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Student Loan Debt in the U.S. and Kentucky — Historical Context, Composition of Loans and the Repayment Situation

Barry Kornstein

Student loan debt has been the topic of much conversation among policymakers, analysts and the general population in recent months. Proposals have been put forth to forgive between $10,000 and $50,000 in debt for each borrower with an outstanding balance (sometimes across the board, and sometimes with means testing). There are also proposals to change the terms of outstanding and future loans, such as lowering the interest rates of current loans, putting everyone into income-based repayment plans, forgiving remaining balances after successfully completing a certain number of years of repayment and combinations of those approaches.

This paper gives a brief introduction to how we got to this point, the current composition of student loans and the current repayment situation, both nationally and in Kentucky. As to how we got here, we focus mostly on the increasing divergence over time between the costs of going to college and the available forms of aid, as well as the interest rates that have been charged on student loans. We look at the current composition of student loans in terms of age, race, ethnicity and educational attainment of who borrows and how much they borrow. In describing the repayment situation, we look at just how much of the current outstanding balance and how many of the current borrowers have already exhibited problems and signs of stress.

Historical Context: Costs vs Aid, Interest Rates

Costs have outpaced aid

Each year The College Board, the nonprofit that runs the SAT, AP classes and various college planning tools, mines various sources in the U.S. Department of Education for data on college costs and how they are paid for, producing two reports, "Trends in College Pricing" and "Trends in Student Aid." The publicly available data tables from those reports make it possible to estimate tuition, fees and room and board costs for public and private, nonprofit, four-year, postsecondary institutions and public two-year institutions going back a number of years. Enrollment and the distribution of various types of aid for those types of schools and for private, for-profit, postsecondary institutions can be estimated as well. We have used that data and our calculations based on it to produce the following charts showing a 30-year history of postsecondary education costs and available aid.

The first chart shows a weighted average (by enrollment) of tuition, fees and room and board costs from academic year (AY) 1989-90 to AY 2019-20, together with average amount of nonfederal grants, federal grants and work-study support, and federal loans given out per total full-time equivalent (FTE) enrollment. The cost data excludes for-profit institutions, but since their costs tend to be close to the weighted average tuition and fees and their percentage of total enrollment below 10%, including them would not alter the trend lines very much. We do assume that 80% of students at four-year schools are full-time (based on College Board tables) and assign them the full cost of room and board. All the charts are in constant 2019 dollars, so economy-wide inflation has been accounted for. Increases over time in the charts are real dollar increases.

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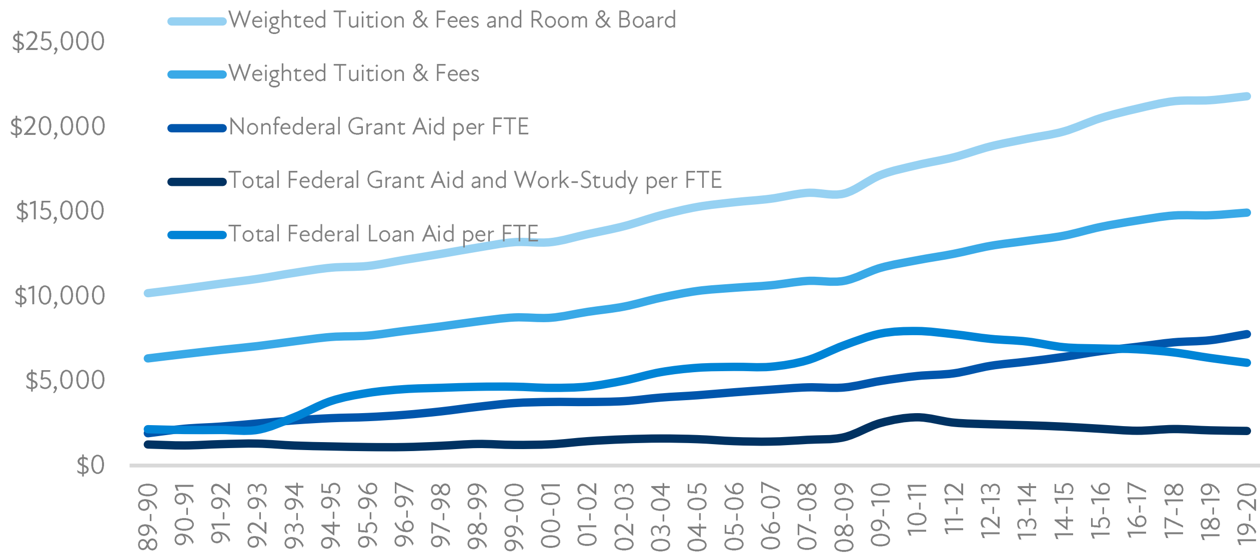
We can see that the increase in college costs for the most part outstrips the rise in aid and federal loans. The exceptions are federal loans from 1993 to 2010 and nonfederal grants from 2010 onward. In terms of just tuition and fees, the average student is almost $2,000 better off (after receiving this aid) today than in 1989, but after factoring in typical room and board costs, the average student is more than $1,000 worse off. If we do not include federal student loans — that is, we look only at costs versus aid that does not have to be paid back — then the average student is $1,900 worse off today in terms of tuition and fees and nearly $5,000 worse off today compared to 1989 when room and board is factored in.

Tuition & Fees and Room & Board (Weighted by Enrollment) and Nonfederal Grant Aid, Federal Grant & Work-Study Aid, and Federal Loan Aid per FTE Student

AY 1989-90 to AY 2019-20 (Constant 2019 Dollars)



Source: The College Board, "Trends in College Pricing, 2020," and "Trends in Student Aid, 2020" and author's calculations. The data in this chart exclude for-profit institutions. Cost calculations assume 80% full-time students at four-year institutions.

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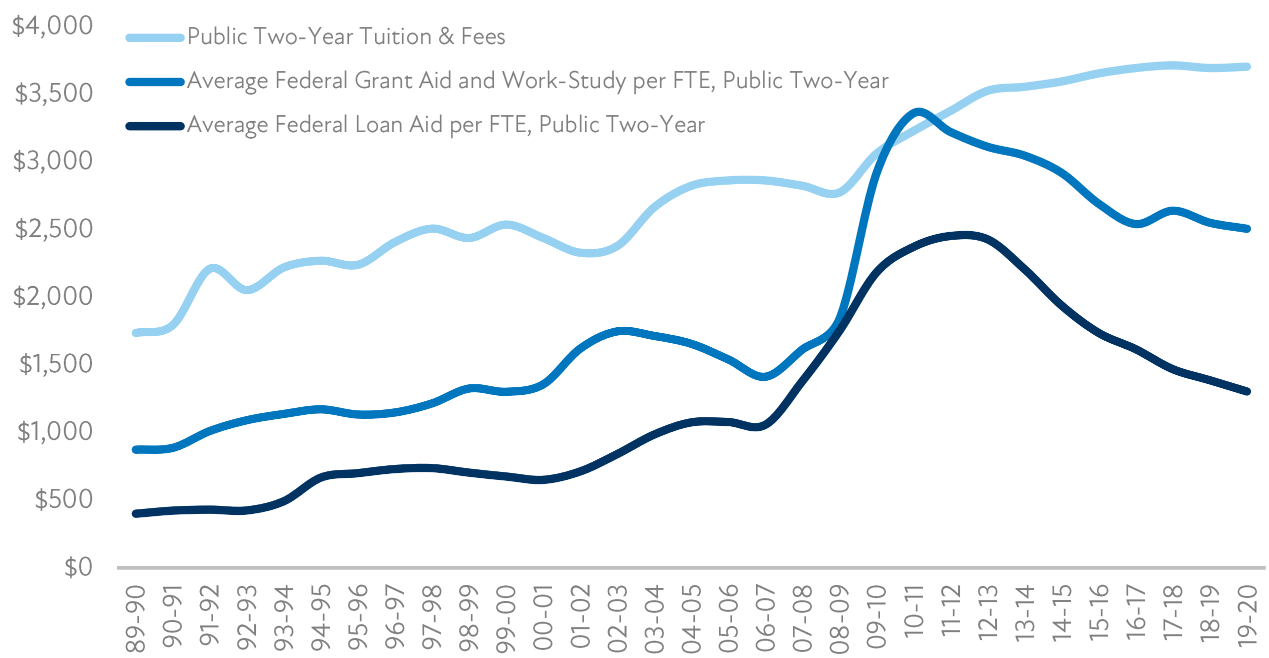
The distribution of nonfederal grants by type of school or student is not available, but we can use the College Board data to partition federal grants, work-study aid and loans among public two-year, public four-year, and private, nonprofit, four-year institutions. These breakouts, plotted against the respective tuition, fees and room and board costs are shown in the next three charts.

We can see in the chart that up through 2011 increases in federal grant and loan aid tracked the cost of public two-year institutions very closely. In the year leading up to the Great Recession and for a few years afterward, there was a large increase in two-year public college enrollment. The percentage of Pell Grant funds going to two-year public students reached a peak of 37% during the 2011-12 and 2012-13 academic years. The average amount of federal grant and loan aid going to two-year public students has been falling in recent years, but even so, counting just grants and work-study aid, students at two-year public institutions are only about $300 worse off than in 1989.

Change in Average Tuition & Fees at Public Two-Year Institutions and Federal Aid per Full-Time Equivalent Student

AY 1989-90 to AY 2019-20 (Constant 2019 Dollars)



Source: The College Board, "Trends in College Pricing, 2020," and "Trends in Student Aid, 2020" and author's calculations.

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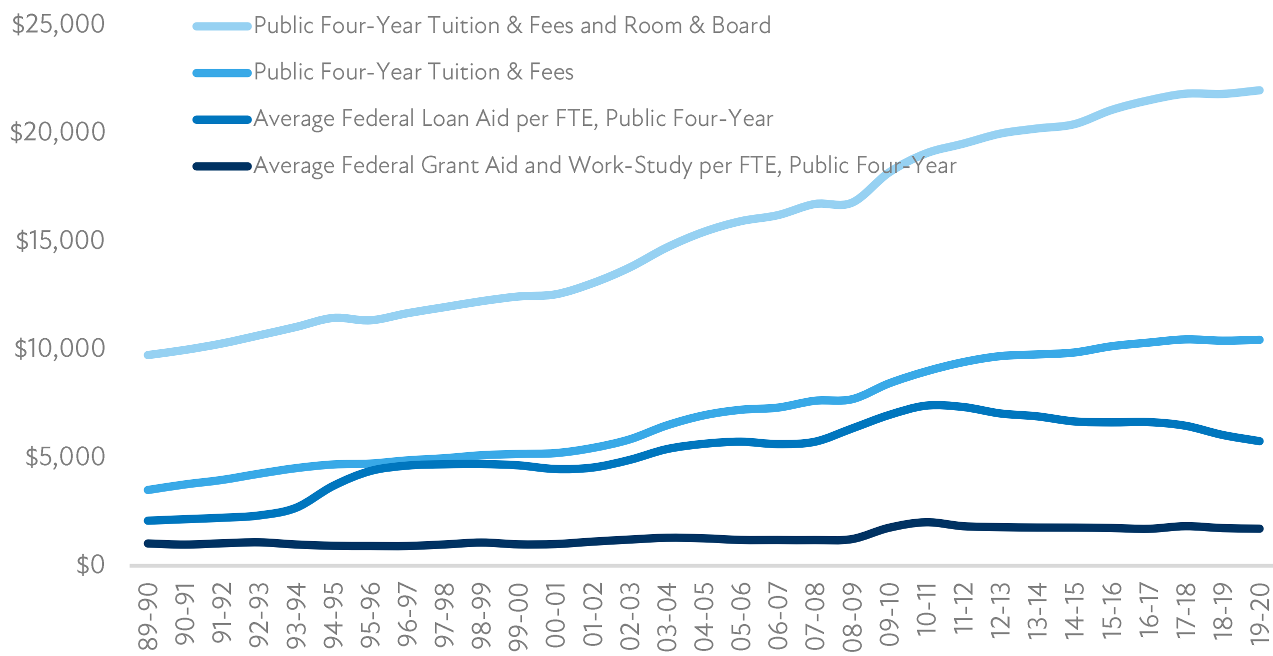
For four-year public institutions, the gap between full costs including room and board, and aid available through the federal government has been increasing since 1995, and the gap between that aid and tuition and fees alone has been widening since about 2001. The average student at a four-year public college is $2,500 worse off today than in 1989 in terms of the gap between federal aid and tuition and fees. Including room and board, the average student is $7,800 worse off. When we include only the federal aid that does not have to be repaid, the gap between federal aid and tuition and fees is $6,200 more than it was in 1989, and the gap is $11,500 more when including room and board. Some of this gap is being filled by increased nonfederal grant aid, but as we saw in the first chart, while the rate of increase in nonfederal grant aid has picked up since 2010, it is not closing the gap on costs but just keeping pace.

