

*What We Have Is Broken:  
Problems with the Current System  
and System-Wide Fixes*

**Default and Distress Issues**

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# Borrowers in Distress

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## Agenda

- Delinquency and Default
- Default Rates
- Causes of Default
- Avoiding Default
- The Future

## Delinquency vs. Default

- **Delinquency** refers to missing a payment, or payments.
  - § Late fees, negative credit reporting, usually curable.
- § **Default** refers to the failure to fulfill the terms of the loan contract, as determined by the lender.

## Federal Loan Default

*The failure of a borrower and endorser, if any, to make an installment payment when due, or to meet other terms of the promissory note, if the Secretary finds it reasonable to conclude that the borrower and endorser, if any, no longer intend to honor the obligation to repay, provided that this failure persists for 270 days.*

34 C.F.R. 685.102

## Private Loan Default

- Missing payments, sometimes even just one or two
- Death of the borrower or co-borrower
- Bankruptcy by the borrower or co-borrower
- Default on any other private loan held by the same lender

## Consequences of Federal Default

- Negative credit reporting
- Collections costs of 18-24%
- Administrative Wage Garnishment
- Treasury Offset (tax refund seizure, offset of federal benefits, including Social Security)
- No statute of limitations

## Federal Loan Default Rates

FED LOAN PROGRAM	DEFAULTED LOANS (TOTAL)	NUMBER OF BORROWERS IN DEFAULT	AVG AMOUNT IN DEFAULT
Direct Loan Program	\$35.2 Billion	2.4 Million	\$16,667
Federal Family Education Loans (FFEL)	\$60.7 Billion	4.4 Million	\$13,795
<b>TOTAL</b>	<b>\$95.9 Billion</b>	<b>6.8 Million</b>	<b>\$14,103</b>

Source: U.S. Dept. of Education, 2014

## Two-Year Cohort Default Rates

- Measures percentage of federal student loan borrowers who defaulted within two years of entering repayment
- Only federal student loans, not private
- Excludes federal PLUS loans and Perkins loans
- Excludes defaults that occur beyond two years
- U.S. Dept. of Education will be switching to three-year cohort default rates.

## Two-Year Cohort Default Rates

Institution	2007	2008	2009	2010	2011
Public	5.9%	6.0%	7.2%	8.3%	9.6%
Private	3.7%	4.0%	4.6%	5.2%	5.2%
Proprietary	11.0%	11.6%	15.0%	12.9%	13.6%
AVERAGE	6.7%	7.0%	8.8%	9.1%	10.0%

Source: U.S. Dept. of Education, July 27, 2013

## Budget Lifetime Default Rates

Measures the anticipated default rate over a 20-year repayment period for federal Stafford loans that entered repayment in a given fiscal year.

Excludes other types of federal loans, as well as private student loans.

## Budget Lifetime Default Rates

Year loan enters repay	2007	2008	2009	2010
2-year Nonprofit/Pub	33.0%	32.5%	31.5%	31.4%
2-year Proprietary	49.3%	47.6%	48.7%	48.4%
4-year Freshman/ Soph	26.7%	25.8%	25.8%	24.2%
4-year Juniors/ Seniors	12.5%	12.5%	12.3%	11.9%
Graduate Students	6.3%	6.3%	6.2%	6.1%
Weighted Average	16.5%	17.0%	17.9%	17.6%

Source: U.S. Dept. of Education, July 1, 2012

## Cumulative Lifetime Default Rates

Measures percentage of all federal student loans that entered repayment in a given fiscal year and have defaulted at some point since then, up through the most recent fiscal year.

Includes Direct and FFEL loans.

Excludes federal Perkins loans, private loans.

