NAVIENT

FIVE RECOMMENDATIONS FOR BETTER STUDENT LOANS

Much has been said about education debt in America. My company, Navient, has more than 580 million interactions with student loan borrowers every year, giving us a front-row seat to what works and what doesn't.

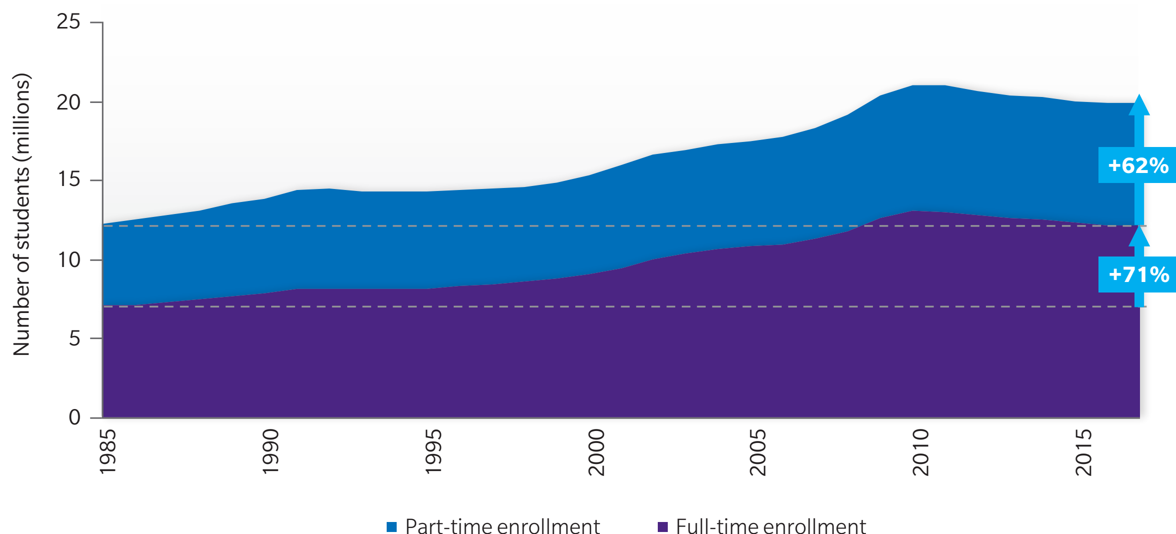
We have long advocated for changes that would improve outcomes for borrowers. Today, we share these recommendations along with a call for action.

How did we get here?

Good solutions require an accurate diagnosis of the issues. Today, the federal government, through the Department of Education is the nation's largest non-mortgage consumer lender, owning or guaranteeing $1.4 trillion in education loans to nearly 43 million borrowers. What are the key drivers of this debt level and where are the real issues for concern?

Enrollment surges. College enrollment has increased with each generation. This is a good thing and it represents students wanting to invest in their futures. Total college enrollment reached a peak of 21 million students in the wake of the recession. Since then, it has declined slightly to 20 million, though the percentage of high school students graduating and then enrolling in college continues to set record highs.