Change in Average Tuition & Fees and Room & Board at Public Four-Year Institutions and Federal Aid per FTE Student

AY 1989-90 to AY 2019-20 (Constant 2019 Dollars)



Source: The College Board, "Trends in College Pricing, 2020," and "Trends in Student Aid, 2020" and author's calculations.

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For four-year, private, nonprofit institutions, we can see in the chart that grant and work-study aid have remained virtually flat, while federal loans have failed to keep pace with costs since 1995. The average student at a four-year, private, nonprofit college is about $11,300 worse off today than in 1989 in terms of the gap between federal aid and tuition and fees. Including room and board, the average student is $16,200 worse off than in 1989. When we include only the federal aid that does not have to be repaid, the gap between federal aid and tuition and fees is $18,700 more than it was in 1989, and $23,600 more when including room and board. Again, some of this gap is being filled by increased nonfederal grant aid. However, the difference between the average amount of federal aid given per student and the typical full cost of living on-campus is $37,500.

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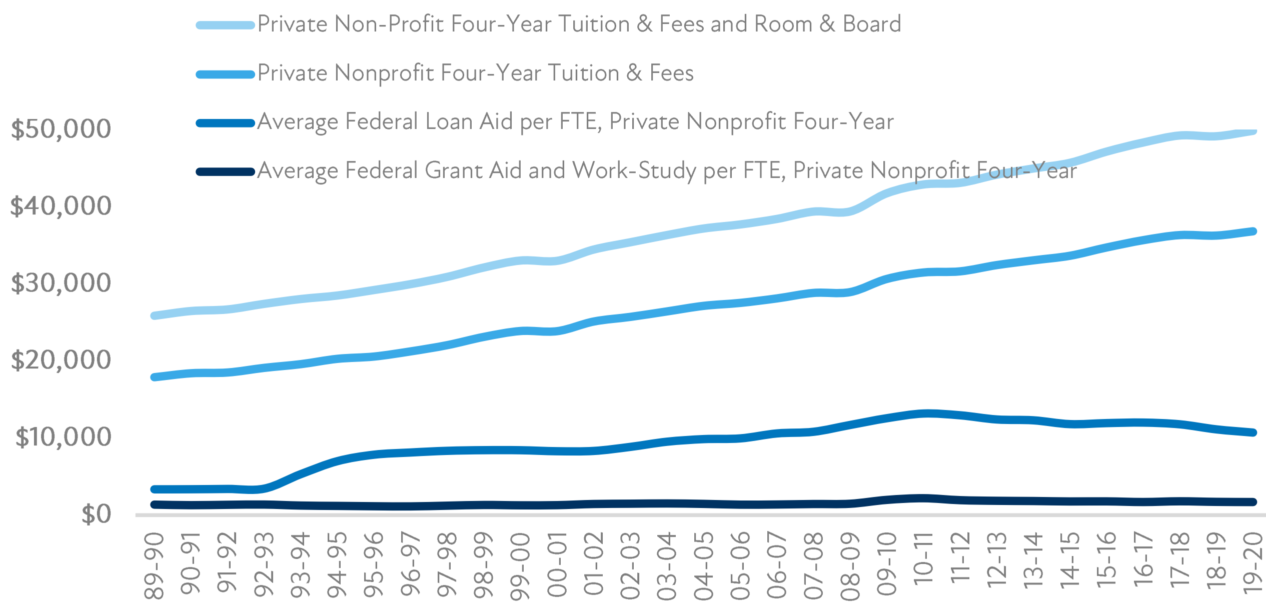
Change in Average Tuition & Fees and Room & Board at Private Nonprofit Four-Year Institutions and Federal Aid per Full-Time Equivalent Student

AY 1989-90 to AY 2019-20 (Constant 2019 Dollars)



Source: The College Board, "Trends in College Pricing, 2020," and "Trends in Student Aid, 2020" and author's calculations.

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A caveat to the charts above is that because not every student receives each type of financial aid, the charts do not strictly represent costs versus federal aid for each student. However, the available limits per student for federal grants and work-study have remained fairly level since 1989, as have the annual loan limits. In fact, for undergraduates at four-year institutions, the charts overstate the average federal loan aid a given student could receive due to the overall loan amounts being inflated by the far higher loan limits for graduate students. The undergraduate loan limits generally cover just 1/4 to 1/3 of total tuition and fees and room and board costs at a public four-year college, and much less than that (10% to 15% of those costs) at private four-year colleges. Nonfederal grant aid has helped fill the gap to some degree. This money comes largely from the colleges and universities themselves, through their merit award and financial aid budgets, or through state grant programs such as the merit-based Kentucky Educational Excellence Scholarship (KEES) and the need-based College Access Program (CAP) in Kentucky. Despite the vast expansion in nonfederal grant aid (six times more money today than 30 years ago, in constant dollars), the last 30 years have seen a very large and sustained increase in the use of federal loan aid. We will describe this in detail in the next section, but first we look at federal loan interest rates.

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Interest rates on federal loans remain high

The table on the next page summarizes the interest rates offered on federal student loans of various types since 1992. Stafford Loans are loans offered directly from the U.S. government. They are available to both undergraduates and graduate students and come in two varieties, subsidized and unsubsidized. A subsidized loan simply means that it does not accrue interest before a student graduates as long as enrollment is maintained (with allowances for normal summer breaks) and during a six-month grace period after graduation or a break in enrollment. These are based on financial need, though the loan limits are far below the need of the majority of students. There are also Direct PLUS loans, which are designed for the parents of undergraduates or graduate students and require a credit check. Federal Family Education Loans (FFEL) was the name of the federal loan aid program from the early 1990s through 2006. Stafford loans were made through private commercial banks acting as middlemen during that time. There were also FFEL PLUS loans for parents. They were phased out by 2010. The Direct Loan program, which eliminated the commercial middlemen, began in 2006. The table also shows interest rates available for 30-year and 15-year fixed-rate mortgages, and the year-over-year change in the consumer price index (inflation), both as of July of each year, since this is when the new academic year of student loans become available, and any change in interest rate takes effect.

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Federal Student Loan Interest Rates, Mortgage Interests Rates, and Inflation Rates

AY 1992-93 to AY 2020-21

		Stafford Direct Loans				Direct PLUS	FFEL PLUS	Fixed Rate Mortgage, US Average, First Week of July		Year-over-Year Change in Consumer Price Index—All Urban Consumers (July to July)
		Undergraduate Students		Graduate Students		Parent or Grad Student	Parent			
Academic Year	Fixed vs. Variable	Subsidized	Unsubsidized	Subsidized	Unsubsidized	Unsubsidized	Unsubsidized	30 Year	15 Year	
2020-2021	Fixed	2.75%	2.75%	NA	4.30%	5.30%	NA	3.07%	2.56%	0.99%
2019-2020	Fixed	4.53%	4.53%	NA	6.08%	7.08%	NA	3.75%	3.18%	1.81%
2018-2019	Fixed	5.05%	5.05%	NA	6.60%	7.60%	NA	4.52%	3.99%	2.95%
2017-2018	Fixed	4.45%	4.45%	NA	6.00%	7.00%	NA	3.96%	3.22%	1.72%
2016-2017	Fixed	3.76%	3.76%	NA	5.31%	6.31%	NA	3.41%	2.74%	0.84%
2015-2016	Fixed	4.29%	4.29%	NA	5.84%	6.84%	NA	4.08%	3.24%	0.17%
2014-2015	Fixed	4.66%	4.66%	NA	6.21%	7.21%	NA	4.12%	3.22%	1.99%
2013-2014	Fixed	3.86%	3.86%	NA	5.41%	6.41%	NA	4.29%	3.39%	1.96%
2012-2013	Fixed	3.40%	6.80%	NA	6.80%	7.90%	NA	3.62%	2.89%	1.41%
2011-2012	Fixed	3.40%	6.80%	6.80%	6.80%	7.90%	NA	4.60%	3.75%	3.63%
2010-2011	Fixed	4.50%	6.80%	6.80%	6.80%	7.90%	NA	4.58%	4.04%	1.24%
2009-2010	Fixed	5.60%	6.80%	6.80%	6.80%	7.90%	8.50%	5.32%	4.77%	-2.10%
2008-2009	Fixed	6.00%	6.80%	6.80%	6.80%	7.90%	8.50%	6.35%	5.92%	5.60%
2007-2008	Fixed	6.80%	6.80%	6.80%	6.80%	7.90%	8.50%	6.63%	6.30%	2.36%
2006-2007	Fixed	6.80%	6.80%	6.80%	6.80%	7.90%	8.50%	6.79%	6.44%	4.15%
2005-2006	Variable		5.30%		5.30%		6.10%	5.62%	5.20%	3.17%
2004-2005	Variable		3.37%		3.37%		4.17%	6.21%	5.62%	2.99%
2003-2004	Variable		3.42%		3.42%		4.22%	5.40%	4.75%	2.11%
2002-2003	Variable		4.06%		4.06%		4.86%	6.57%	6.03%	1.46%
2001-2002	Variable		5.99%		5.99%		6.79%	7.19%	6.74%	2.72%
2000-2001	Variable		8.19%		8.19%		8.99%	8.16%	7.88%	3.66%
1999-2000	Variable		6.92%		6.92%		7.72%	7.71%	7.34%	2.14%
1998-1999	Variable		7.46%		7.46%		8.26%	6.98%	6.65%	1.68%
1997-1998	Variable		8.25%		8.25%		8.98%	7.62%	7.15%	2.23%
1996-1997	Variable		8.25%		8.25%		8.72%	8.14%	7.67%	2.95%
1995-1996	Variable		8.25%		8.25%		8.98%	7.63%	7.11%	2.76%
1994-1995	Variable		7.43%		7.43%		8.38%	8.57%	8.07%	2.77%
1993-1994	Variable		6.22%		6.22%		6.64%	7.23%	6.76%	2.78%
1992-1993	Variable		6.94%		6.94%		7.36%	8.29%	7.84%	3.16%

Source: Mark Kantrowitz, "Historical Federal Student Loan Interest Rates and Fees," May 2020 at https://www.savingforcollege.com/article/historical-federal-student-interest-rates-and-fees; FreddieMac, Primary Mortgage Market Survey, weekly history from April 2, 1971 to present; U.S. Bureau of Labor Statistics, Consumer Price Index—All Urban Consumers, Not Seasonally Adjusted, All Items, U.S. city average, 1982-84=100.

Note: From 1996-97 through 2005-06 interest rate on Stafford Direct Loans while in-school and during the grace period was 0.60% less than the repayment rate, so those loans were slightly subsidized.

When interest rates were variable, the rate of the loan reset each year.

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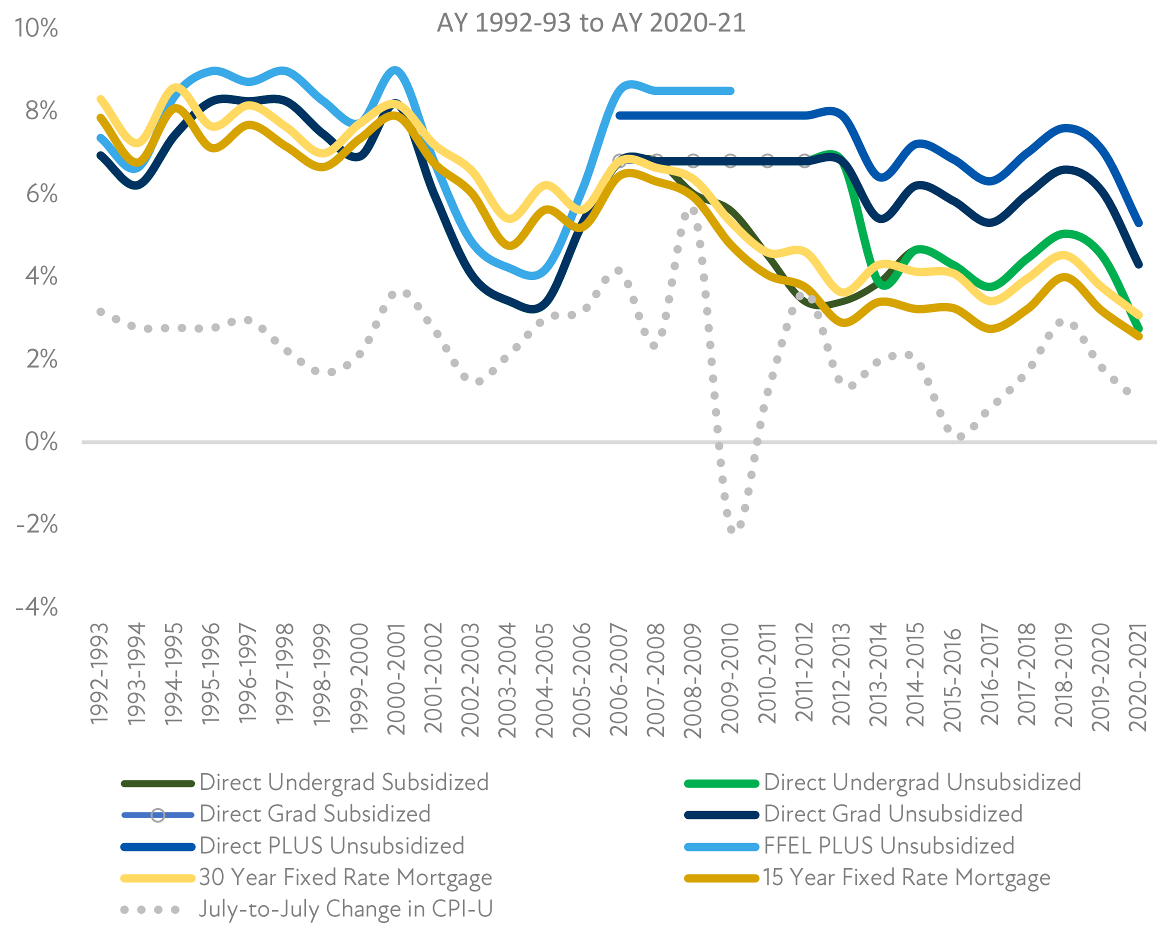
The following chart shows those interest rates in graphic form. Both of the mortgage interest rate series are colored yellow/gold. The inflation rate is in gray and is noticeable because it is nearly always well below the other series. Undergraduate loans are in shades of green and graduate and parent loans are in shades of blue. Prior to 2006, interest rates were the same for undergraduate and graduate student loans.

