled to repay their loans.

This mixed-methods approach analyzes administrative data from Trellis Company's Federal Family Education Loan Program (FFELP) portfolio and in-depth telephone interviews with borrowers whose loans were guaranteed by Trellis. The Trellis portfolio database contains information regarding the repayment of the FFELP loans, such as the incidence and timing of delinquency, forbearance, or deferment. As the designated FFELP loan guarantor for Texas, Trellis Company (formerly TG) held approximately 80 percent of the FFELP loan market in Texas[9]. The study includes 59,096 parents who entered repayment on their Parent PLUS loans between October 2004 and September 2010, and whose children attended a Texas institution. The repayment activities of these borrowers were tracked for the first seven years of repayment.

The qualitative data were collected from telephone interviews with 49 Parent PLUS borrowers who were asked how they learned about Parent PLUS loans, what their repayment expectations were, and how the loans did or did not impact their personal finances, including retirement savings and major purchases. The borrowers selected for the interviews were among those who volunteered via a short survey sent to their email address. Interviewees were not selected at random, but were chosen to ensure a variety of characteristics, such as graduated status, school type, loan amount, and repayment category. This selection is not meant to be representative of all borrowers or even of the full study sample but to ensure that people with different experiences were included. For more detailed information about the methodology, please see the Appendix.

The analysis of the qualitative and quantitative data separates the borrowers into two sets of comparison groups. One set looks at whether or not the child attended an HSI or an HBCU, which are together defined as an MSI for the purposes of this report. The federal definition of an MSI includes other types of institutions besides HSIs and HBCUs. Texas does not have any Tribal Colleges and Universities or Alaska Native/Native Hawaiian institutions, so none appear in the study. The researchers chose to exclude institutions in Texas that may qualify as Asian American and Native American Pacific Islander-Serving Institutions as our focus was on low-resourced institutions. The purpose of separating the analysis by these types of institutions is to consider how attending a lower-resourced institution serving predominantly economically-disadvantaged students may influence repayment outcomes. The parents and their children who are attending an MSI may or may not be members of a minority races or ethnicities.

[9] Per Trellis administrative files and Department of Education loan volume reports.

There are two distinct groups that are discussed in this report:

- **MSI parents:** Parent PLUS loan borrowers whose children attended an HBCU or HSI
- **Non-MSI parents:** Parent PLUS loan borrowers whose children did not attend an HBCU or HSI

Borrowers who attended only for-profit institutions are excluded from the analysis because for-profit institutions are not eligible to be designated as HBCUs or HSIs and they operate with different organizational missions and within a separate regulatory environment which would disturb the comparison.

Repayment outcomes for a borrower in the study are more nuanced than either being in repayment or default. Experiences such as delinquency, deferment, and forbearance can indicate repayment struggles that may be materially different than being in either repayment or default. A second set of comparison groups sorts parent borrowers into mutually exclusive categories based on their experiences during their first seven years in repayment. If the borrower had reduced their principal balance amount by at least one dollar after seven years, they were designated as successfully repaying. There are three subcategories within the successfully repaying category: 1) those who repaid without any interruption in payments, 2) those who had used a deferment, forbearance, and/or been delinquent during the first seven years, and 3) those who had been delinquent but had not used a deferment or forbearance.

If the borrower defaulted on at least one Parent PLUS loan during their first seven years in repayment, they were designated as a defaulter. There are two subcategories of defaulters: 1) Those who had used a deferment and/or forbearance before defaulting, and 2) those who did not use a deferment and/or forbearance before defaulting. All defaulters are delinquent prior to defaulting.

Borrowers who had a higher balance after seven years than they did when they started repayment were designated as having no reduction in principal balance. And finally, those who had consolidated their loans between their first and seventh year in repayment without having first defaulted were designated as consolidators.

REPAYMENT CATEGORY	
Successfully Repaying	Uninterrupted Payments
	Had Deferment, Forbearance, and/or Delinquency
	Had Delinquency Only
Default	Had Deferment, Forbearance, and/or Delinquency
	Had Delinquency Only
No Reduction in Principal Balance (Could Have Been Delinquent or Used Deferments or Forbearances)	
Consolidation	

RESULTS

WHAT DO PARENTS KNOW BEFORE THEY BORROW?

The Parent PLUS loan program is less well known among students and their families than other financial aid options such as Pell Grants and Stafford loans. Families may learn about the Parent PLUS program in a number of different ways: through the institution, as a result of completing the Free Application for Federal Student Aid (FAFSA); from their own research into college financing; from family members; or from non-family members unconnected to the institution. Parents may also learn about the program at a time when an immediate and unmanageable bill is due; these parents needed a quick financing option to ensure their child could enroll in college. Knowing how and when parents learn about the program may help institutions and other interested parties discover better ways to connect parents with valuable information regarding the loans.

How did parents learn about the loan program?

Nearly two-thirds of parents reported learning about Parent PLUS from the college's financial aid office or from the FAFSA. Some parents in our study mentioned learning about the program through their personal research or from non-family/non-institutional sources. However, those who defaulted on their Parent PLUS loans or had no reduction in their principal balance did not mention using non-family/non-institutional sources, perhaps because they did not know where to find reliable information. Only a few parents said they learned about the program from their children.