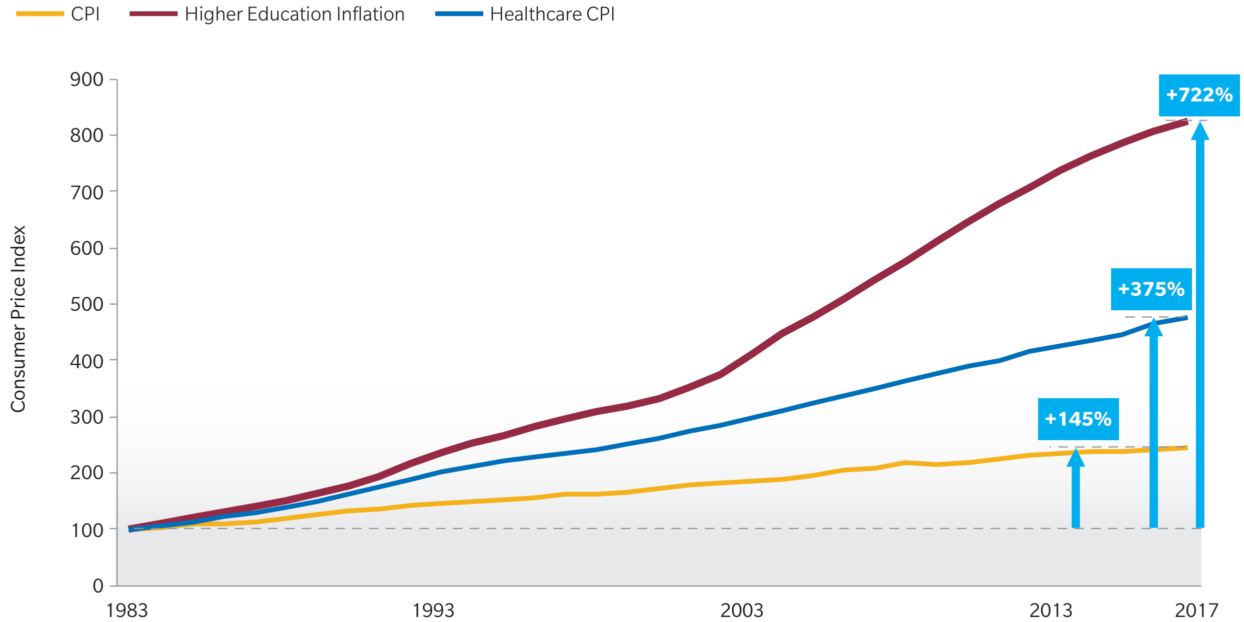
Enrollment has increased by more than 60 percent over the past three decades



Source: "Table 303.10 –"Total fall enrollment in degree-granting postsecondary institutions, by attendance status, sex, and age: Selected years, 1970 through 2027," Digest of Education Statistics 2017, National Center for Education Statistics, accessed 7/23/18.

Rising college costs. Since 1983, college costs have grown more than 700 percent—faster even than healthcare costs and five times greater than inflation. Many believe that the easy availability of loans has made these increases possible. When the cost to earn a college degree outweighs what individuals can afford to pay back with the salaries from their new degrees, we have a serious problem. Tuition pricing is a complex topic not addressed here, but the simple fact remains that the ever-increasing cost of attendance drives the need to borrow.

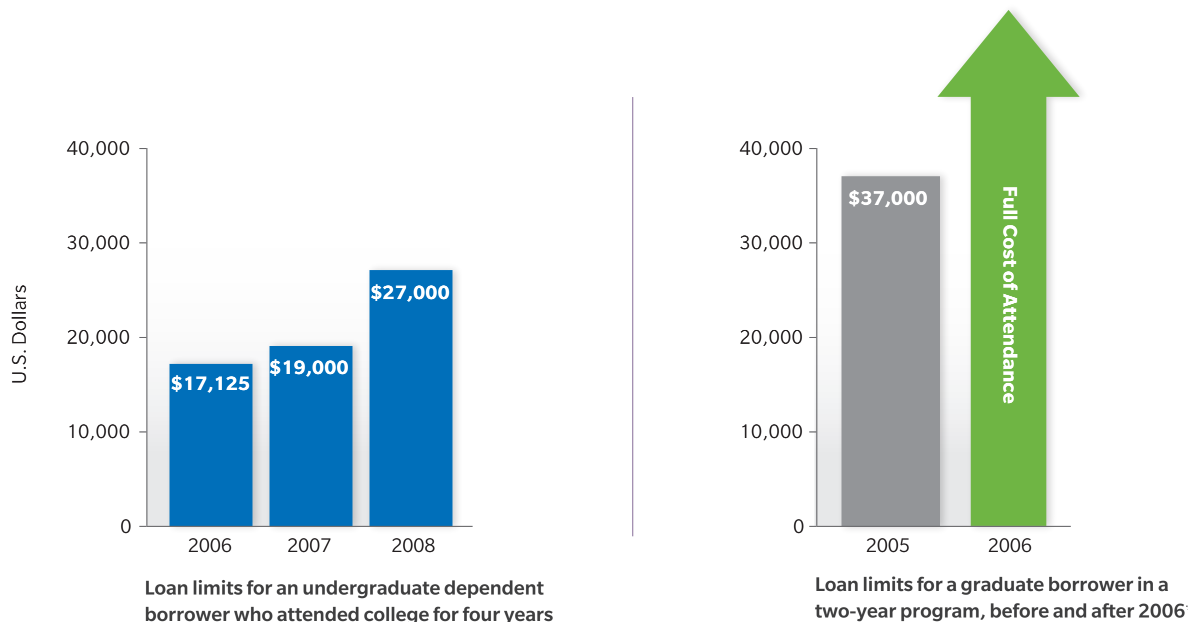
The cost of higher education has exceeded general inflation dramatically