From the chart we can see that for most of the last 30 years, interest rates on federal student loans were well above the inflation rate, especially through the 2001-02 academic year. In fact, only during a three-year period from AY 2002-03 through AY 2004-05 have federal student loan interest rates been anywhere close to the rate of inflation. They have usually been two to five percentage points above the inflation rate, with only undergraduate subsidized loans in AY 2011-12 having a rate below the rate of inflation.

Federal Student Loan Interest Rates, Mortgage Interests Rates and Inflation Rates



Sources: savingforcollege.com; FreddieMac; U.S. Bureau of Labor Statistics.

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Student loan interest rates have better tracked the mortgage interest rates. Up through the 2008-09 academic year they were very close to the mortgage rates, but since then graduate and parent federal student loan rates have been well above mortgage interest rates, and unsubsidized undergraduate loan rates were well above mortgage rates from AY 2008-09 through AY 2012-13. Overall, it is clear that while some of the loans are subsidized through relief from interest accrual during the early years of the loan, no federal student loans are subsidized in terms of their interest rate.

It is important to note that there was a federal student loan program that operated for years in which the loans were subsidized both through the elimination of interest accrual during the years of schooling and a grace period and through well below market interest rates. This was the National Defense Student Loan program, which became the National Direct Student Loan program, and finally was known as the Perkins Loan program. This program was run through the schools themselves, with the schools supplying part of the funds for each loan and students repaying the loans directly to the schools or a servicer acting on behalf of the school. From 1982 on, Perkins loans had a fixed interest rate of 5%, a grace period of 9 months (rather than the 6 months of other loan programs) and a 10-year repayment period. 30-year fixed rate mortgage interest rates were consistently above 10% from November of 1978 through November of 1990, and were nearly 17% at the beginning of the academic year loan cycle in both July 1981 and July 1982.[1] The Perkins loan program was ended in 2017, but was never funded as much as other programs, especially in the last 30 years.

Current Composition of Student Loans in the U.S.

Trends in the national data show increase in student loan balances and the share of families with student loans

The chart below shows all outstanding student loan balances from 2006 through the third quarter of 2020, both federal and private commercial loans. In 15 years, we have gone from just under $500 billion in household student loan debt to $1.7 trillion. The rate of growth in student loan balances was consistently above 10% annually through the end of 2012. The growth rate has been decreasing since that time, and has recently been just about 4% per year. About $1.56 trillion of the $1.7 trillion in total debt is federal student loan debt, with $160 billion being private commercial loans. Private commercial loans carry higher interest rates than federal loans and interest accrual is not subsidized. Federal student loans consistently make up roughly 90% of balances outstanding.

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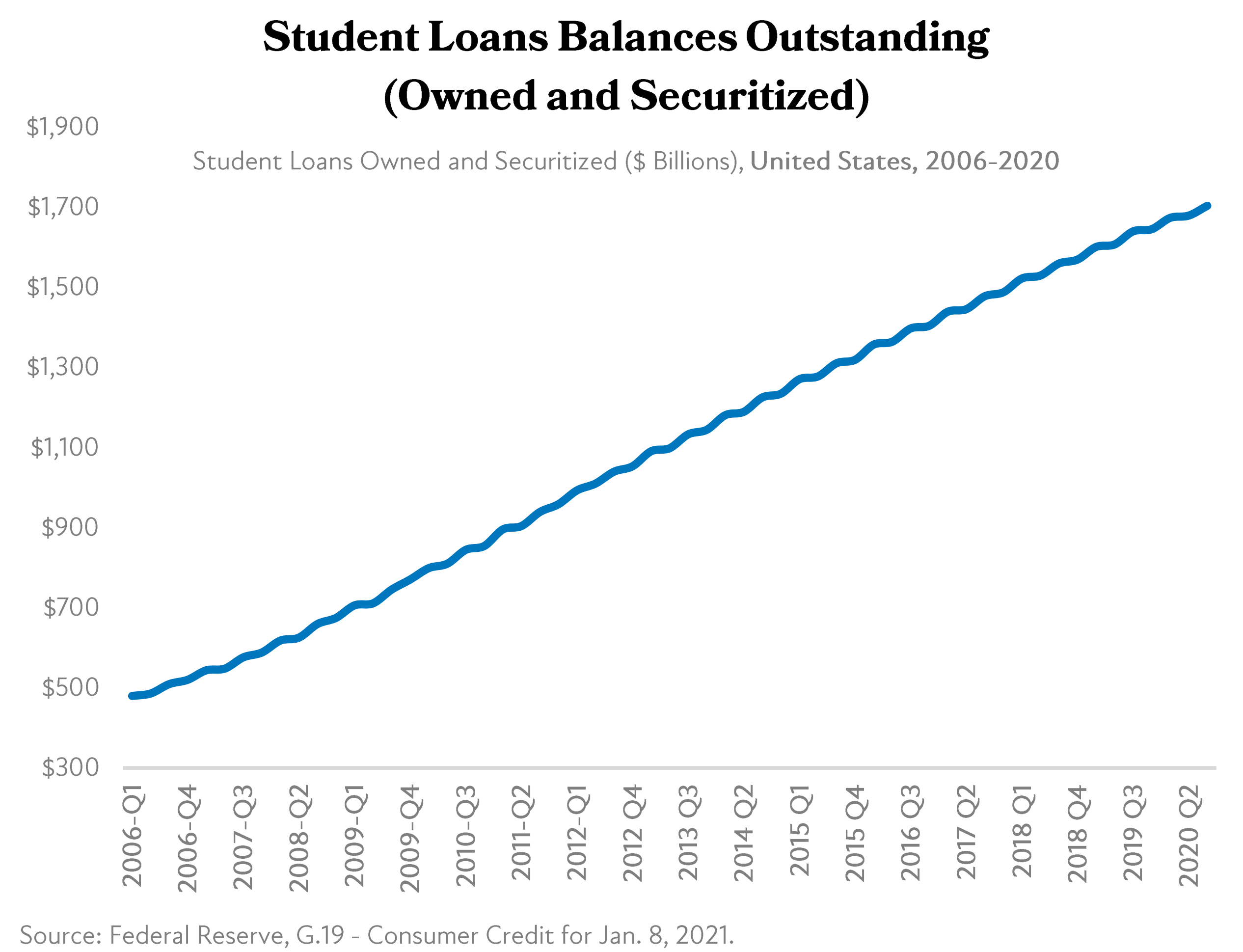

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The next chart shows the change in the market penetration of student loans since 1989 and the marked increases in amounts borrowed. The data is from the Federal Reserve Survey of Consumer Finance. In it, a family is akin to what the U.S. Census Bureau calls a household, i.e., there are one-person families.

The blue line shows the percent of all families with a student loan, with the bars showing the mean and median amounts borrowed every three years from 1989 to 2019. The percentage of families with student loans has increased from about 9% to roughly 22%, with most of the increase coming since 2001. The average amount borrowed has gone from $11,000 to more than $40,000. The median amount borrowed has increased from $6,000 to $22,000. Since the data is in constant dollars, these four-fold increases represent four times the indebtedness for each borrowing family compared to 1989. So, well over twice the percentage of families carry student loan debt at four times the level of indebtedness compared to thirty years ago.

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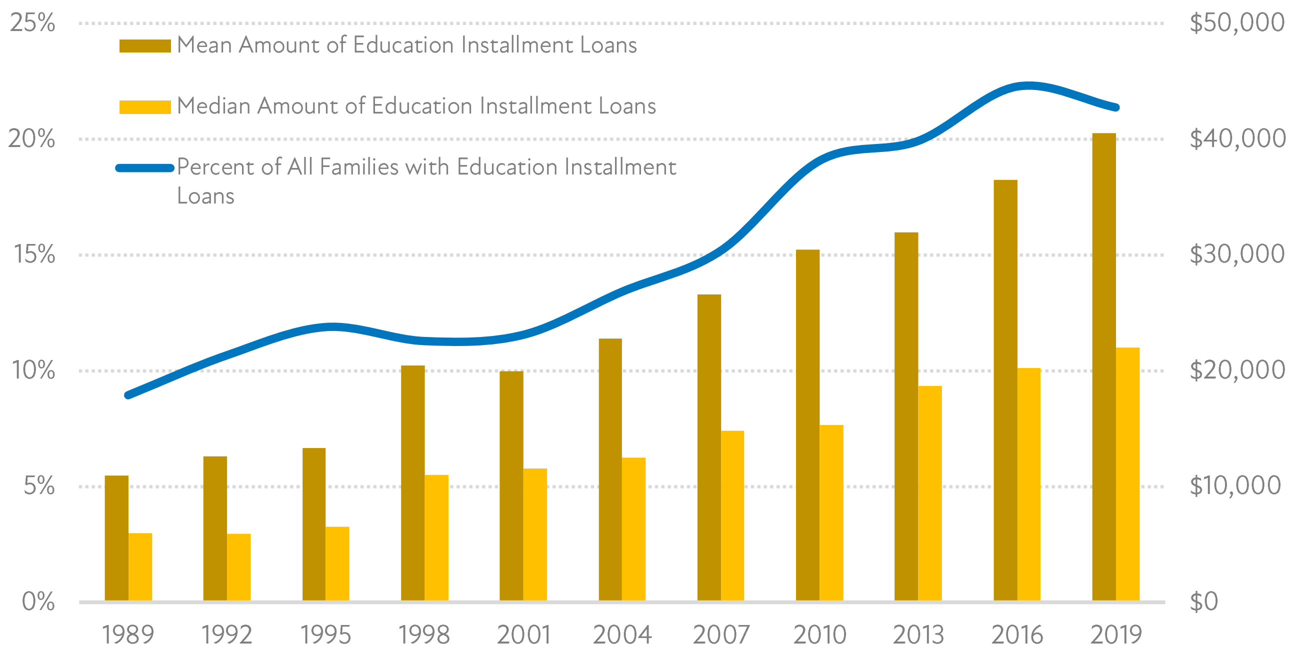
Education Installment Loans by All Families, Percent of Families with Loans, Mean and Median Amount Owed

1989-2019 (2019 Dollars)



Source: Federal Reserve, Survey of Consumer Finance, Interactive Bulletin.

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Median amount borrowed for each age category through age 54 has doubled since 1989

The next chart breaks down student loan debt by age. In the Federal Reserve data, each family is assigned to the age group corresponding to the age of the person earning the most money. There are stark differences between age groups.

We see that for both 1989 and 2019 younger families are more likely than older families to be carrying student loan debt, but that the change over time is much greater for younger families than older ones. 41% of young families have student loan balances today compared to just 17% 30 years ago. The change is dramatic for families in the 35-44 years old category, as well, with 34% having student loan debt today versus 11% in 1989.

The median amount borrowed for each age category through age 54 has doubled since 1989. For the 55-64 years old category the median borrowed is nearly four times greater. The median is above $21,000 for all those age groups. Even 2% of the oldest households owe student loan debt these days.