In hindsight, close to two-thirds of parents interviewed were generally okay with having borrowed PLUS loans, ranging from some expressing happiness about being able to provide a means for their child to receive an education to others feeling resigned to the need for it. The other one-third of parents said they were hesitant, scared, or did not want to borrow. One MSI parent[10] shared her sense of resignation tinged with gratitude, "I wasn't happy about it, but I was grateful it was available." Many parents expressed strong determination to see their children obtain higher education, regardless of the price.

Parents who defaulted or had payment interruptions (delinquency, deferment, forbearance) were more likely to say that they had been hesitant, scared, or did not want to borrow than those who were in good standing on their loans, i.e. consolidated, had uninterrupted payments, or had no reduction in principal after seven years in repayment.

Many parents sought information or advice about the Parent PLUS loan after first hearing about it, signaling a learning opportunity that institutions can potentially leverage to connect with parents regarding the Parent PLUS loan program. Most commonly, parents conducted online research to learn more, and some talked to the school financial aid office. Non-MSI parents often mentioned talking to third parties, such as a financial advisor or a friend. Surprisingly, parents who had successful repayment, interrupted or uninterrupted, and consolidators, were the least likely to seek advice or information. It is possible that their level of knowledge was already sufficient or that their confidence in their financial wherewithal was satisfactory to the debt they faced. Those who defaulted or had not reduced their

[10] White female parent who had deferments/forbearances and then was successfully repaying

principal balance were more likely to have researched online or talked to someone about borrowing, perhaps indicating an unease about the loan and repayment process.

Expectations of debt and costs

Planned to borrow?

Nearly everyone interviewed believed from the start that loans would be part of the way to pay for college. Most parents who had planned on borrowing described a combination of a lack of savings and the high cost of college as the reasons why borrowing was seen as inevitable. A parent spoke to this, saying:

> *So, the only way that he could have went to this school was for us to go and help him take out this Parent PLUS loan to try to get enough to go, because it was very expensive.*
>
> Non-MSI White female parent who had consolidated

The non-MSI parents were more likely than the MSI parents to say that their only college financing plan was debt – almost one-third of non-MSI parents and a tenth of MSI parents said that their only plan for financing college was to borrow loans. Approximately one half of non-MSI parents and three-quarters of MSI parents had planned on borrowing loans in addition to using other sources of aid (including grants, scholarships, and income from the child working).

It was rare for parents to admit to having no financing plan, and rarer still to think that loans would not be needed. About one in ten interviewees said they did not have an original college financing plan and a few interviewees said their original plan did not include loans. A parent who had not planned on borrowing for their child's education but ran into an unmet need gap after the child had reached their Stafford loan limit said:

> *The plan and the expectation at the time was for it to be covered under financial aid. I didn't think she would have needed a PLUS loan, but we later found out that she did.*
>
> Non-MSI African-American female parent who had deferments/forbearances and then was successfully repaying

These expectations of paying for college varied little across the different repayment categories. Most of the parents in each group expected to borrow and use other sources of aid. This was especially true among parents who had not reduced their principal balance after seven years in repayment.

School and Living Cost Expectations

An unexpected financing shortfall was mentioned by many of the parents interviewed. Some had sudden issues come up, such as parental unemployment or the child being unable to renew some of their financial aid because of low grades, but for many the funding gap was related to inaccurate expectations about school and living costs. About a quarter of parents said that living costs ended up being higher than expected. One parent described how differences in the cost of living can be shocking:

> *I grew up in a really rural part of Texas. I had never lived in Austin. So, it was probably three or four times what I had been accustomed to paying.*
>
> Non-MSI White female parent who had consolidated

Researching costs and having a plan can help set more accurate expectations, but even careful planning may not fully protect the borrower from all contingencies. Nearly one half of the parents said that direct school costs ended up being higher than they had originally expected. Many parents specifically called out tuition increases as the reason for this, as one typical borrower explained:

> *In the beginning, they [costs] were equivalent with our expectations. We were not prepared for how rapidly the expenses would increase. Tuition went up more than we expected during his time in college.*
>
> Non-MSI White male parent who had deferments/forbearances and then was successfully repaying

For parents like this, a tuition freeze or guaranteed tuition costs would have helped them plan their finances. Nearly a third of the parents said that both school and living costs were what they expected. The MSI parents more often said that living costs were higher than expected. The parents who had not reduced their principal balance after seven years in repayment were more likely than parents in other repayment categories to say that all costs were expected.

Sense of Total Debt

Despite most of the interviewees stating that they had anticipated borrowing to finance college, many did not have a good understanding of how much debt they would incur. One parent, expressing a common concern, explained that the unexpected part of the debt was what got added on after they borrowed:

> *I'm very surprised by the amount at the end. I knew what I would be taking on. It's the amount at the end. When I look at it now, and I look at the cost of deferring payments whilst other children are in school, as other things and other factors that have entered in and affected our ability to repay. And the cost of forbearance, the cost of deferment. That I had absolutely no clue.*
>
> Non-MSI White female parent who had no reduction in loan balance

Parents in two repayment categories were less likely to say they had idea how much total debt they would take on: those who made uninterrupted payments and those who had not reduced their principal balance after seven years in repayment. Among all parents, those who said they had at least some sense of the total debt were less likely to say they ended up borrowing more than expected compared to those who said they had no sense of what their final debt burden would be.

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KEY POINTS

- Most parents first heard about the Parent PLUS loan program from the financial aid office or through completing the FAFSA.
- Many parents sought additional information or advice about the program, but parents who had more successful repayment outcomes were less likely to say they had done this.
- Many parents described unexpected increases in direct and indirect school costs.
- Parents who made uninterrupted payments and those who had not reduced their principal balance were less likely to say they had no sense of the total debt they would take on.

