

EDUCATION

FINANCE

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## EFP Takeaways

Historical Analysis of Student Loan Repayments

### *Background*

While significant research has been devoted to student loan borrowing and default, considerably less attention has been paid to other repayment outcomes. Yet, federal student loan policy has seen two recent shifts toward 1) measurement of student loan outcomes using repayment rates versus default rates and 2) increased use of Income-Driven Repayment (IDR) plans that tie repayment to borrowers' incomes.

A new study by researchers at the University of North Carolina at Chapel Hill and RTI International in vol. 14, issue 4 of *EFP* examines these trends.

### *The Study*

This paper takes an empirical look at these two trends using a nationally representative sample of 2007-2008 bachelor's degree recipients. In particular, the analysis focused on the time it took borrowers to pay back a single dollar of principal loan balance, a popular metric used in venues like the College Scorecard, and the characteristics associated with meeting this benchmark.

### *Findings*

Overall, sixty-five percent of borrowers with bachelor's degrees reduced their loan principal by at least \$1 in six months or less, which aligns with the structure and intention of standard fixed repayment schedules. However, borrowers enrolled in IDR plans took, on average, over two years longer to meet this same dollar down benchmark. These results suggest loan repayment rates based on principal balance reduction must consider the interaction it has with IDR enrollment. By

design, IDR plans decouple payments from underlying loan amounts and balance reduction is not guaranteed. Thus, counting IDR borrowers identically to non-IDR borrowers could have unintended consequences.

These findings are of particular importance to policymakers and should inform discussions around federal financial aid policies. To accommodate the contrasting goals of IDR and recuperation of loan amounts from borrowers, we propose a new repayment rate metric measuring the proportion of students in standard repayment plans who are "on-time" or within an allowable range of their original ten-year amortization schedule. Most importantly, in the proposed metric we include IDR enrollees based on their ability to make on-time payments per their IDR agreements. This effectively treats missed payments (or delinquencies) negatively but ensures that compliance with income-based repayments are counted positively, regardless of its effect (or lack thereof) on principal balance.

#### **For more details:**

- View the [full issue](#).
- See the [full article in Education Finance and Policy](#).
- [Sign up here to receive future EFP Takeaways](#).
- Summary of:  
Conzelmann, Jonathan. G., Lacy, T. Austin, & Smith, Nichole D. (2019). Another day another dollar metric? An event history analysis of student loan repayment. *Education Finance and Policy*, 14(4), 627 - 651.