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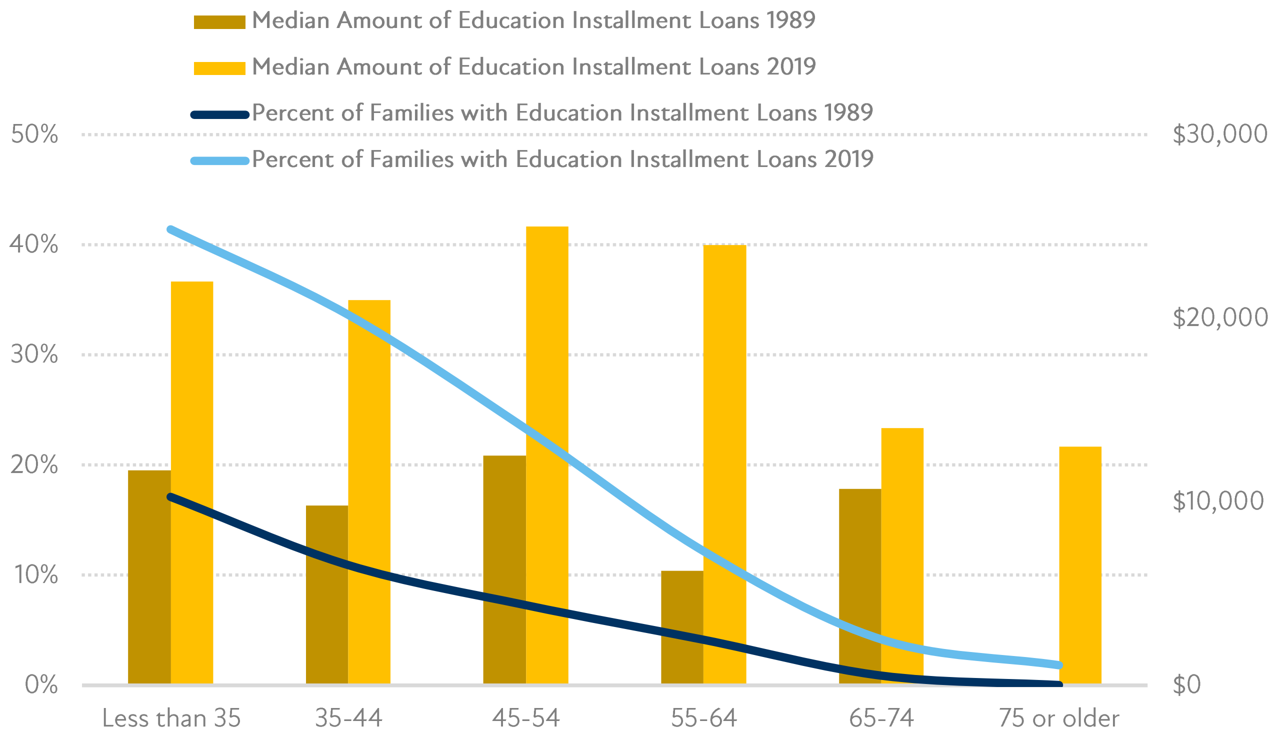
Education Installment Loans by Age of Economically Dominant Member of Family, 1989 & 2019

Percent of Families with Loans, Median Amount Owed (2019 Dollars)



Source: Federal Reserve, Survey of Consumer Finance, Interactive Bulletin.

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A growing share of families in all income categories take on debt, with growth particularly pronounced among middle class

The chart below shows family student loan debt by income percentile. We can see that for every segment of the income spectrum, from the poor to the very rich, a greater percentage of families have outstanding student loans today than in 1989. However, the change is most pronounced for the groups many people might lump together as the "middle class," the 40th to 89th percentiles. 25% of families in the 40-59.9 percentile group now have student loan debt compared to less than 8% in 1989. The percentage of families with student loan balances is 27% for both the 60-79.9 and 80-89.9 percentile groups. While in 1989 the median amount borrowed for the wealthiest income groups was less than that of the truly middle class (40-59.9 percentile), today it is the opposite. This is likely the result of the changing composition of jobs in the economy combined with increased educational expectations of employers and the greater seeking of graduate and professional degrees from people looking to fulfill those new requirements.

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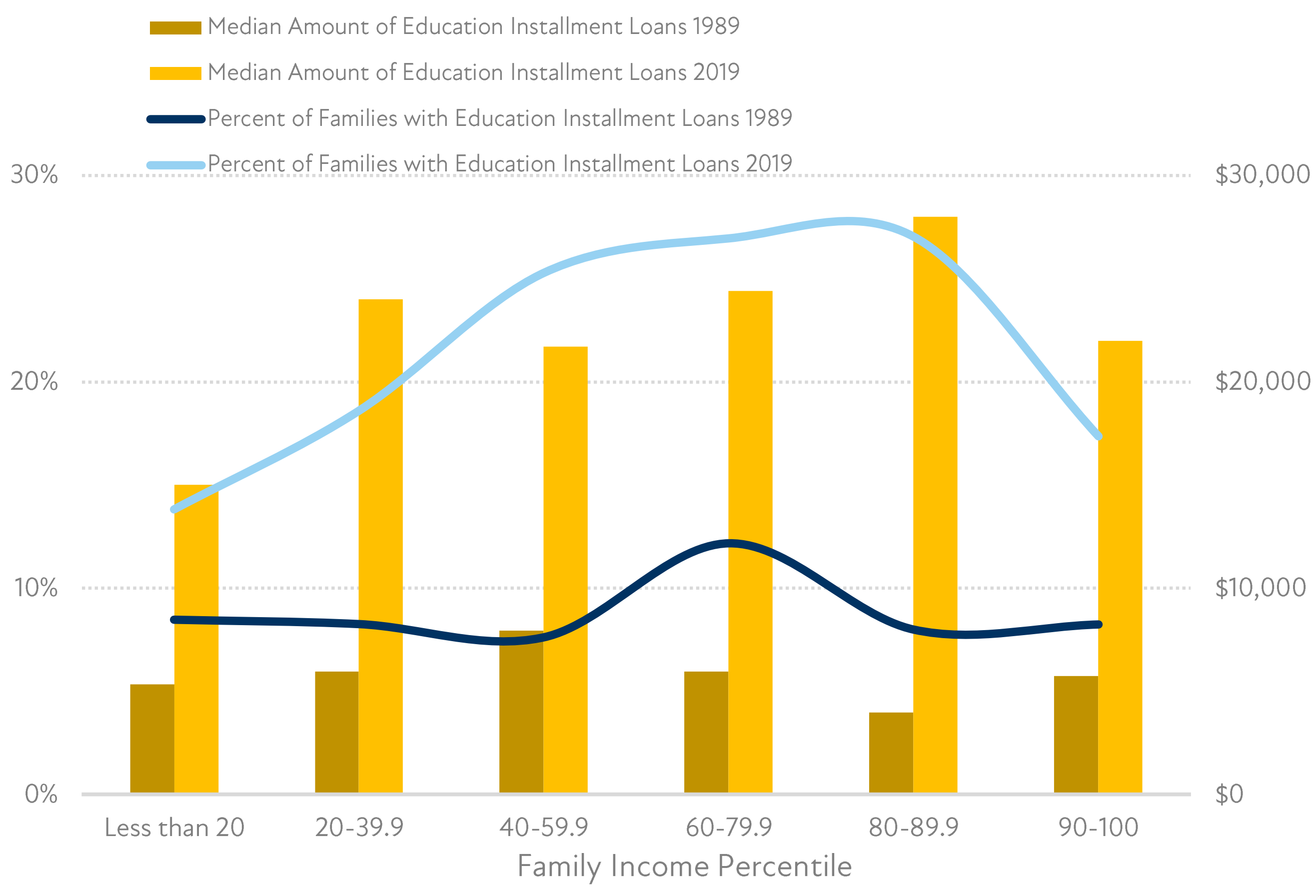
Education Installment Loans by Family Income Percentile, Percent of Families with Loans, Median Amount Owed

1989 & 2019 (2019 Dollars)



Source: Federal Reserve, Survey of Consumer Finance, Interactive Bulletin.

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The next chart breaks down student loan debt by percentile of family net worth. Here we see some very big differences between families. It's clear that families with high net worth generally do not need to borrow to finance postsecondary education. The percentage of families in the top percentile of net worth who had student loan debt in 1989 was about 3.5%. It is less than 6% today. When they do borrow, the median amount is not any different than it is for the net worth group right in the middle of the spectrum. This is likely due to there being limited movement of families into or out of that level of net worth. If there were, then we would see a much greater increase in borrowers from 1989 to 2019 in that highest net worth group, since young people from families with much less net worth who need to borrow more, but who still owed some debt,

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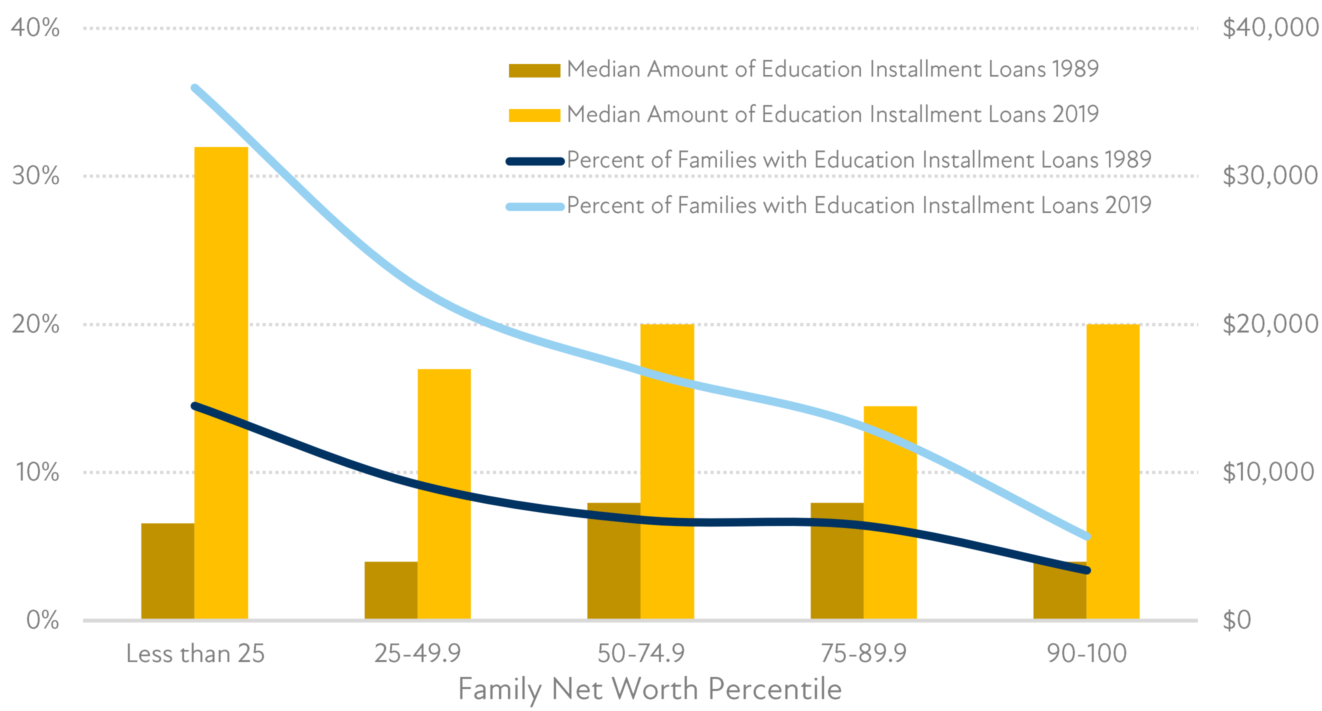
would show up in the upper two percentile ranges in greater numbers, and increase the indebtedness figures for those higher net worth groups.

In 1989, families in the bottom quartile of net worth were 4.2 times more likely to have student loan balances, but in 2019 those families were 6.3 times more likely to be carrying student loan debt. And when they did, they were borrowing a lot more than they used to, a median of $32,000 in 2019 versus $6,500 in 1989, and a lot more than wealthier families (medians of $20,000 or less). It is likely that student loan debt is both a result of low net worth and a cause of it.

Education Installment Loans by Family Net Worth Percentile, Percent of Families with Loans, Median Amount Owed



Source: Federal Reserve, Survey of Consumer Finance, Interactive Bulletin.

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We can see the effect of net worth in the following chart that breaks down the data by race and ethnicity. Black, non-Hispanic Americans, who tend to have much less net worth than white Americans now borrow for postsecondary education at much greater rates than the other groups of people in the Federal Reserve survey (non-Hispanic white people, Hispanic people and a category for everybody else).[2] Since the median amount borrowed by Black, non-Hispanic people was much less than the median of the other groups of people in 1989, it is likely they were attending cheaper schools, perhaps more two-year colleges than members of the other groups. The 2019 data likely reflect real improvement in the educational attainment of Black, non-Hispanic people, but because of low family net worth they must borrow significantly more often and in greater amounts.