Source: Bureau of Labor Statistics, "College tuition and fees in U.S. city average, all urban consumers, seasonally adjusted"; Federal Reserve Bank of St. Louis, "Consumer Price Index for All Urban Consumers: All Items (CPIAUCSL)"; Federal Reserve Bank of St. Louis, "Consumer Price Index for All Urban Consumers: Medical Care (CPIMEDSL)

Loan limit increases. Whenever Congress expands loan limits, borrowing increases. One of the largest changes came in 2006 when graduate students were allowed to borrow up to the full cost of attendance. Then in 2007 and 2008 just as the recession hit, undergraduate loan limits were increased, allowing these students to borrow substantially more as well.

Borrowing limits have grown over time, allowing student borrowers to take out more debt



Loan limits for an undergraduate dependent borrower who attended college for four years

Loan limits for a graduate borrower in a two-year program, before and after 2006*

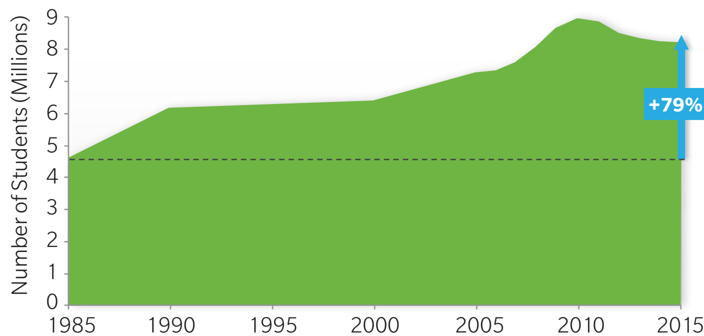
*Note: Congress removed borrowing caps on Graduate PLUS loans beginning in 2006. There is no set loan limit for graduate student borrowing; a graduate student may now borrow the total cost of attendance including tuition, fees, room, board and other expenses as certified by the school.

Source: Federal Student Aid, "Subsidized And Unsubsidized Federal Loans," Federal Student Aid, accessed 7/19/18. FinAid, "Historical Loan Limits," FinAid, accessed 7/19/18.

Shifts in student composition. Some of the largest increases in enrollment—and borrowing—occurred at open enrollment schools, and from older, "independent" students. Government rules allow these students to borrow substantially more than traditional age "dependent" students. Beyond tuition, all students can borrow to pay for housing costs, child care and other living expenses.

"Non-traditional" enrollment nearly doubled between 1985 and 2010, before decreasing slightly

Full-time and part-time enrollment of students over 25 years old in degree granting postsecondary institutions



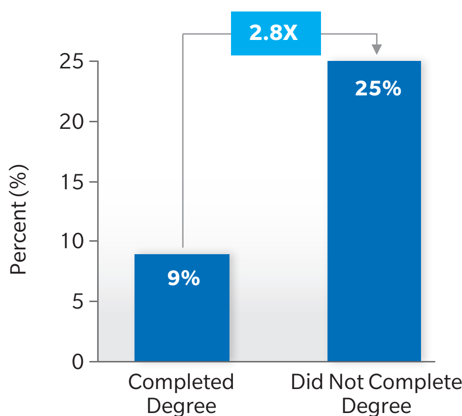
Source: "Table 303.40 – Total fall enrollment in degree-granting postsecondary institutions, by attendance status, sex, and age: Selected years, 1970 through 2026," Digest of Education Statistics 2016, National Center for Education Statistics, accessed 7/18/18; ; "Table 169 – Total fall enrollment in institutions of higher education, by attendance status, sex, and age: Fall 1970 to fall 2000, Digest of Education Statistics 1995, National Center for Education Statistics, accessed 7/19/18