WHO – THE PARENT OR THE STUDENT – REPAYS THE PARENT PLUS LOANS?

Parent PLUS loans are borrowed in the parent's name for the child's higher education. While the parent is legally responsible for the repayment of the Parent PLUS loan, one might speculate that some parent borrowers with credit scores that would disqualify them in a private loan market might have serious concerns about taking on education debt from the federal government. These parent borrowers might negotiate a deal with their child – a promise to repay or help repay this investment in their future.

However, parents overwhelmingly expected to pay back the PLUS loan with no help from their children. This was particularly true among the MSI parents. Roughly two-thirds of the non-MSI parents expected to repay the loans themselves compared to nearly everyone in the MSI group. One parent summed up this expectation succinctly – "The Parent PLUS is the parent's responsibility." Perhaps unsurprisingly, parents who had successfully made payments without interruption were the least likely to expect their children to contribute to or take responsibility for loan payments.

Those who did not expect the parent to fully repay the loan commonly responded that the child was expected to contribute what they can, and that the child was expected to help with payments or take over payments after certain events, such as graduating, securing a job, or paying off their own student loans.

I had an agreement with her that I was gonna make interest only payments while she was in school, and then once she got out of college and got a job, she would pay back the loan.

Non-MSI White male parent who had consolidated

Only one parent said that their child was expected to pay the Parent PLUS loans in full. There were rare circumstances that prompted the child to take over payments in part or full at a later time, including parental unemployment and poor health, but it was unusual for the child to be expected to contribute to repayment as the original plan.

There were some instances of a lack of communication between the parents and children regarding loan repayment. One parent who ended up repaying the Parent PLUS loans described this situation with her children:

I think I did think my kids would kinda be more involved in it, yeah. Especially since it was towards the end of their college career, I sort of thought that they would take over once they graduated.

MSI Hispanic female parent who was delinquent and then was successfully repaying

For more than three-quarters of parents, the plan of who would repay the loans went as originally expected. Miscommunication between the parent and child disrupted repayment for a few research subjects. Others saw their repayment plans derailed by unforeseen shortfalls or, more rarely, by the death of the parent or child.

KEY POINTS

- Most parents expected to pay back the PLUS loans with no help from their children. This was particularly true with the MSI parents.
- Parents who made uninterrupted payments were the least likely to expect financial contributions from their children.
- For most of the parents interviewed, repayment went as expected – the parents were making the loan payments.
- Roughly one-third of non-MSI parents expected their children to contribute, at least in part, to repayment of PLUS loans after certain milestones were met, but these expectations were not regularly articulated to the children.

WHAT DOES REPAYMENT LOOK LIKE FOR PARENT BORROWERS?

A number of factors can impact a borrower's loan repayment, from the size and stability of their income to unexpected expenses. While any parent may experience some trouble repaying their loans, parents whose children attended MSIs tended to struggle more, according to Trellis administrative data.

Repayment Categories

		PARENT PLUS BORROWERS		
REPAYMENT CATEGORY		**Total** *n=59,096*	**With Children at Non-MSIs** *n=46,232*	**With Children at MSIs** *n=12,864*
Successfully Repaying	Uninterrupted Payments	45%	46%	40%
	Had Deferment, Forbearance, and/or Delinquency	23%	22%	24%
	Had Delinquency Only	7%	7%	8%
Default	Had Deferment, Forbearance, and/or Delinquency	5%	5%	6%
	Had Delinquency Only	3%	3%	4%
No Reduction in Principal Balance		7%	6%	8%
Consolidation		12%	12%	11%

Approximately 22 percent of the 59,096 parent borrowers had children who attended MSIs. Parents whose children attended MSIs were less likely to have uninterrupted payments and more likely to default and have no reduction in their principal balance compared to parents whose children did not attend MSIs.

Borrower Characteristics

Parent PLUS borrowers took out an average of roughly two loans, totaling a median of $12,304 in debt[11]. Non-MSI parents tended to borrow more than MSI parents, with a median of $13,740 for non-MSI parents compared to a median of $10,000 for MSI parents.

	PARENT PLUS BORROWERS					
	Total		With Children at Non-MSIs		With Children at MSIs	
	Mean # Loans	Median $ Amount	Mean # Loans	Median $ Amount	Mean # Loans	Median $ Amount
Uninterrupted Successfully Repaying	1.82	$11,629	1.89	$13,000	1.77	$8,670
Delinquency Only and Successfully Repaying	1.73	$9,576	1.83	$11,299	1.64	$7,000
Deferment/Forbearance and Successfully Repaying	2.13	$13,022	2.16	$14,478	2.23	$11,300
Delinquency Only and Default	1.27	$6,500	1.35	$7,713	1.21	$6,017
Deferment/Forbearance and Default	1.65	$10,000	1.69	$11,345	1.73	$9,000
No Reduction in Principal Balance	2.22	$15,366	2.23	$16,719	2.34	$14,000
Consolidation	2.34	$17,970	2.35	$18,990	2.41	$15,590

Among both parent groups, those who defaulted tended to have the lowest median debt and the lowest average number of loans, whereas those in the no reduction in principal balance and consolidation categories had the highest average number of loans and the highest median amount borrowed.