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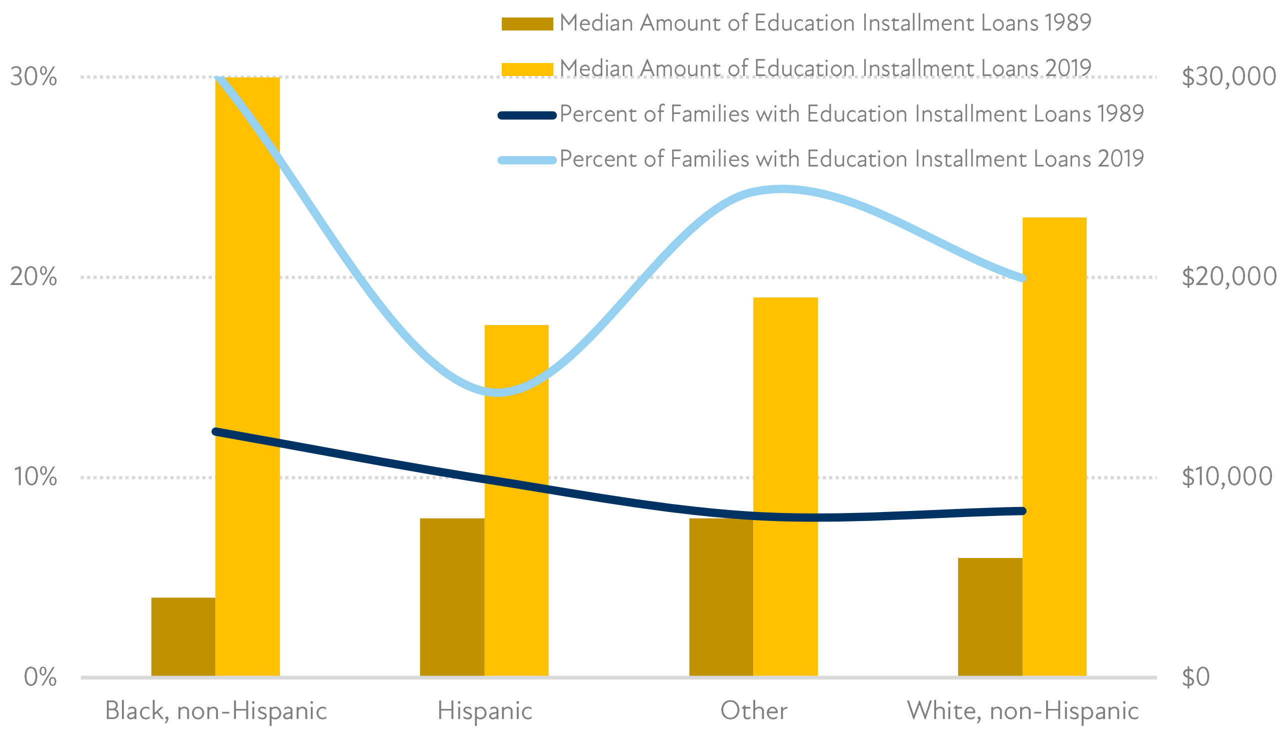
Education Installment Loans by Race or Ethnicity, Percent of Families with Loans, Median Amount Owed

1989 & 2019 (2019 Dollars)



Source: Federal Reserve, Survey of Consumer Finance, Interactive Bulletin.

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Current Kentucky loans

The U.S. Department of Education student loan portfolio database breaks down the location of student loan borrowers by state. The table below shows the number of borrowers living in Kentucky at the end of third quarter 2020, with their total loan balances still outstanding. While there are many private and quasi-governmental loan servicers, all of the Direct Loans and many of the FFEL program loans are federally managed, and servicers are required to periodically report the location of borrowers. The exception is for FFEL loans made by commercial lenders. They make up 6.9% of the overall $1.56 trillion federal student loan portfolio (and 9.9% of the borrowers), and we have assumed the distribution is the same as the rest of the portfolio in order to give the most complete picture of the current situation.

Around 616,000 Kentucky residents have outstanding federal student loans. Roughly 18% of all Kentuckians over the age of 18 have an outstanding federal student loan balance. This is slightly higher than the national percentage of borrowers. The total remaining principal and interest balance on those loans is $20.5 billion, roughly $33,300 per borrower. The Direct Loan program, which began in 2006, accounts for $16.9 billion of the total debt. 20% of borrowers, covering 32% of the debt, are on income-driven repayment plans. These are repayment plans that cap the monthly payment at 10% or 15% of the borrower's gross or discretionary income. Those borrowers have an average balance of more than $53,000, so their payments without a cap might be quite high. For example, the monthly payment on $53,000 loan with a 10-year term at 5% interest would be $562 per month.

Kentucky Resident Federal Student Loans

Includes outstanding principal and interest balances, as of Sept. 30, 2020

	Balance (in billions)	Borrowers (in thousands)	Average Balance
Total Loans	$20.5	615.6	$33,324
Direct Loans only	$16.9	544.2	$31,055
Income-Driven Repayment Plan	$6.7	126.1	$53,132

Source: U.S. Department of Education, Enterprise Data Warehouse.

Location summary data includes Direct Loan, Federal Family Education Loan, and Perkins Loan borrowers in an Open loan status. Interest on School-Held Perkins Loans is not included in the balances.

The location of the borrower reported by the servicer. Current address is not required to be reported to the U.S. Department of Education by commercial lenders (FFEL or Perkins). These loans are included within the "Not Reported" Category, and make up 6.9% of the national portfolio (and 9.9% of the borrowers nationally). We have adjusted the total loans line assuming the national distribution of commercial loans is the same as government held loans.

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The next table shows the distribution of Kentucky resident borrowers by the size of their current loan balance. We can see that most borrowers owe less than $50,000. The median amount owed is around $18,000, and 53.5% owe less than $20,000. Still, there are more than 125,000 Kentucky residents who owe more than $50,000 in federal student loan debt.

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Kentucky Resident Student Loan Debt By Size

Data as of Sept. 30, 2020

Total Debt	Dollars Outstanding (in billions)	Borrowers (in thousands)	Percent of Borrowers
Less than 5K	$0.31	109.0	17.7%
5K to 10K	$0.78	100.4	16.3%
10K to 20K	$1.83	120.2	19.5%
20K to 40K	$3.97	132.8	21.6%
40K to 60K	$3.18	62.1	10.1%
60K to 80K	$2.65	37.2	6.0%
80K to 100K	$1.76	19.1	3.1%
100K to 200K	$3.73	26.7	4.3%
200K+	$2.29	8.1	1.3%
Total Loan Portfolio	**$20.52**	**615.6**	
Less than 50K	$8.15	489.8	79.6%
More than 50K	$12.37	125.8	20.4%

Source: U.S. Department of Education, Enterprise Data Warehouse.

The location of the borrower reported by the servicer. Current address is not required to be reported to the U.S. Department of Education by commercial lenders (FFEL or Perkins). We have adjusted the total loans line assuming the national distribution of commercial loans is the same as government held loans.

Totals may differ slightly from total loans in first table due to rounding in original data.

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The table below shows the distribution of Kentucky borrowers by age group.[3] Two-thirds of borrowers are between the ages of 25 and 49, which are the prime working age groups. The average balance is highest for the 35 to 49 age group. This is the group that has most likely both finished its education and not had enough time in repayment to significantly lower their outstanding loan balances. It is very probable that quite a few borrowers in the 25 to 34 age group will receive more federal student loans in the future, as they either finish undergraduate degrees or attend graduate or professional degree programs. Although there are only about 20,000 such borrowers, there are Kentuckians beyond or near retirement age who owe an average of $38,000 in federal student loans. It is likely that a significant portion of them are parents who borrowed to support the education of one or more children.

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Kentucky Resident Federal Student Loans by Borrower Age

Includes outstanding principal and interest balances, data as of Sept. 30, 2020

Age	Dollars Outstanding (in billions)	Borrowers (in thousands)	Average Balance	Percent of Borrowers
24 or Younger	$1.54	107.5	$14,320	17.5%
25 to 34	$6.73	208.8	$32,221	33.9%
35 to 49	$8.52	203.7	$41,831	33.1%
50 to 61	$2.99	76.2	$39,217	12.4%
62 and Older	$0.74	19.5	$37,976	3.2%
Total Loan Portfolio	**$20.52**	**615.6**	**$33,324**	

Source: U.S. Department of Education, Enterprise Data Warehouse.

The location of the borrower reported by the servicer. Current address is not required to be reported to the U.S. Department of Education by commercial lenders (FFEL or Perkins). We have adjusted the total loans line assuming the national distribution of commercial loans is the same as government held loans.

Totals may differ slightly from total loans in first table due to rounding in original data.

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The next table uses the previous two and the national distribution of outstanding loan balances by age and debt level to estimate the percentage of Kentucky borrowers falling into each age and debt level combination. While nearly three-fourths of the youngest borrowers owe less than $20,000, the median owed for borrowers aged 35 to 61 is around $23,000. These results align very closely to the national data from the Federal Reserve Survey of Consumer Finance presented above, with the Kentucky medians and averages borrowed just slightly below the national figures.

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Kentucky Resident Federal Student Loans by Borrower Age and Debt Size

Includes outstanding principal and interest balances, as of Sept. 30, 2020

	Percent of Borrowers in Each Age Group				
Debt Size	24 or Younger	25 to 34	35 to 49	50 to 61	62 and Older
Less than 5K	24.3%	16.3%	15.4%	17.1%	22.0%
5K to 10K	25.6%	15.2%	13.2%	14.7%	16.0%
10K to 20K	23.9%	20.6%	17.2%	17.4%	17.4%
20K to 40K	22.3%	23.9%	20.3%	18.7%	17.2%
40K to 60K	2.6%	11.1%	12.6%	11.1%	9.7%
60K to 80K	0.7%	5.8%	8.6%	7.5%	6.2%
80K to 100K	0.3%	2.3%	4.8%	4.7%	3.7%
100K to 200K	0.4%	3.4%	6.2%	7.0%	6.0%
200K+	0.0%	1.4%	1.7%	1.8%	1.7%
Less than 50K	97.7%	81.4%	70.8%	73.5%	76.1%
More than 50K	2.3%	18.6%	21.3%	26.5%	23.9%

Source: U.S. Department of Education, Enterprise Data Warehouse.

The location of the borrower reported by the servicer. Current address is not required to be reported to the U.S. Department of Education by commercial lenders (FFEL or Perkins). We have adjusted the total loans line assuming the national distribution of commercial loans is the same as government held loans.

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Recent Kentucky borrowers

We received aggregate data from the Kentucky Center for Statistics on recent federal student loan borrowing by students at Kentucky's two- and four-year public colleges and universities. The individual-level data used was supplied to the Kentucky Center for Statistics by the Council on Postsecondary Education and the Kentucky Education and Workforce Development Cabinet. The data is based on people who began their postsecondary schooling during AY 2011-12 or later, were never enrolled in an Association of Independent Kentucky Colleges and Universities (AIKCU) institution, were no longer enrolled during AY 2018-19, and worked in Kentucky during 2019 and 2020. Approximately 700,000 people enrolled in a Kentucky public or private postsecondary institution during those years, and 400,000 of them worked in Kentucky during 2019-20. 350,000 attended only public institutions. Approximately 223,000 were not enrolled during AY 2018-19.

The reason for stipulating that the data include only those who worked in Kentucky during the last year is so we would have recent annual income. We have sex, age, race and ethnicity, educational attainment, income, and federal Pell Grant and student loan information for undergraduate students who either first attended college during AY 2011-12 or later, or returned to school after at least a year away. Because they were not enrolled after AY 2017-18. their loans would normally be subject to repayment during the time their income data is collected. These are mostly young people, along with some older adult learners either returning to school or getting a delayed start at postsecondary education. As such, loan balances and incomes represent the situations of the most recent college enrollees without mixing in mid-career professionals and others who receive federal student loans for graduate school, or parental loans supporting children.

The table below summarizes the data by sex, race and ethnicity, age, educational attainment, 2020 income, and the type of public college or university last attended. Our sample is 56% women, a couple of percentage points above the national college-going average. The women do receive more aid, both in the form of grants and loans, than the men, and owe about $800 more, on average, in federal student loans than the men do.