Debt without a degree. Our higher education system does an excellent job enrolling students, but it is failing to graduate far too many: just 59 percent of Americans graduate from bachelor's degree programs in six years, and the rate is even lower at less selective colleges. There are a variety of reasons for this, including academic preparedness, financial resources and other life events. Leaving school without a degree is easily the single largest factor driving student loan defaults. Non-completers, who typically owe less than $10,000, are nearly three times more likely to default than their peers with a degree. In fact, two-thirds of people defaulting owe less than $10,000, while those borrowing more than $40,000—a debt level that generally signals advanced degree completion—account for only 4 percent of defaults.

The borrowers who struggle the most are often non-completers with low levels of debt

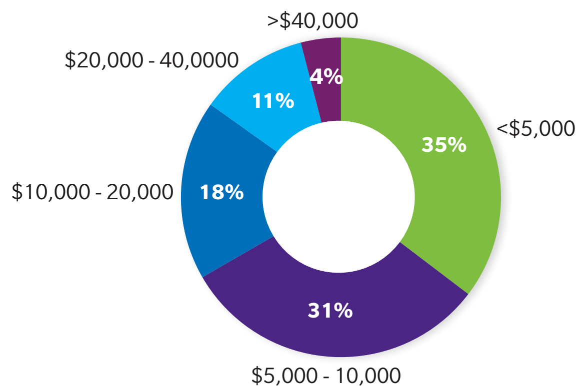
Non-graduates are three times more likely to default

Borrowers in default by attainment



Two-thirds of borrowers who default owe less than $10,000

Debt size of borrowers who default (three-year default rate)

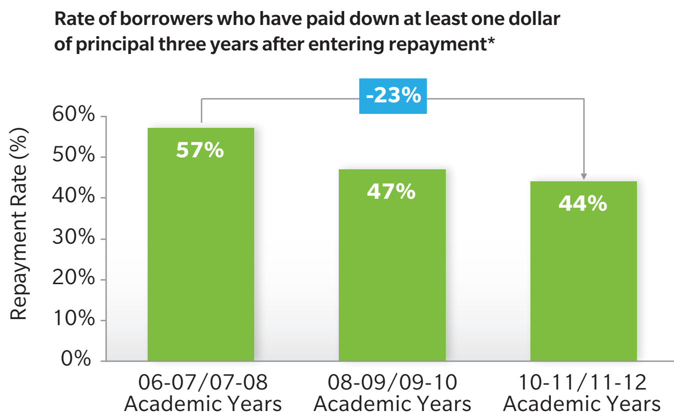


Note: Years are fiscal years. Loan size is based on balance of loan when entering repayment.

Source: President's Council of Economic Advisors, "Investing In Higher Education: Benefits, Challenges, And The State Of Student Debt," President's Council of Economic Advisers, 7/16

Slower repayment. The rising cost of college and increases in borrowing have led to the expansion of extended repayment plans. Today, nearly 50 percent of all Direct Loan balances are enrolled in one of several income-driven repayment plans. In many cases the monthly payment due is so low that the balance is "negatively amortizing," that is, adding rather than reducing the amount owed.

