**Despite High Default Rates, Federal Student Loans Grant Access to Higher Education, Report Claims**

By Hunter B. Martin, NASFAA Staff Reporter

Concerns over college affordability have made many lawmakers question whether the student loan program is working — and if not, how it could be improved — while others have deemed the program "fundamentally broken." As lawmakers work to reauthorize the Higher Education Act (HEA), many higher education experts have addressed issues with the federal student loan program and analyzed whether it is helping students succeed.

Jimmie Lenz, academic director of the Financial Technology Graduate Program at Duke University's Pratt School of Engineering and a clinical assistant professor of finance at the University of South Carolina Moore School of Business, analyzed the health of the student loan portfolio for an article published by the Manhattan Institute this month, and claimed that, even with some downfalls, student loans provide access to many students who could otherwise not afford college.

Despite high default rates and non-repayment rates among borrowers — both of which are expected to continue to grow — Lenz wrote that he believes the federal student loan program has succeeded in the mission Congress laid out in 1965 in HEA — reducing unemployment rates and offering a college education to many who may not have attended otherwise.

"Through access to student loans, millions of borrowers have obtained an education that otherwise might not have been possible. And by doing so, they have contributed to the U.S. Gross Domestic Product (GDP)," Lenz wrote.

HEA was enacted when people born post-World War II, known today as "baby boomers," began entering the job market in mass numbers, which caused unemployment rates to rise dramatically due to an over-supply of workers. Over time, HEA drastically increased the number of students who attended college, from 3.9 million in 1959 to 8 million in 1969, according to Lenz, because students, along with other groups of people not actively looking for work, are not considered unemployed and not counted in national employment rates. By comparison, today there are approximately 20 million students in college and 160 million people making up the national workforce.

High unemployment rates take a toll on the economy, including direct costs such as higher borrowing rates and increases in crime rates and indirect costs like decreases in consumer spending and low rates of investment, according to Lenz.

"Encouraging people to attend college through easy access to credit, even with low rates of full loan repayment, may be thought of as helping to achieve a broader economic goal," he said. "But moving people off the unemployment rolls by putting them in school does not really mitigate the costs of unemployment; it simply masks the problem."

Still, Lenz noted that the societal impacts of the federal student loan program are rarely analyzed outside of academic achievement.

Another component of the federal student loan portfolio Lenz analyzed was how they differ from other types of loans, especially in how they are paid and at what rates they are repaid.

Borrowers have grace periods and flexibility on when and how they repay their loans, through options like deferment, forbearance, income-driven repayment (IDR) plans, and for some, loan forgiveness programs. The amount of flexibility and variability of options available to student loan borrowers is unique to most types of loans, making it difficult to establish the health of the lending portfolio without additional information, according to Lenz.

"Traditional loans rarely, if ever, offer these flexible repayment options. As a result, traditional loans are almost always categorized as performing ... or nonperforming," Lenz said. "For student loans, by contrast, these simple categories of performance are murky. Because student borrowers can change repayment terms, it is more difficult to value the full portfolio of these loans."

Another factor that can compromise the health of the student loan portfolio is the increase in companies — such as SoFi or Earnest — that grew out of the Great Recession that are willing to refinance student loan debts at significantly lower rates for the lowest-risk borrowers. These companies often target students who graduated from top schools with degrees in high-demand fields, Lenz wrote.

Removing low-risk borrowers who are often also the most likely to repay their loans, increases the risk profile of the federal student loan portfolio, according to Lenz. This is especially difficult for federal loan servicers to manage because student loans can be paid off at any time without penalty, enabling low-risk borrowers to seek lower interest rates elsewhere. However, once borrowers refinance with companies outside of the federal loan servicing program, they lose access to federal repayment options — such as IDR — and other "safety-net options."

Over time, as more students have been able to access higher education, default rates have spiked and there is little cause to believe this trend will change in the future. According to Lenz, the percentage of borrowers able to make large enough payments to reduce their loan balances — and not just the interest accrued on their loans — fell by 24% from 2008 to 2017.

Changing demographics of college going students also affect loan amounts and default rates as older students often have higher loan balances and can be more likely to default, according to the Federal Reserve Bank of New York.

"[T]hese higher levels of default occur regardless of the type of institution attended, whether the borrower graduated, or if a degree is earned," Lenz wrote. "Data on these changing demographics are limited because this phenomenon is fairly recent. But policymakers should consider the potential impact that borrower age has on the portfolio's performance."

On the other hand, more women are attending college than ever before and are graduating at higher rates than men, which is likely to improve the health of the student loan profile, according to Lenz. However, women — especially women of color — also often face job discrimination and lower salaries than male counterparts with smiliar jobs and educational backgrounds.

Despite arguably poor performance metrics in certain areas, Lenz argues student loan default should only be part of the equation when evaluating the performance of the federal student loan program.

"Even amid these disappointing loan performance realities, the program might be succeeding in achieving other goals, especially when we consider the broader impact of student lending on employment rates and national GDP," Lenz wrote. "When viewed in this more comprehensive way, perhaps taxpayers will see the cost of student loans as an investment in the health of our

nation’s economy, albeit with dividends that are difficult to fully quantify. This macroeconomic consideration, on the other hand, forces the question ‘Are student borrowers shouldering much more than the cost of their education?’”

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