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Current Kentucky Residents Who Attended Kentucky Public Postsecondary Institititions as Undergraduates 2011-2018

Federal Pell Grant and Student Loan Statistics

		Federal Pell Grants		Federal Need Loans		Federal Non-Need Loans			
	Universe Count	Percent Receiving Federal Pell Grants	Total Pell Grants, Median	Percent Receiving Federal Need Loans	Total Loans, Median	Percent Receiving Federal Non-Need Loans	Total Loans, Median	Percent Receiving Federal Loans	Average Federal Loans
All Students	**223,457**	**62.2%**	**$5,550**	**46.4%**	**$5,723**	**47.7%**	**$5,474**	**52.7%**	**$15,030**
Female	125,207	66.8%	$5,645	49.7%	$5,938	51.1%	$5,842	56.5%	$15,358
Male	98,250	56.2%	$5,100	42.3%	$5,444	43.3%	$5,199	48.0%	$14,538
Race and Ethnicity									
All Other, Non-Hispanic	8,314	62.6%	$5,645	43.4%	$5,853	45.0%	$5,690	49.7%	$15,413
Black, Non-Hispanic	25,415	77.4%	$5,053	57.4%	$5,058	59.6%	$4,914	63.6%	$14,083
Hispanic or Latino, Regardless of Race	11,304	62.6%	$5,014	41.8%	$4,966	43.1%	$5,084	48.0%	$12,896
White, Non-Hispanic	178,424	59.9%	$5,550	45.3%	$5,936	46.4%	$5,690	51.6%	$15,304
Age									
18-24	45,744	57.9%	$4,595	35.6%	$4,311	35.9%	$3,464	42.1%	$11,554
25-34	118,272	62.9%	$5,550	48.5%	$5,741	50.1%	$5,970	55.4%	$15,793
35-44	35,242	69.0%	$5,551	54.9%	$6,061	56.1%	$6,231	60.1%	$15,311
45-54	17,242	61.5%	$5,641	48.1%	$6,717	49.3%	$6,928	52.8%	$16,071
55-64	6,163	45.7%	$5,550	36.7%	$6,717	37.5%	$6,679	41.2%	$15,562
65+	794	40.3%	$5,550	32.6%	$6,968	32.0%	$7,312	35.8%	$15,939
Educational Attainment									
Some College, No Degree	138,918	63.9%	$4,162	42.1%	$3,486	43.5%	$3,466	48.6%	$9,756
Certificate or Diploma	15,964	67.8%	$7,632	42.6%	$5,627	45.0%	$5,876	49.3%	$12,424
Associate	27,664	69.0%	$10,995	50.9%	$7,968	53.2%	$8,436	58.0%	$17,071
Bachelor or Higher	40,911	49.3%	$12,558	59.5%	$13,737	59.3%	$13,247	64.5%	$28,055
Total Income, 2020									
$0-$30,000	123,401	68.8%	$5,146	46.2%	$4,895	47.9%	$4,614	52.8%	$13,193
$30,001-$48,000	56,363	59.5%	$5,773	48.4%	$6,660	49.3%	$6,680	54.6%	$16,767
$48,001-$75,000	33,330	50.1%	$6,244	46.3%	$7,544	46.9%	$7,792	52.0%	$18,014
$75,001-$110,000	8,364	38.0%	$6,696	39.9%	$8,380	40.7%	$8,165	45.0%	$18,429
$110,000+	1,999	27.5%	$6,552	33.4%	$7,962	33.5%	$8,130	37.6%	$17,392
School Type									
Comprehensive	50,012	59.2%	$7,300	64.2%	$8,908	64.4%	$8,395	72.0%	$20,167
KCTCS	147,440	66.5%	$4,857	39.1%	$4,262	41.0%	$4,385	44.9%	$10,521
Research	26,005	43.1%	$8,373	54.1%	$9,440	53.4%	$9,631	60.3%	$22,247

Source: Kentucky Center for Statistics, from data supplied by Council on Postsecondary Education and Kentucky Education and Workforce Development Cabinet.

To be exact, the data is based on people who began their postsecondary schooling during AY 2010-11 or later, were never enrolled in an AIKCU institution, were no longer enrolled during AY 2018-19, and worked in Kentucky during 2019 and 2020. Approximately 700,000 people enrolled in a Kentucky public or private postsecondary institution during those years (who were Freshmen during AY 2010-11 or later). 400,000 of them worked in Kentucky during 2019-20. 350,000 attended only public institutions. Approximately 225,000 were not enrolled during AY 2018-19.

The loans represented in the table are nearly all for undergraduate education.

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About 80% of the students identified as non-Hispanic white, and 11% as non-Hispanic Black.[4] Students identifying as Hispanic or Latino make up 5% of the students, and all other students comprised just under 4% of the students. Black students received Pell Grants and took out student loans significantly more often than the other categories of students, but did not have larger median Pell Grant or student loan amounts than the other groups of students.

About 73% of the students are now under the age of 35, indicating that most of this data is from people who attended college fairly soon after graduating from high school, with perhaps 25% representing people either returning to school after a hiatus of some years, or attending school for the first time mid-life. All age groups under 55 received Pell Grants at the same rate and for the same amounts. As might be expected, the two older age groups needed loan money less often than the younger students, but when they did borrow it was for the same amounts as the younger groups. The youngest students, under age 25, borrowed less often and for fewer dollars, but this likely simply reflects the fact that many have not finished their schooling yet and may re-enroll later.

About 62% of these students have not received a degree, certificate or diploma from their efforts, while 18% have attained a bachelor's degree or higher. It appears that those students who do attain a bachelor's degree may be coming from better financial circumstances, since they receive Pell Grants significantly less often than the other students (the greater median amount is due to being in school longer). But because those bachelor's degree recipients are attending the more expensive four-year institutions, they receive student loans at a much higher rate than the other students and borrow significantly more money, owing an average of $28,000. In general, the average amount borrowed goes up as the credential received gets higher.

Over half of the former students had 2020 incomes under $30,000, with a quarter more between $30,000 and $48,000. Only 4.6% of these former students had incomes above $75,000. This likely reflects both the youth and early career status of most of the people and the overall lack of degree attainment. In general, the percentages that received Pell Grants and federal loans decrease with current income, indicating that it reflects to some degree the economic backgrounds of the students before attending postsecondary school.

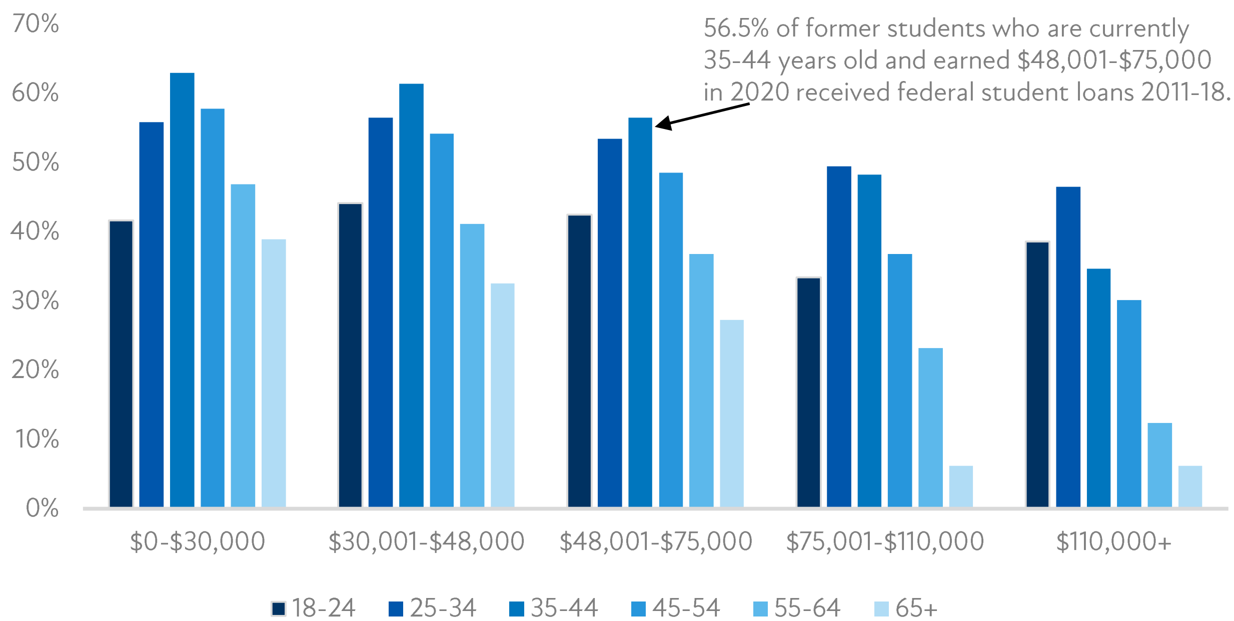
There is a similar dynamic among the type of schools. Both the comprehensive and research schools (University of Kentucky and University of Louisville) are four-year universities, but students who attend the former receive Pell Grants and federal student loans at much higher rates than the research school students.

Federal student loans by age and 2020 income

The next three charts graphically show the breakdown of federal student loans by age and 2020 income. In the first chart we can see that, for those age 35 and older, the percentage of students who received federal loans drops as 2020 income increases. This suggests a bit of income stickiness. In other words, students from more financially advantaged backgrounds need less financial aid and also have better future prospects simply because of their background. But the two youngest age groups do not follow this pattern, suggesting a greater degree of income mobility.

Current Kentucky Residents Who Attended Kentucky Public Postsecondary Instititions, Percent Receiving Federal Student Loans, by Age and 2020 Income

2011-2018



Source: Kentucky Center for Statistics, from data supplied by Council on Postsecondary Education and Kentucky Education and Workforce Development Cabinet.

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The next chart shows that for each age group, most of the people who received federal student loans still earned less than $30,000 in 2020. There was no age group where more than 7% of the students who received federal student loans went on to have a 2020 income above $75,000.

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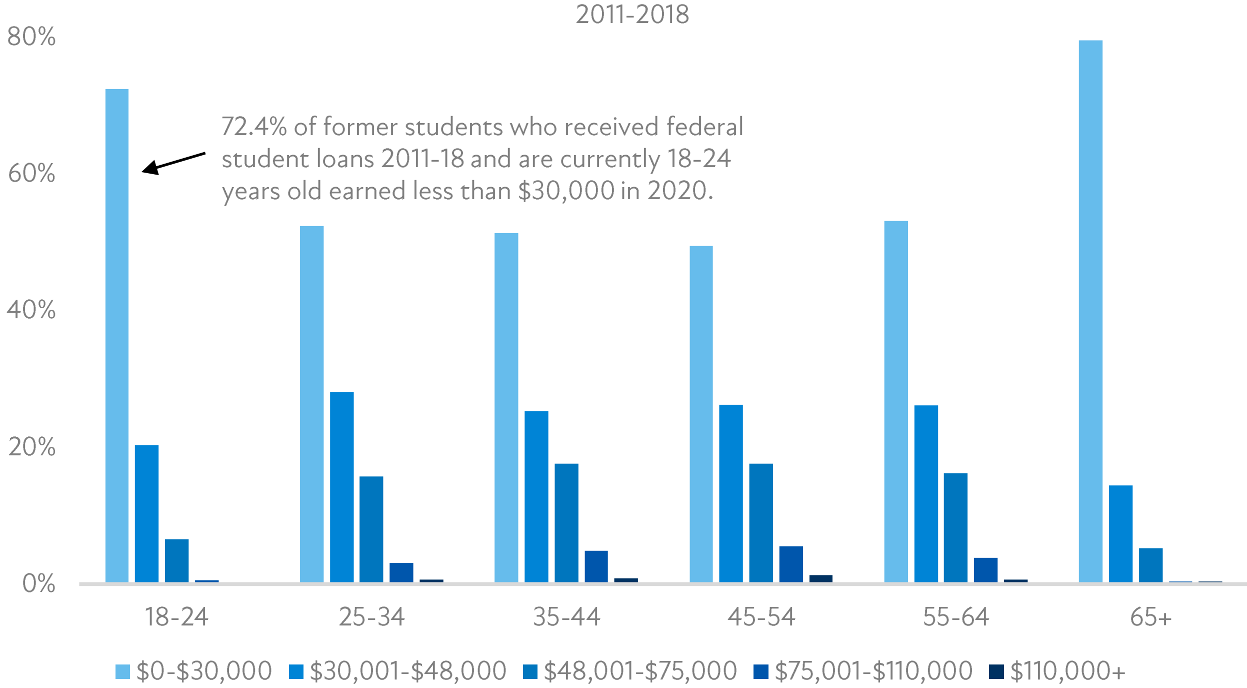
Distribution of Current Kentucky Residents Who Attended Kentucky Public Postsecondary Instititions and Received Federal Student Loans, by Age and 2020 Income

2011-2018



Source: Kentucky Center for Statistics, from data supplied by Council on Postsecondary Education and Kentucky Education and Workforce Development Cabinet.

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The final age and income chart shows that, in general, the people that have the lowest current income also borrowed the least amount of money. For people between the ages of 25 and 64, the average amount borrowed was about the same regardless of current income. This suggests that "return on investment" is somewhat random. This is likely due to personal choices of major and career path. The outlier in the chart is upper income people of retirement age who borrowed much more money when they went back to school. There are only 87 such people in the entire sample, but their strategy seems to have worked.