Borrowers are taking longer to pay back their student loans



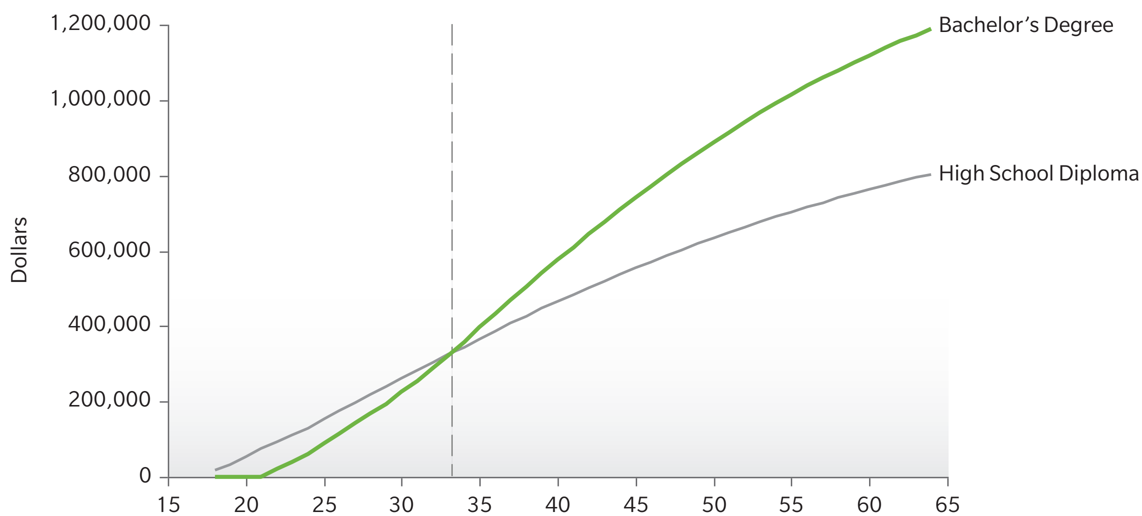
*Note: Three-year repayment rate is defined as the percent of borrowers who have paid at least one dollar of principal over three years.

Source: Sandy Baum, Jennifer Ma, Matea Pender, and Meredith Welch, "Trends In Student Aid 2017 Figure 11B," College Board, 10/17

Still, higher education pays

To be clear, all the evidence shows that a college degree is still the surest path to prosperity, and there are many ways to attain a credential that reaps a lifetime of rewards. The median bachelor's degree recipient earns nearly $2,000 more per month and by some estimates as much as $1 million over a lifetime compared to peers with a high school diploma. Further, reflecting the better economy and greater take up of income-driven repayment plans, student loan delinquency rates and default rates have fallen by double digits over the past three years. Student loans may be the highest on record, but so too is the number of Americans who have earned a bachelor's degree.

Even accounting for the cost of college, a bachelor's degree leads to significantly higher lifetime earnings



Note: Excludes bachelor's degree recipients who earn advanced degrees. Assume students borrow the cost of tuition, fees, books, and supplies and pay it off over 10 years after graduation with a 4.29% annual interest rate during and after college, based on a weighted average of public and private nonprofit four-year price. Tuition/loan payments and earnings are discounted at 3%, compounded every year beyond age 18.

Source: Jennifer Ma, Matea Pender, and Meredith Welch, "Education Pays 2016," College Board, 12/16.

COMMON-SENSE STUDENT LOAN SOLUTIONS: A FIVE-PART PLAN

For many years now, we have promoted clear, common-sense fixes to address the key issues we see in working with student loan borrowers. The rising cost of college and the severe consequences of default make reform more necessary than ever.

1 Providing better information *before* borrowing

Consumers need better information upfront about what it will cost them to earn their degree, the likely starting salary for their planned field, and estimated payments if they borrow. Today this information is not automatically provided as part of the federal loan process, though it is available for those who seek it out and have the financial know-how to use it.

We are often asked why we as a servicer don't provide this information. While we do offer free web-based financial literacy resources, the real challenge is that servicers are not connected to students until after they borrow and the money is spent.

Some students discover too late that their course of study or choice of school wasn't what they expected, is beyond their financial ability or both, contributing to the decision to drop out of school or to be stuck with loan amounts that exceed the value of the education.

In the course of providing $40 billion in grants and $95 billion in student loans each year, the federal government collects a significant amount of information about students—information that could be used to provide customized information and counseling before the loan is made. An investment in a customized counseling program with a special focus on at-risk students would easily pay for itself in better outcomes for borrowers.

Further, the government is the only consumer lender in the country that does not issue truth-in-lending disclosures to consumers before they sign on the dotted line. This is but one example of a simple action that could make a big difference in improving financial literacy and outcomes.

Once students enroll with borrowed funds, colleges can help students stay on track. For example, Indiana now requires public colleges and universities to send students an annual customized report on the amount they have borrowed, along with links to financial literacy resources. Research shows that these steps lead to students borrowing less and staying on track academically. This model is already expanding to other states.