## Cumulative Lifetime Default Rates

Repay year	2007	2008	2009	2010
2-Year NP	21.9%	21.6%	15.3%	13.2%
2-Year Prop	30.8%	30.8%	19.6%	18.1%
2-Year Public	20.9%	20.3%	16.9%	18.7%
4-Year NP	7.1%	7.8%	5.8%	5.9%
4-Year Prop	20.4%	22.7%	17.1%	16.3%
4-Year Public	8.1%	8.5%	6.7%	7.4%
Weighted Avg	12.5%	13.4%	10.2%	10.7%

Source: U.S. Dept. of Education, FY 2013

## Avoiding Default

*The default figures do not tell the whole story: other borrowers are in distress, too.*

### Deferment and Forbearance

Of 30 million outstanding borrowers in the Direct Loan program, 2.4 million are in default, and 5.5 million are in deferment or forbearance.

# Avoiding Default

## Income-Driven Repayment Plans

Income-Contingent Repayment (ICR)

Income-Based Repayment (IBR)

Pay-As-You-Earn (PAYE)

2012: 1.1 M borrowers in IBR, 0.5 M in ICR

*Source: NY Federal Reserve*

2014: 1.3 M borrowers in IBR, 0.6 M in ICR

*Source: U.S. Dept. of Education, Inside Higher Ed*

# Causes of Borrower Distress

Increasing Tuition

Increasing Levels of Debt

Stagnating Wages

Financial Illiteracy

Case study: Attorneys

# Increasing Tuition

*Average total tuition, fees, room and board rates charged for full-time undergraduate students in degree-granting institutions, by type and control of institution: Selected years, 1981–82 to 2011–12*

Year and control of institution	Constant 2011–12 dollars <sup>1</sup>			Current dollars		
	All institutions	4-year institutions	2-year institutions	All institutions	4-year institutions	2-year institutions
<b>All institutions</b>						
1981–82	\$8,438	\$9,554	\$5,986	\$3,489	\$3,951	\$2,476
1991–92	11,653	13,564	6,738	7,077	8,238	4,092
2001–02	14,533	17,418	7,302	11,380	13,639	5,718
2002–03	15,012	18,043	7,813	12,014	14,439	6,252
2003–04	15,840	18,961	8,199	12,953	15,505	6,705
2004–05	16,375	19,599	8,423	13,793	16,510	7,095
2005–06	16,735	19,957	8,275	14,634	17,451	7,236
2006–07	17,260	20,591	8,323	15,483	18,471	7,466
2007–08	17,447	20,813	8,210	16,231	19,363	7,637
2008–09	18,120	21,636	8,733	17,092	20,409	8,238
2009–10	18,531	22,147	8,959	17,649	21,093	8,533
2010–11	19,039	22,740	9,170	18,497	22,092	8,909
2011–12	19,339	23,066	9,308	19,339	23,066	9,308

Source: U.S. Dept. of Education

# Increasing Tuition

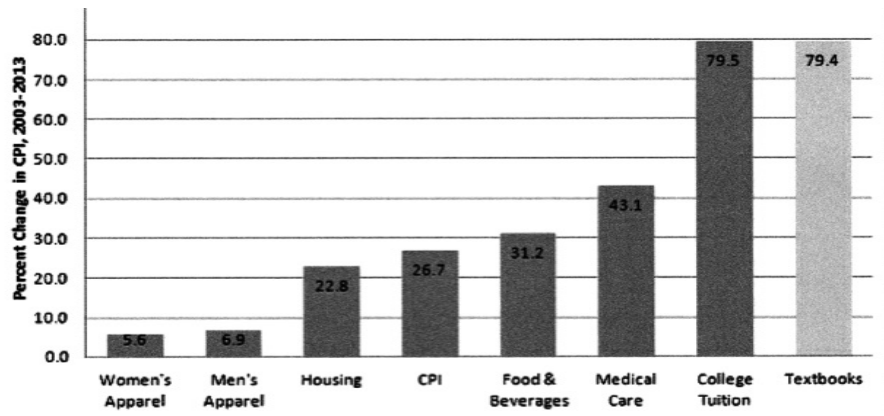
Public institutions						
1981–82	\$6,439	\$6,942	\$5,378	\$2,663	\$2,871	\$2,224
1991–92	8,461	9,374	5,965	5,138	5,693	3,623
2001–02	10,244	11,744	6,561	8,022	9,196	5,137
2002–03	10,624	12,230	7,000	8,502	9,787	5,601
2003–04	11,308	13,053	7,352	9,247	10,674	6,012
2004–05	11,710	13,564	7,568	9,864	11,426	6,375
2005–06	11,955	13,847	7,424	10,454	12,108	6,492
2006–07	12,317	14,266	7,597	11,049	12,797	6,815
2007–08	12,440	14,435	7,498	11,573	13,429	6,975
2008–09	12,993	15,119	8,023	12,256	14,262	7,568
2009–10	13,443	15,764	8,088	12,804	15,014	7,703
2010–11	13,961	16,384	8,321	13,564	15,918	8,085
2011–12	14,292	16,789	8,561	14,292	16,789	8,561