Federal student loans by race and 2020 income

The next three charts graphically show the breakdown of federal student loans by race and ethnicity and 2020 income. In the first chart we see that, except for the highest current income group, the percent of Black students receiving federal student loans was much greater (generally in the range of 62%-67% versus 44%-53% for the other race and ethnic groups). This suggests that while Black students may start off with greater financial needs, they may experience more income mobility than the other groups through education.

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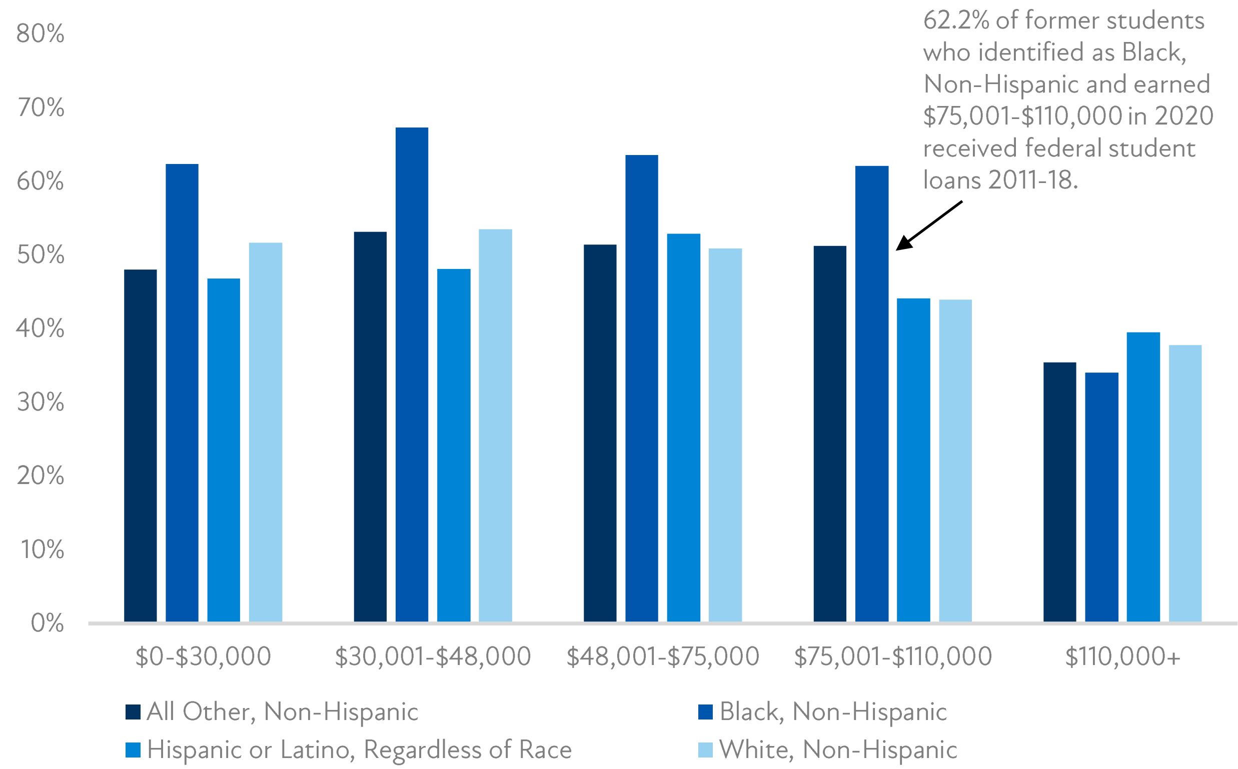
Current Kentucky Residents Who Attended Kentucky Public Postsecondary Instititions, Percent Receiving Federal Student Loans, by Race and Ethnicity and 2020 Income

2011-2018



Source: Kentucky Center for Statistics, from data supplied by Council on Postsecondary Education and Kentucky Education and Workforce Development Cabinet.

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However, the next chart shows that a higher percentage of Black students who received federal student loans earned less than $30,000 in 2020 than did so for any other race or ethnic group. Only 10.6% of Black former students who received student loan aid earned more than $48,000 in 2020. For the other groups of former students, the number was between 18 and 21%. In light of this, the previous chart can be interpreted as saying that there are not many Black former students who earned between $48,000 and $110,000 in 2020, but their financial needs when they were students were comparable to those of the vast majority earning much less money.

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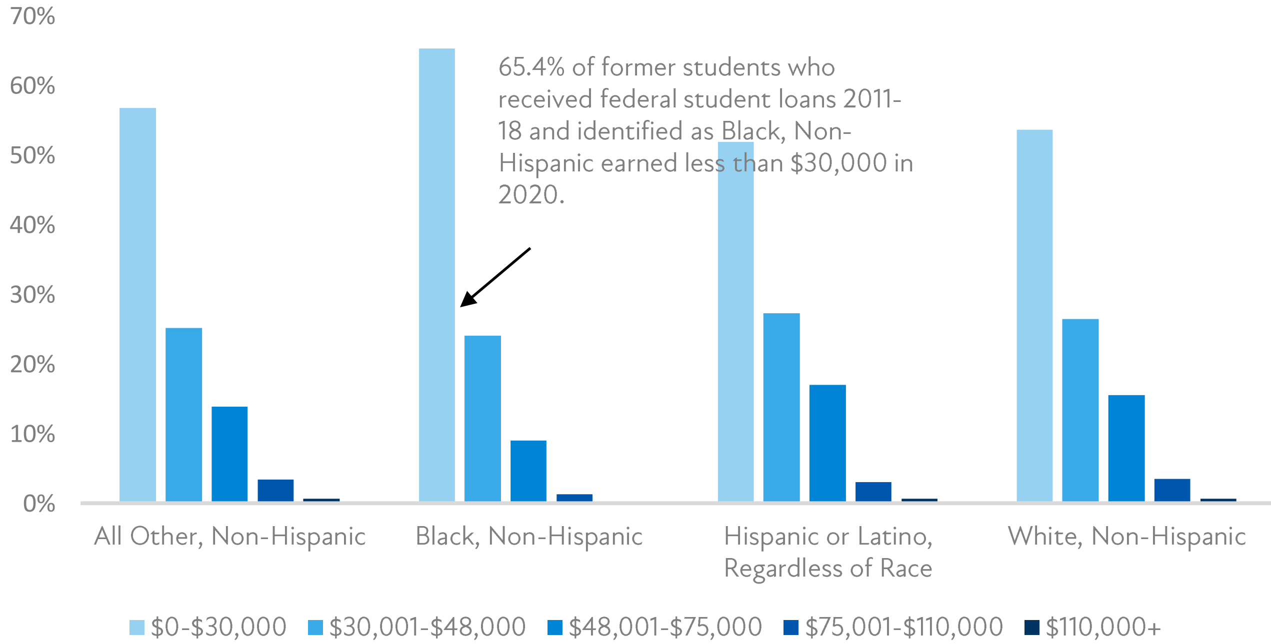
Distribution of Current Kentucky Residents Who Attended Kentucky Public Postsecondary Institititions and Received Federal Student Loans, by Race and Ethnicity and 2020 Income

2011-2018



Source: Kentucky Center for Statistics, from data supplied by Council on Postsecondary Education and Kentucky Education and Workforce Development Cabinet.

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The final race and ethnicity and income chart shows again that, in general, the people that have the lowest current income also borrowed the least amount of money. The pattern generally holds for each group through the $75,000-$110,000 level that the former students with the higher 2020 incomes borrowed more money as students. This is likely due in part to more education, requiring more borrowing, leading to higher future incomes.

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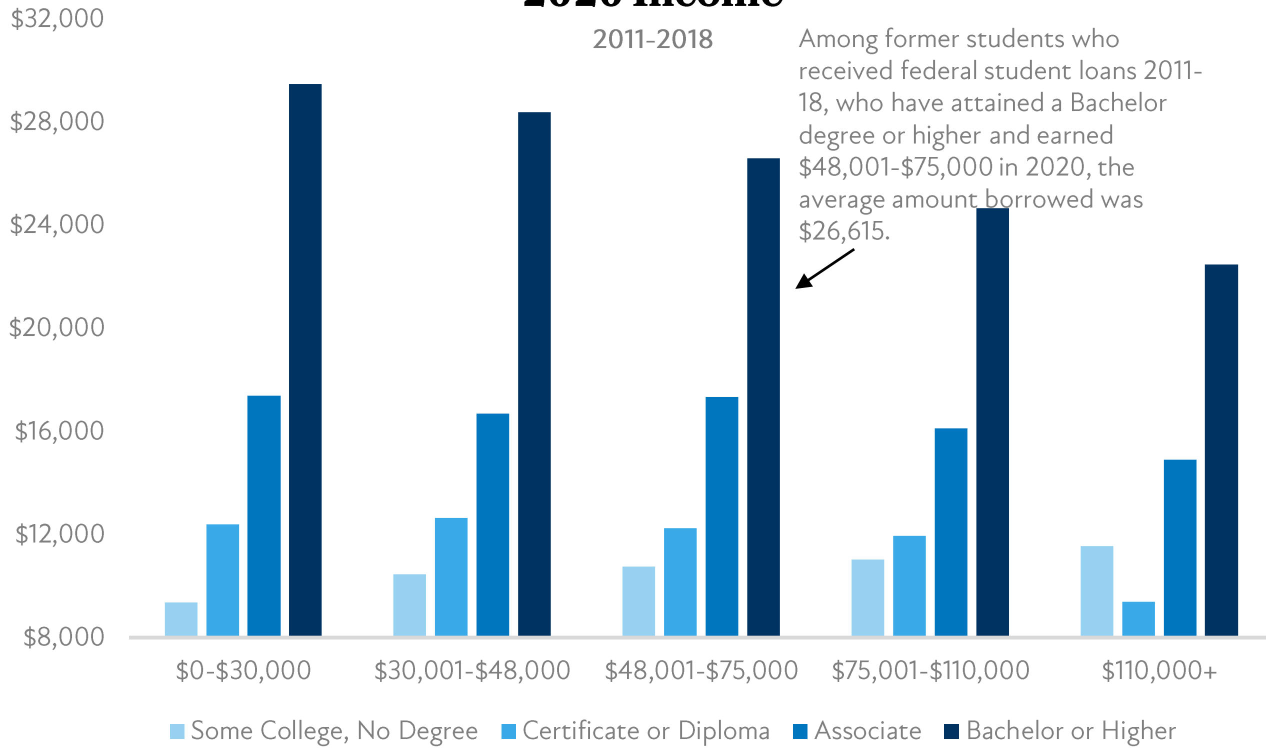
Average Amount of Federal Student Loans of Current Kentucky Residents Who Attended Kentucky Public Postsecondary Instititions, by Educational Attainment and 2020 Income



Source: Kentucky Center for Statistics, from data supplied by Council on Postsecondary Education and Kentucky Education and Workforce Development Cabinet.

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Federal student loans by educational attainment and 2020 income

The following three charts graphically show the breakdown of federal student loans by educational attainment and 2020 income. In some ways, this is a partial look into the short-term "return on investment" that comes with obtaining more education. In general, we find that there is not much of a relationship between the amount of federal student loan borrowing and 2020 incomes for recent postsecondary students at Kentucky's public colleges and universities. There could be many reasons for this, among them personal career choices and choice of major field of study combined with the marketplace of available jobs. It does make clear, however, that debt burden from federal student loans for these recent students can vary widely, even among similar peers. Although the group skews young (73% under age 35) and their incomes may increase over their careers, 80% of them earned less than $48,000 in 2020, and their average loan balances were not much lower than their higher earning peers.

In the first chart we see that the general pattern is that former students with higher current incomes borrowed less often regardless of the educational level they ultimately achieved. For people who achieved the two lower levels of educational attainment, the drop in the percentage who received federal student loans above a 2020 income of $48,000 was the steepest. For those former students who did not earn a degree, certificate or diploma, the share receiving student loans was 43% of those who had 2020 incomes in the $48,000 to $75,000 range, but just 31% of those with current incomes between $75,000 and $110,000. For those former students who attained a certificate or diploma the drop was from 46% to 37% between those two levels of current income. This suggests that former students with this level of education and higher 2020 incomes were already in a better financial position while attending school.

The bachelor's degree holding group of former students shows a similar dynamic, but the effect begins with the subgroup with current income above $48,000. It suggests that, on average, the former students who earned a bachelor's degree and earned more than $48,000 in 2020 did not start from the same place as those who earned less.

For each eventual level of educational attainment, the percentage of students who needed federal student loans is roughly equal between the under-$30,000 2020 earners and the $30,000-$48,000 earners. This suggests that for each of those subgroups of students there was not much difference between their financial situations as students. They all borrowed at the same higher rate. The associate's degree seems to be associated with the greatest amount of income mobility. Current earners up through the $48,000-$75,000 income category all borrowed at the same high rate, and the rate of borrowing remains relatively high in the upper 2020 income categories.