These common-sense reforms would allow future students and their families to make more informed decisions about their higher education and how much debt is affordable.

2 Improving the college completion rate

Our studies have also shown that borrowers who don't graduate are economically worse off than those who never attempt college. They start school, but do not complete, leaving school with debt, but none of the economic benefits a degree can bring.

Unfortunately, there are very few attractive repayment options for them. In most cases, the current solution for borrowers like this is an income-driven repayment program. But how appealing is a 20-year repayment plan, even where the monthly payment is based on income, for those who received little benefit from their abbreviated time in college?

We can and must do better to help people avoid this outcome by focusing on improving graduation rates. The best intervention is before a student decides how much to borrow and before they drop out.

Many colleges are experimenting with novel approaches and making progress to get more students over the finish line. Schools that grow their graduation rates should be encouraged and rewarded.

Schools—which admit students and receive proceeds from taxpayer-funded loans—should also have some skin in the game when students do not complete and are unable to repay.

3 Simplifying repayment

Today, there are more than 50 different repayment options. Borrowers who complete college must navigate this maze of complexity as they begin repaying their student loans.

Adding to that complexity is that programs like income-driven repayment, while well intentioned, in many cases put borrowers in a situation where their remaining balance grows rather than declines. This creates a psychological disincentive for them to engage, despite the promise of loan cancellation 20 years in the future. Further, technical barriers like a 10-page government application, which only the borrower not the servicer can complete, add to the burden for the very borrowers these plans were meant to help.

Navient recently launched a pilot program where borrowers in the Federal Family Education Loan Program received pre-populated IDR applications for their electronic signature, dramatically eliminating the myriad paperwork otherwise required. The results were astounding. In the traditional federal process, only 27 percent of borrowers return IDR forms within 60 days; in our e-sign pilot, 71 percent returned their form within 10 days. This pilot shows the incredible potential that can be achieved when processes are simplified, and the program should be approved for all federal loans immediately.

4 Helping borrowers pay off faster

In one of our focus groups with customers, a young man told us he wanted help paying off his loans faster, not slower. Low-payment, longer-term loans help struggling borrowers get back on track, but many loan customers would save significantly by paying loans off faster.

In addition to better financial education before borrowing, the Department of Education and its servicers can do more to encourage borrowers to understand how interest works and how paying a little extra each month can help save money and speed up the ultimate pay off of their loans.

Government disclosure forms should clearly show the higher cost of longer-term repayment options.

5 Encouraging borrower contact with servicers

A few years ago at a meeting convened by government officials including the then-director of the Consumer Financial Protection Bureau, student loan servicers suggested that one of the most helpful things the Bureau could do to help more consumers with their student loans is to encourage them to respond when their servicer is reaching out. Unfortunately, that suggestion was rejected.

For loans we service, 90 percent of borrowers who default did so without engaging with their servicer for a full year, despite many attempts to reach them. Yet, nine out of 10 times, when we're able to reach borrowers who are delinquent, we help them successfully avoid default.

At Navient, we leverage intensive data modeling, continually experiment and improve our communications, and use a variety of channels and messages to increase the likelihood we reach a borrower. That's why our borrowers are 37 percent less likely to default than those serviced elsewhere. If the national default rate matched what we deliver, an estimated 300,000 borrowers could avoid default each year. The question that should be asked is why these successful strategies are not required by all.

As we engage with borrowers, we listen for pain points and challenges, and we incorporate this feedback into our servicing activities and policy recommendations for reform. For example, regulations and laws should allow for:

- Courtesy credit bureau retractions to reward student loan borrowers who experienced one-time difficulty but have now reestablished a record of repayment; and
- Federal and private student loans to be dischargeable in bankruptcy after a good-faith effort to repay.

Moving forward together

We should encourage students to invest in their future. With the right planning, a successful college career prepares individuals for a successful work career. Millions of Americans are counting on their government and its partners to improve this process.

The recommendations above will require hard work, and there are no doubt other good ideas to consider as well. It's time we make higher education and our federal student loan program work better.

Thank you,

Jack Remondi
President and CEO
Navient

We invite your feedback on these ideas and encourage you to share other promising solutions. Please contact **ideas@navient.com**.