		PARENT PLUS BORROWERS		
		Total *n=59,096*	With Children at Non-MSIs *n=46,232*	With Children at MSIs *n=12,864*
School Type	Two-Year	4%	3%	9%
	Four-Year Public	68%	68%	65%
	Four-Year Private	23%	26%	16%
	Other/Multiple School Types	5%	4%	10%
Graduation Status	Graduated	47%	49%	42%
	Not Graduated	40%	39%	45%
	Missing Data	12%	12%	14%

[11] Parents may have additional loans if their child(ren) attended school in a different state or at a school in Texas that did not use Texas Guaranteed Student Loan Company.

The children of MSI parents were more likely to have attended two-year institutions where lifetime earnings tend to be lower. The children of MSI parents were also less likely to have graduated (and see their lifetime earnings gains materialize). Non-MSI parents were slightly more likely than MSI parents to borrow multiple loans.

		PARENT PLUS BORROWERS		
		Total *n=59,096*	**With Children at Non-MSIs** *n=46,232*	**With Children at MSIs** *n=12,864*
Number of Loans	One	54%	53%	56%
	Two	21%	22%	20%
	Three or Four	18%	19%	16%
	Five or More	7%	7%	7%
Amount Borrowed	$2,500 or Less	5%	5%	8%
	$2,501 - $5,000	13%	12%	18%
	$5,001 - $10,000	22%	21%	26%
	$10,001 - $20,000	28%	28%	25%
	$20,001 or More	32%	34%	24%

KEY POINTS

- The median cumulative amount borrowed was $12,304, with non-MSI parents borrowing more than MSI parents.
- Parents who defaulted tended to have the lowest median debt and number of loans.
- The children of MSI parents were more likely to attend two-year institutions and were less likely to have graduated.
- Parents whose children attended MSIs had worse repayment outcomes on average, with higher rates of payment interruptions and default.

DO PARENTS STRUGGLE WITH LOAN PAYMENTS?

The two parent groups had similar rates of deferment within their first seven years of repayment, but the MSI parents were more likely to experience delinquency and use forbearances than the non-MSI parents.

		PARENT PLUS BORROWERS		
		Total *n=59,096*	With Children at Non-MSIs *n=46,232*	With Children at MSIs *n=12,864*
Number of Delinquencies	Zero	69%	71%	64%
	One	12%	12%	14%
	Two	7%	7%	8%
	Three or More	12%	11%	15%
Number of Deferments	Zero	85%	86%	84%
	One	8%	7%	8%
	Two	4%	4%	4%
	Three or More	3%	3%	4%
Number of Forbearances	Zero	66%	67%	62%
	One	16%	16%	18%
	Two	7%	7%	8%
	Three or More	11%	10%	13%

"It's been a pretty regular thing because we've had some unemployment. We've had some time away to take care of ill, elderly parents who couldn't care for themselves in their very late years in life, last days in life for a couple. Those are the things that we weren't really prepared for I don't think, that we would be taking time off to take care of our parents."

When asked in the interviews, approximately two-thirds of all parents said they have struggled to repay their Parent PLUS loans. Almost one half of the MSI parents who reported struggling described it as a regular, frequent, or constant issue. This ever-present stress was less prevalent (close to one-third) among non-MSI parents who reported struggling with repayment, like this parent whose family experienced employment issues.

It's been a pretty regular thing because we've had some unemployment. We've had some time away to take care of ill, elderly parents who couldn't care for themselves in their very late years in life, last days in life for a couple. Those are the things that we weren't really prepared for I don't think, that we would be taking time off to take care of our parents.

Non-MSI White female parent who had no reduction in loan balance

Borrowers who experienced regular struggling often faced the harsh consequences of bad credit. One parent described the arduous climb to get back into better credit standing:

Really, I struggled for a long time and it impacted my credit in a very negative way that I'm just catching up to and getting ahold of.

Non-MSI Hispanic female parent who had deferments/forbearances and then defaulted

Many parents also mentioned helping their children repay their loans, as in the case of these two non-MSI parents:

Yes, I'm the one who's making the payment. Because he's not really working, he's going to school, so there's no way for him to repay that without a job.

Asian-American female parent who had uninterrupted successful repayment

A little bit, yes. He was not able to handle it financially. He wasn't making enough income. I haven't done that [helped with the loan] in a long time.

White male parent who had deferments/forbearances and then was successfully repaying

Among the non-MSI parents, almost one third of those who struggled with Parent PLUS repayment and nearly two-thirds of those who did not struggle said they had also helped their children financially with their student loan repayment. MSI parents were less likely to have provided this type of financial assistance to their children. Almost one third of the MSI parents who struggled and none of the MSI parents who did not struggle said they helped their children with repayment. Children who come from families that can afford to help them with their debt can get ahead faster in life than those whose families cannot, increasing intergenerational wealth differences between these families while protecting credit ratings.

Compared to parents with other repayment outcomes, parents who defaulted on their Parent PLUS loans or parents who had not reduced their principal balance in their first seven years in repayment were more likely to say that they had struggled during repayment. These two groups of parents were also less likely to say that they had helped pay their children's student loans. The parents who had repaid their loans without interruption were the least likely, by far, to say they had struggled in repayment and the most likely to say they helped pay their children's loans. The parents who had not reduced their principal balance after seven years of repayment were more likely to describe their struggles as regular or frequent compared to the other parents.