Source: U.S. Dept. of Education

# Increasing Tuition

Private not-for-profit and for-profit institutions						
1981-82	\$14,909	\$15,306	\$11,477	\$6,166	\$6,330	\$4,746
1991-92	22,874	23,476	15,860	13,892	14,258	9,632
2001-02	28,624	29,240	20,210	22,413	22,896	15,825
2002-03	29,166	29,725	22,185	22,413	22,896	15,825
2003-04	30,112	30,657	23,917	24,624	25,070	19,558
2004-05	30,648	31,174	24,096	25,817	26,260	20,297
2005-06	30,771	31,257	24,447	26,908	27,333	21,404
2006-07	31,703	32,237	22,611	28,439	28,919	20,284
2007-08	31,998	32,491	23,310	29,767	30,226	21,685
2008-09	32,656	33,154	24,093	30,804	31,273	22,726
2009-10	32,574	33,061	25,706	31,023	31,488	24,483
2010-11	32,964	33,572	24,570	32,026	32,617	23,871
2011-12	33,047	33,716	23,447	33,047	33,716	23,447

# Increasing Tuition



Source: U.S. News and World Reports - The Fantastic Rise of Student Loan Delinquency - Danielle Kurtzleben - Feb 19, 2014

## Increasing Levels of Debt

Seven in ten college seniors who graduated in 2012 had student debt, with an average of \$29,400 for those with loans. The national share of seniors graduating with loans rose in recent years, from 68% in 2008 to 71% in 2012, while their debt at graduation increased by an average of 6% per year.

*Source: "Student Debt and the Class of 2012," The Institute for College Access & Success, Dec. 2013*

## Stagnating Wages

Between 2007 and 2012, the wages of young college graduates dropped 7.6% (9.4% for men and 6.4% for women)... Between 2000 and 2012, the wages of young college graduates decreased 8.5% (6.1% for men and 10.9% for women). These drops translate into substantial amounts of money: for full-time, full-year workers, the hourly wage declines from 2000 to 2012 represent a roughly \$3,200 decline.

*Source: Heidi Shierholz, "Wages of Young College Graduates Have Failed to Grow Over Last Decade," Economic Policy Institute, April 4, 2013*

# Stagnating Wages



# Stagnating Wages

A survey by the National Association of Colleges and employers of 2012 graduates found that only 25.5% had found a job before graduation. According to the Bureau of Labor Statistics, unemployment for college graduates aged 24 and younger with four-year degrees was at 8.2% in December (2012), more than twice the rate for older graduates and several points higher than the 5.7% rate before the recession.

*Source: Susan Adams, "The College Degrees with the Highest Starting Salaries," forbes.com, Jan. 24, 2013*

## Financial Illiteracy

The depth of our financial illiteracy is startling. In recent years, Annamaria Lusardi, an economist at Dartmouth and the head of the Financial Literacy Center, has conducted extensive studies of what Americans know about finance... Almost half of those surveyed couldn't answer two questions about inflation and interest rates... at a time we're borrowing more than ever, most Americans cannot explain what compound interest is.