KEY POINTS

- MSI parents had similar rates of deferment as non-MSI parents, but higher rates of delinquencies and forbearances.
- Most parents reported that they had struggled to repay at some point.
- MSI parents were more likely to describe their struggles as regular, frequent, or constant, and were less likely to say that they helped their children with their own student loan payments.
- Parents who defaulted or had no reduction in their principal balance were more likely to say they had struggled and less likely to say they had helped their children with their student loan payments.

HOW DOES REPAYMENT AFFECT OTHER FINANCIAL DECISIONS?

Student loan payments can contribute to financial strain, especially if parents have stretched resources due to low income or many other debts in repayment. To learn more, Trellis looked at whether or not Parent PLUS loan repayment impacted parents' ability to save, to prepare financially for retirement, to make major purchases, and to achieve other financial goals. We posed a series of questions and the interviewees were given a scale of one to ten to rate the impact, with one meaning no impact and ten meaning the highest impact.

General Savings

For non-MSI parents, borrowing Parent PLUS loans had a highly variable impact on their general savings. A third of non-MSI parents said that repaying the Parent PLUS loan had no impact on their general savings, but nearly a fifth of non-MSI parents reported the highest impact rating. Overall, the non-MSI parents reported a generally medium impact. The MSI parents seem to feel a higher impact on their savings, altogether reporting a medium-high impact.

Many of the parents who rated the impact on the low end of the scale said that repayment did not impact their savings because they budgeted both of those like bills. However, other parents describing a higher impact said that the money spent paying back the loan had caused them to cut back in some cases or could have been added to what they were putting aside for savings. One non-MSI parent who rated the impact as medium said:

Because that's money. Even if it's not a lot, it's still money that could have gone monthly into a savings account.

White female parent who had uninterrupted successful repayment

Parents who described a higher impact were more likely to say that they did not have any savings and that their loan payments consumed a large portion of their income. A parent who rated the impact as high shared that she did not have any savings:

> *I don't have any non-retirement savings. That is like, 'what is that?' It costs too much to live to really be able to save any money month to month.*
>
> MSI African-American female parent who had uninterrupted successful repayment

Parents who had consolidated their loans or defaulted in the first seven years in repayment described feeling a higher impact from the loan payments on their ability to save compared to parents in other repayment categories.

Major Purchases

Roughly one half of the parents said that repaying the Parent PLUS loan had no impact on their ability to make major purchases. The MSI parents were more likely to say that there was no impact compared to the non-MSI parents.

For many of the interviewees, their response to this question seemed to hinge on timing. For those who were not looking to make a major purchase while in repayment, the loans would have had no impact. One parent explained why he rated the impact as low:

> *Just simply because at that time, it wouldn't really have mattered. The few years that we were having problems paying it off, we didn't need a new car. We didn't buy our house since we had…actually, we had already bought our house. There wasn't a major purchase I really needed during the first few years. Let's put it that way.*
>
> MSI Hispanic female parent who had been delinquent and then was successfully repaying

Close to one-fifth of the parents said that the loan payments had a high impact on their ability to make major purchases. Several parents described hanging on to older vehicles for longer than they would have liked, with one saying:

> *There's no way I could ever make a purchase like that now. I'm driving a car that's 20 years old and my husband, his truck, the same, and we're just trying to keep it going. It's got 200,000 miles on it and we're trying to keep it going because there is no way we could even go up there and buy a used one. I'm trying to have a good credit standing. We got a good credit standing. They'll let you borrow money, I guess. But the problem is, how are you going to pay it back? On what we have coming in every month and what we already have to pay out? I could buy a car with what I am paying for the loans.*
>
> MSI White female parent who had consolidated

While most parents thought about major purchases in terms of houses and cars, one parent described their concerns about being able to afford to upkeep their home:

I have a house and I have a car. What it affects is my ability to pay for major repairs. I live in an older home and everything's like a thousand dollars just to get somebody to come out and do repairs. So, it does affect my disposable income to manage my property.

Non-MSI White female parent who had deferments/forbearances and then defaulted

Parents who had defaulted on their Parent PLUS loans described the highest impact on their ability to make major purchases while those who had uninterrupted successful payments described the lowest impact. Those who had payment interruptions but ultimately reduced their principal balance after seven years in repayment also described a fairly high impact compared to the other repayment groups.

Other Financial Goals

Subjects were asked if repaying the loans impacted other goals. This was purposefully broad to allow the interviewee to define their goals. Two-thirds of the parents said that repaying the Parent PLUS loans did not impact other goals. Those who felt a high impact talked about things such as bad credit, an impact on home ownership, and "doing without" while those who felt some impact talked about things such as fewer or smaller vacations, or less money for savings. One parent, describing their rating of a medium impact, said:

It's probably kept us from going on vacation as much as we'd like. That's probably it.

MSI White male parent who had uninterrupted successful repayment

Another parent described a much higher impact that loan repayment has had on them:

You know, home ownership's not a goal right now. It's just a reality I know. We sold our home. It [Parent PLUS loan repayment] definitely impacted the decision to sell our home. Yes, because going into repayment on them, we wouldn't have been able to continue.

Non-MSI White female parent who had no reduction in loan balance

The impact of loan repayment on other financial goals did not vary much by repayment category or MSI attendance.

Overall Financial Impact

More than one half of the non-MSI parents and more than three-quarters of the MSI parents said the impacts of the Parent PLUS loans were expected. Parents who were surprised by the effect usually said that they had expected to have it paid off by now, or they talked about financial detriments (such as the total amount borrowed was higher than expected, the interest accumulation was greater than anticipated, and the harm of postponing payments).

Mainly just really the impact of forbearance and deferment. That's really been the big surprise and the biggest hurdle to overcome.

Non-MSI White female parent who had no reduction in loan balance

One parent talked about how changes in his income affected repayment:

I just didn't know it was going to take such a bigger bite out of my income, and it did, you know? Like 20 to 30 percent of my income, as it ended up. It wasn't near that much at the beginning. I'm making $150,000 back in the day and now I'm working to get over $50,000. You've got people like Dave Ramsey saying if you're in full commissions you should put aside 10 percent of the money that is the worst check that you get. Well, you know, the worst check you get is nothing. Which, a lot of people have never experienced a zero paycheck for two-weeks work. So, how do you plan around that?

Non-MSI White male parent who had deferments/forbearances and then was successfully repaying

The parents who made uninterrupted loan payments (approximately three-quarters) were most likely to say that the impacts of their loans were expected. The parents who did not reduce their principal balance after seven years in repayment were also likely to say that the impacts were expected, with roughly two-thirds of them saying so. In all other repayment outcomes groups, nearly one half of the parents said that they were not surprised by the impacts of the loans. None of the parents in the uninterrupted repayment group who were surprised by the effects mentioned financial setbacks, only that repayment took longer than they had expected.

When asked to rate the financial impact of the PLUS loans entering repayment, responses varied widely. Close to one-third of the parents said there was no financial impact, another third rated at the highest level, and another third reported an impact somewhere between those two groups. The parents who were in the uninterrupted repayment group were the most likely to say that there was no initial effect of the Parent PLUS loans entering repayment. The parents who had not reduced their principal balance after seven years in repayment were the most likely to say that there was a big impact. One parent who felt a high impact talked about how repayment coincided with a series of unfortunate events:

My husband had to go out on disability, basically had lost his job. So, then we went down to pretty much one income. There was just a whole cycle of things. We got caught in the housing crash of 2009.

Non-MSI White female parent who had been delinquent and then defaulted

Another parent feeling a high impact had recently entered repayment and described the burden in terms that suggested a sense of helplessness and inevitability:

Well, we are just really hitting that, and it is definitely taking a huge toll and it's going to take a huge toll for quite some time. The only way to keep it from impacting is to continue to defer or put in forbearance and that just makes it...it doesn't solve anything. It just is like putting a Band-Aid on a gusher. It's not a solution, not an answer.

Non-MSI White female parent who had no reduction in loan balance

Many of those who said there was no impact or only some impact talked about expecting the payment as part of their budget.

I had already factored in my budget, so I knew it was going to come.

Non-MSI Hispanic male parent who had uninterrupted successful repayment

Others talked about cutting back on extravagant purchases and adopting more frugal spending habits:

Life was not a hardship, but it was more restrictive. Like I said, we didn't buy any new cars. We didn't...our children didn't have cars. It was just...we were fortunate in that we both had very...we had good jobs, stable jobs. So, it was not that hard, it was just not...there were no frills, no extras.

Non-MSI White female parent who had uninterrupted successful repayment

Retirement Savings

The parents interviewed were asked to rate and describe their comfort level with their retirement savings. More than one-quarter of the non-MSI parents rated their comfort level as low, and several parents in both groups said that they did not have retirement savings. Overall, the non-MSI parents rated their comfort level with their retirement savings at a medium level. MSI parents were slightly more comfortable with their retirement savings than the non-MSI parents, rating their comfort overall at a medium-high level. The parents who repaid without interruption and the parents who consolidated in their first seven years of repayment gave higher comfort ratings compared to parents with other repayment outcomes.

Almost one half of the parents who gave low comfort ratings stated that they have used or will have to use some of those retirement funds to make ends meet.

I'm having to use some of that retirement savings for my living expenses right now and I'm unable to contribute more to that.

Non-MSI White female parent who had no reduction in loan balance

When asked about the impact of Parent PLUS loan repayment on retirement savings, parents generally said the impact was medium or medium-low. Below are two typical responses.

I could use that money, but that money would be going somewhere, so to say specifically that the parent loan is what's caused us not to save for retirement would be foolish, because it doesn't.

Non-MSI White female parent who had been delinquent and then was repaying successfully

Kind of just a moderate impact, not much. Basically, for what the monthly payments that we make on the loans, we could be using that money to build a bigger nest egg.

Non-MSI White male parent who had consolidated

KEY POINTS

- Parents who defaulted and MSI parents reported feeling a higher than average impact of Parent PLUS loan repayment on their ability to save. Parents who defaulted also felt a higher than average impact on their ability to make major purchases.
- The effect of loan repayment on major purchases depended on timing – some parents were not in need of major purchases during repayment and so avoided those potential financial pressures.
- Most of the parents, especially the MSI parents and the parents who had uninterrupted payments, said that the impacts of loan repayment were expected.
- The financial impact of the Parent PLUS loans entering repayment varied widely, with close to one-third of the parents saying there was no financial impact and another third rating the impact at the highest level.
- Parents who had not reduced their principal balance were the most likely to say there was a big impact when the loan entered repayment whereas the parents who had uninterrupted payments were the most likely to say there was no impact.
- The parents who had uninterrupted payments and those who consolidated were more comfortable with their retirement savings than parents with other repayment outcomes.