*Source: James Surowiecki, "Greater Fools," The New Yorker (July 5, 2010).*

## Financial Illiteracy

In a 2012 survey of borrowers who owe more than \$75,000 in student loans:

- 40% reported they did not receive any form of counseling.
- 90% would support standardizing the format, terminology, and content of financial aid award letters
- 40% reported that they did not receive accurate information about grants or loans, or did not know whether they had received accurate information.

*Source: Healey C. Whitsett and Rory O'Sullivan, Lost Without a Map: A Survey About Students' Experiences Navigating the Financial Aid Process, NERA Economic Consulting (October 11, 2012).*

# Case Study: Attorneys

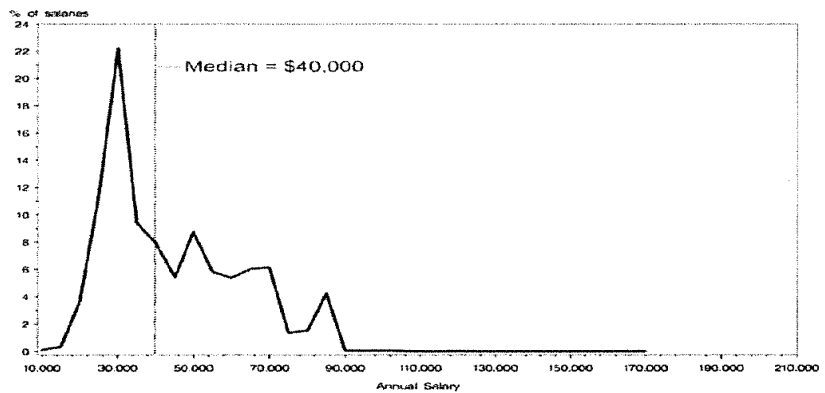
In 2007, 91.2% of law school graduates got jobs, and salaries were soaring.... In 2009, just 65.4% of law school graduates got jobs for which they needed to pass the bar.

The average debt load for law school graduates is now over \$100,000.

*Source: Adam Cohen, "Just How Bad Off Are Law School Graduates?," Time.com (March 11, 2013)*

# Case Study: Attorneys

Distribution of Full-Time Salaries — Class of 1991

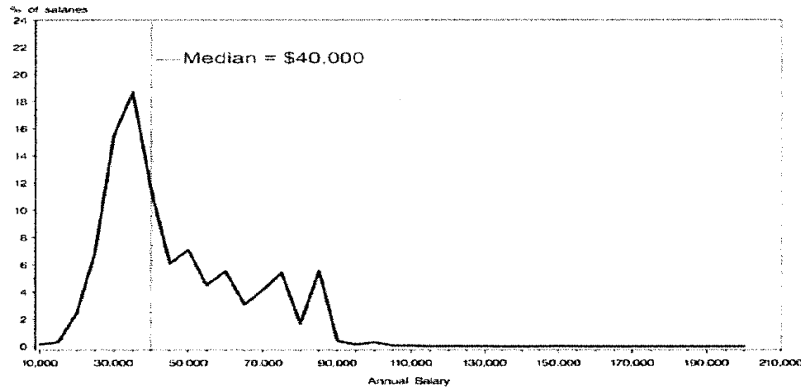


Note: Graph is based on 16,323 salaries. For clarity, salaries above \$200,000 are excluded from the graph, but not the percentage calculations shown on the y axis.