RESEARCH TO PRACTICE

The growth in PLUS borrowing reflects the widening gap in the cost of education and the available aid to students. When compared with student repayment outcomes, PLUS loans perform better. Parents generally reported moderate impact on their financial lives due to having borrowed to help their children pursue their educational goals. However, there are sizable percentages of parents who are challenged by their PLUS loans and who struggle to make on-time payments, in addition these difficulties appear to have a cascading effect on their broader financial lives. Parents in our study report making significant sacrifices to provide educational opportunities for their children, sometimes jeopardizing their retirement savings. Research suggests two key steps that can be taken to minimize financial risk to parent borrowers: 1) Narrow the gap in college costs and available aid, and 2) Improve understanding of the rights and obligations under the PLUS program.

NARROW THE GAP IN COLLEGE COSTS AND AVAILABLE AID

Some PLUS borrowing was initiated in response to unexpected expenses or financial setbacks; schools with robust emergency aid programs can reduce the reliance on PLUS borrowing to address emergency situations. More commonly, PLUS borrowing was a planned strategy to address unmet need. However, parents, especially MSI-parents, were unequally able to meet the repayment obligations. Student success funding for MSIs could be increased to provide more institutional grants to needy students while also strengthening student support efforts such as FAFSA awareness, behavioral nudges, emergency aid, financial education, financial coaching, data analytics, and institutional consulting. Redirecting federal and state grant eligibility to more completely address the financial need of students with zero EFC can reduce the reliance on PLUS loans among parents most at risk of repayment difficulties and retirement insecurity.

IMPROVE UNDERSTANDING OF THE RIGHTS AND OBLIGATIONS UNDER THE PLUS PROGRAM

Parents differed in their understanding of the PLUS program and the consequences of interest accrual associated with deferments and forbearance. Schools can improve parental understanding by designing informational materials and providing parent workshops to clarify the program. Schools can provide opportunities to include parents in behavioral nudge campaigns which are currently only directed toward students. This study can provide insights on when parents may seek information and on which topics they may benefit from a better understanding. Parents can also be encouraged to use the voluntary loan counseling tools provided by the federal government. Because parents reported being caught off guard about college costs, schools can help provide realistic expectations to parents including some guarantees of future tuition costs. Schools can also work with local employers and financial counseling firms to include information about PLUS loans in retirement planning sessions.

CONCLUSION

Most parents expected to repay the Parent PLUS loans themselves and those expectations generally bore out, but most of the parents interviewed also reported struggling with repayment. The parents interviewed described a range of impacts that Parent PLUS loan repayment has had on them. For some parents, repayment was relatively easy, and the resource constraint was not overly restrictive. Others felt an impact on their ability to build savings, in general and for retirement, and to make major purchases. Some parents made significant sacrifices for their child's education, such as selling their home and taking money from retirement savings accounts, while most parents, even those in good standing on their PLUS loans, expressed anxiety and stress associated with PLUS borrowing.

Out of nearly 60,000 Parent PLUS borrowers, approximately eight percent defaulted on their loans in the first seven years of repayment. Parents whose children attended MSIs had somewhat worse repayment outcomes compared to parents whose children did not attend MSIs. MSI parents were more likely to experience delinquency and default, use deferments and forbearances, and not reduce their principal balance by one dollar at the end of seven years in repayment.

Of the parents interviewed, MSI parents were less able to help their children with repayment on their student loans compared to non-MSI parents – this is a safety net that MSI children were less likely to have. Repayment was not always smooth for the parents in our study. Some had periods of unemployment or illness, or their children took longer to graduate than expected or had a hard time finding a job after college. Overall, MSI parents were more likely than non-MSI parents to expect to pay back the Parent PLUS loans with no help from their children, to report a higher impact of loan repayment on their ability to save money or make major purchases, and to describe their repayment struggles as frequent or constant.

While the Parent PLUS program is a beneficial resource for parents looking for a way to extend college payments on a more affordable timeline, for some it adds an unmanageable debt load to parents who are trying to provide a secure future for their children. As this loan program continues to grow, policymakers need to carefully weigh all elements to reach a good balance of access and affordability, while also considering the broader consequences of this program on parents with fewer financial resources.

APPENDICES

Methods

We used a mixed-methods approach for this report. In addition to a quantitative analysis of Trellis' administrative data, we also conducted qualitative interviews with parent borrowers.

Data Description

The administrative dataset consists of 59,096 parent borrowers who borrowed through the FFEL program for a child attending a Texas institution, and whose Trellis guaranteed loans entered repayment between October 1, 2004 and September 30, 2010. The total loan amounts described in this report represent the total amount of loans that the borrower went into repayment on during the study period. Any borrowing that took place after the study period or that was not guaranteed by Trellis was not captured in the Trellis data.

The parent borrowers were followed for seven fiscal years after they entered repayment. Parent PLUS borrowers enter into repayment immediately upon receipt of the full loan amount, unless they apply for a deferment while their child is attending school at least half-time. Borrowers whose children attended only for-profit institutions were excluded because for-profit institutions are not eligible for MSI funding under Title III requirements and are not able to be designated as HBCUs or HSIs. Excluding for-profit institutions from the analysis allows a closer comparison between the MSI and non-MSI groups.

Data Limitations

Multiple repayment years: borrowers with loans entering repayment in more than one fiscal year included in the study period were assigned to the earliest fiscal year they entered repayment.