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# Case Study: Attorneys

Distribution of Full-Time Salaries — Class of 1996

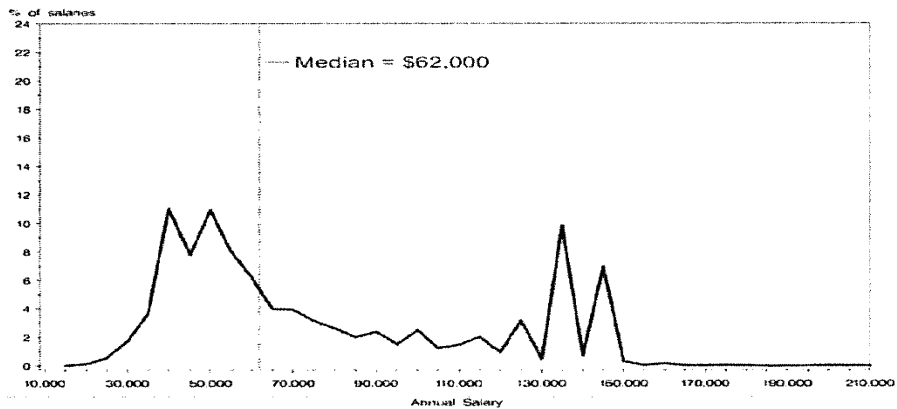


Note: Graph is based on 18,501 salaries. For clarity, salaries above \$200,000 are excluded from the graph, but not the percentage calculations shown on the y axis.

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# Case Study: Attorneys

Distribution of Full-Time Salaries — Class of 2006

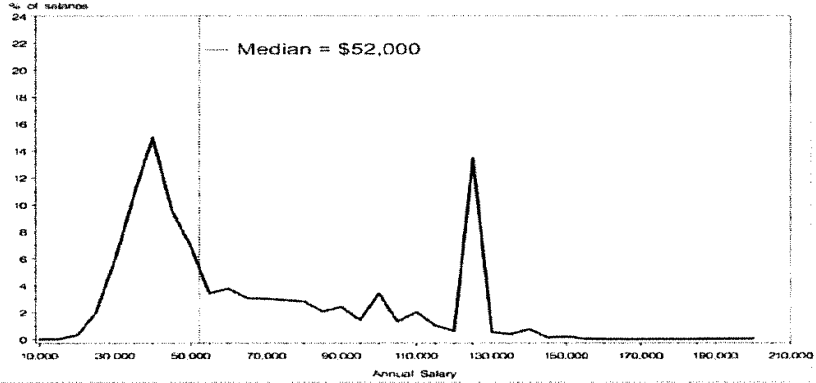


Note: Graph is based on 22,884 salaries. For clarity, salaries above \$200,000 are excluded from the graph, but not the percentage calculations shown on the y axis.

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# Case Study: Attorneys

Distribution of Full-Time Salaries — Class of 2000

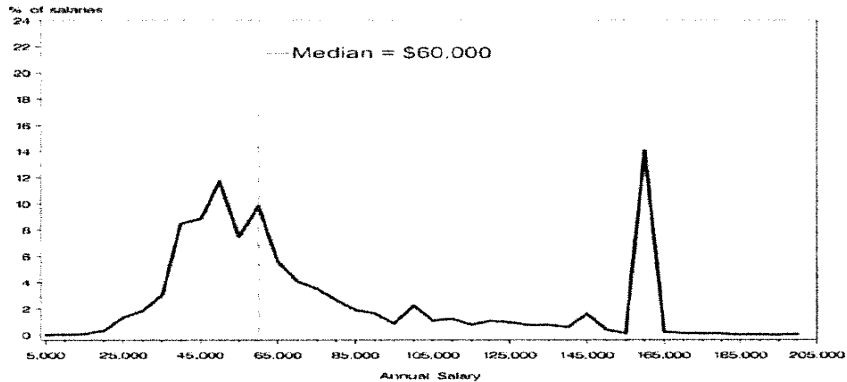


Note: Graph is based on 21,642 salaries. For clarity, salaries above \$200,000 are excluded from the graph, but not the percentage calculations shown on the y axis.

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# Case Study: Attorneys

Distribution of Full-Time Salaries — Class of 2011



Note: Graph is based on 18,630 salaries. For clarity, salaries above \$200,000 are excluded from the graph, but not the percentage calculations shown on the y axis.

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