Borrowers with "split" loans (multiple guarantors, including the U.S. Government as the guarantor for the Direct Loan Program): Trellis does not necessarily have a complete picture of a borrower's loans because Trellis may not have guaranteed all of their loans. Because Trellis had much higher coverage in Texas than in the entire nation, the study focuses on Texas borrowers.

Consolidation loans: If a borrower consolidated their loans and a different guaranty agency or the federal government became the guarantor/holder, Trellis no longer receives loan status updates and the ability to further track the repayment pattern is lost. Trellis has information regarding repayment for consolidators from the start of repayment until the time of consolidation. Borrowers who consolidated their loans away from Trellis were included in the analysis if they had at least one year of repayment history.

Put loans: Trellis' portfolio includes some loans that were subsequently transferred (commonly referred to as "Put") to the U.S. Department of Education (ED), resulting in the loss of the guarantee and any further notification about repayment and outcomes. The Put program existed for a short period of time during the Great Recession and allowed lenders to sell loans that were written during the 2008-09 academic year (later extended to July 1, 2010) to ED. The loans that were "Put" to ED tended to be for borrowers in short-term programs, typically in the private, for-profit, sector, and also tended to be riskier, as these were the loans that the lenders were unable to sell in the secondary markets or through securitizations. Often, these Puts occurred while the borrowers were in school, during their grace periods, or shortly after entering repayment. Effectively, Trellis has almost no information related to the repayment behaviors of borrowers who had all of their loans Put. Borrowers who had all of their Trellis loans Put were excluded. To learn more about Put loans and how the Great Recession affected student loan liquidity in Texas, see Trellis' 2008 report "The Toughest Test: The Student Loan Liquidity Crisis of 2007-08 in Texas" (https://www.trelliscompany.org/portfolio-items/the-toughest-test-the-student-loan-liquidity-crisis-of-2007-08-in-texas/?portfolioCats=28%2C26%2C29%2C35%2C27%2C30).

Loans in multiple repayment categories: If a borrower had multiple loans in the study and defaulted on or consolidated one or more but not all of their loans – a rare occurrence – all of their loans were counted in those categories. In addition, in this analysis, default is treated as a terminal event. Once a borrower defaulted, "tracking" of the person stopped. It is possible that some defaulters returned to good standing during the study period but were not counted as such in this analysis.

QUALITATIVE ANALYSIS

Survey

Trellis emailed survey invitations to the Parent PLUS borrowers in the quantitative data set described above. The survey asked for demographic information and assessed interest in participation in an in-depth telephone interview.

The Trellis data security policy on its administrative databases requires that records of borrowers who have fully repaid their loans be de-identified six years following full repayment. Email addresses are deleted as part of the de-identification process, therefore Trellis no longer has email contact information for borrowers who fully repaid their loans six or more years prior to the time this portion of the study was conducted (October 2017). Borrowers with invalid email addresses were also removed. These conditions removed approximately 33 percent of Parent PLUS borrowers from the datasets of potential respondents.

After removing these groups, the survey was emailed to 41,663 Parent PLUS borrowers. Twenty-one percent of the parent borrower emails did not receive the email because it was returned by the mail server (referred to as the bounce rate). The survey was successfully sent to 31,902 parent borrowers. An additional one percent of parent borrowers unsubscribed after receiving the survey invitation.

The response rate was two percent (742 completers). Borrowers that responded to the survey were not necessarily representative of the full sample. The survey asked for volunteers for the in-depth telephone interview. Twenty-eight percent of the respondents volunteered (209 volunteers).

PARENTS								
REPAYMENT GROUP	Full Sample		Completers		Volunteers		Interviewees	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent
Consolidation	4,354	10%	97	13%	23	11%	6	12%
Deferment/Forbearance and Default	2,614	6%	71	10%	26	12%	5	10%
Deferment/Forbearance and Successfully Repaying	10,530	25%	186	25%	56	27%	12	24%
Delinquency Only and Default	1,357	3%	24	3%	5	2%	1	2%
Delinquency Only and Successfully Repaying	2,978	7%	36	5%	13	6%	3	6%
No Reduction in Principal Balance	3,329	8%	79	11%	21	10%	9	18%
Successfully Repaying without Interruption	16,501	40%	249	34%	65	31%	13	27%
Total	41,663	100%	742	100%	209	100%	49	100%

In-depth telephone interview

Trellis reviewed the survey respondents who volunteered to be interviewed and selected 49 parent borrowers, spanning across the identified repayment groups. The interviewees reflected a variety of characteristics (such as gender, income category, age at time of repayment, school type, graduated status). This selection of borrowers was not meant to be representative of all borrowers or even of the full study sample, but selected to ideally hear from people with different experiences. The volunteers were asked to set aside up to one hour for the interview and would receive a $50 Amazon gift card in return for their participation.

Trained interviewers conducted one interview per participant that lasted a median of 34 minutes. The interviewer asked questions relating to student loan knowledge and decisions made prior to and during college, an assessment of expectations compared to reality regarding costs and the impact of loan repayment, and the impact the loans had on areas such as savings and major purchases.

The telephone calls were recorded, transcribed, and coded using software. The coding scheme was developed using common themes and refined as coding progressed and further patterns and relationships were defined.

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ABOUT TRELLIS COMPANY

Trellis Company (**www.trelliscompany.org**) is a nonprofit 501(c)(3) corporation with the dual mission of helping student borrowers successfully repay their education loans and promoting access and success in higher education. For nearly 40 years, Trellis Company has provided individualized services to student loan borrowers and support to institutions and communities.

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