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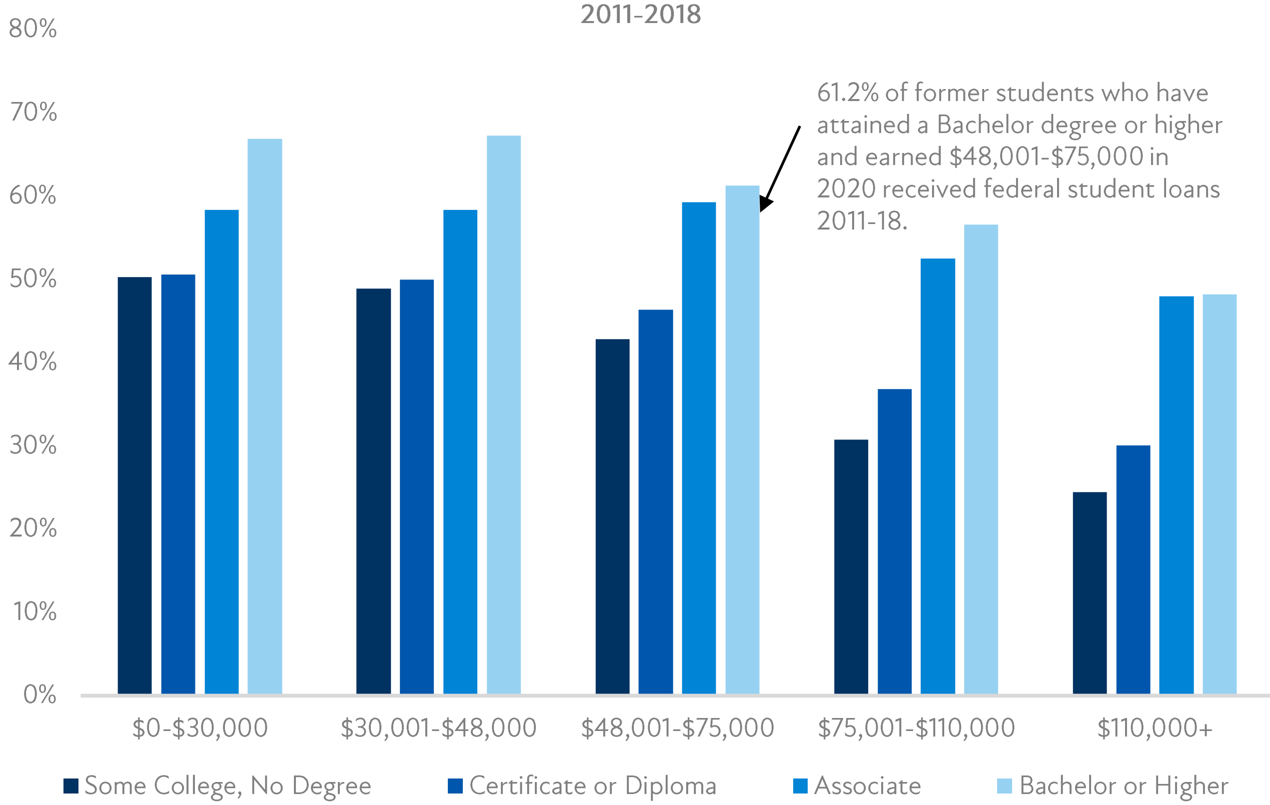
Current Kentucky Residents Who Attended Kentucky Public Postsecondary Instititions, Percent Receiving Federal Student Loans by Educational Attainment and 2020 Income

2011-2018



Source: Kentucky Center for Statistics, from data supplied by Council on Postsecondary Education and Kentucky Education and Workforce Development Cabinet.

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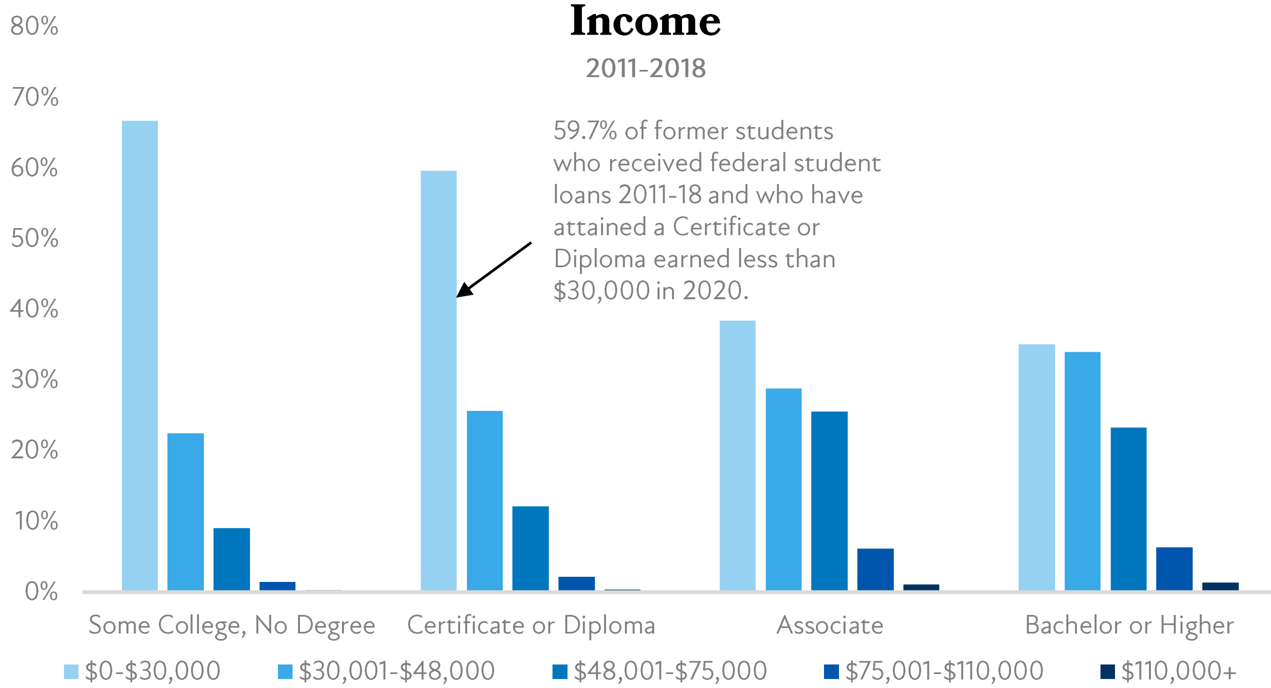
The chart below highlights the large difference in 2020 incomes between former students in the educational attainment subgroups. Two-thirds of former students who received federal student loans earned less than $30,000 in 2020. This compares to 60% for certificate or diploma holders, but just 38% and 35% of former students with an associate's or bachelor's degree. The percentage of former students who took out federal student loans in the lower two educational attainment categories who earned above $48,000 in 2020 is just 11% and 15%, respectively. That percentage for associate's and bachelor's degree holders is about 32%.

Distribution of Current Kentucky Residents Who Attended Kentucky Public Postsecondary Instititions and Received Federal Student Loans, by Educational Attainment and 2020 Income

2011-2018



Source: Kentucky Center for Statistics, from data supplied by Council on Postsecondary Education and Kentucky Education and Workforce Development Cabinet.

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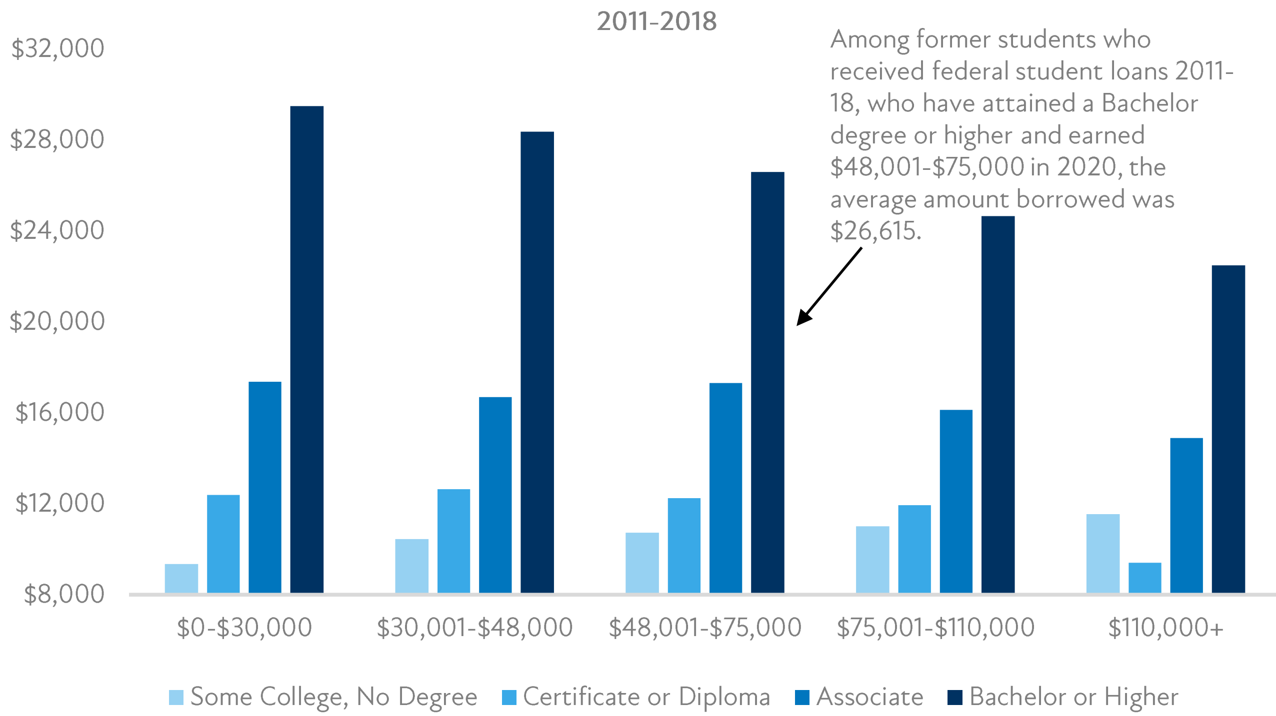
The next chart shows the average amounts borrowed by former students in each 2020 income category broken down by their level of educational attainment. For bachelor's degree holders, we see a familiar pattern. Higher current income seems to be associated with lower borrowing requirements as a student. For associate's degree holders, that pattern only holds for those former students with current income above $75,000. For certificate or diploma holders the pattern only applies to former students with the highest level of current earnings. This could suggest either that "return on investment" is somewhat random, possibly due to personal choices of major and career path, or a greater degree of income mobility.

Former students who did not earn a degree, certificate or diploma actually borrowed more as students the higher their current income. This is likely due to students who have a better financial situation being able to continue schooling for longer before stopping.

Average Amount of Federal Student Loans of Current Kentucky Residents Who Attended Kentucky Public Postsecondary Instititions, by Educational Attainment and 2020 Income



Source: Kentucky Center for Statistics, from data supplied by Council on Postsecondary Education and Kentucky Education and Workforce Development Cabinet.

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The repayment situation

Signs of stress at the national level

The table below shows the status of the entire federal student loan portfolio by quarter during 2020.[5] In-school loans are those for which the borrower is still enrolled at least half-time and the borrower has never had to begin repayment on the loan. All loans have a grace period of six months after the borrower leaves school during which payment is not required. Repayment means that the loan has an active monthly payment due date. Deferment means payment has been postponed because the borrower has gone back to school at least half-time, is in military service, or has a qualifying economic hardship. Payments may also be temporarily suspended or reduced through forbearance. Forbearance is mostly for economic hardship reasons and usually requires administrative review, while deferment is a more automatic process when the borrower meets certain conditions. Loans in default are at least 360 days delinquent in payment.

Presidential executive action and the original coronavirus relief bill (CARES Act) signed into law on March 27, 2020, helped most federal student loan borrowers by temporarily pausing payments and involuntary collections through September 2020. It has since been extended through executive actions through September 2021. For most of 2020, borrowers with federal loans were not required to make payments on those loans, nor did interest accrue on them, per the administrative forbearance. In addition, collections activities such as wage garnishment and the reduction of tax refunds were prohibited, helping student loan borrowers struggling during the COVID-19 pandemic. Nearly $800 billion in loan balances that were previously in repayment were moved into forbearance. The remaining loans in repayment are mostly FFEL program loans held by commercial lenders, which were not covered by the legislation.

Direct & Federal Family Education Loan (FFEL) Portfolio by Loan Status

Includes outstanding principal and interest balances, as of Sept. 30, 2020

Federal Fiscal Year		In-School		Grace		Repayment		Deferment	
		Dollars Outstanding (in billions)	Recipients (in millions)	Dollars Outstanding (in billions)	Recipients (in millions)	Dollars Outstanding (in billions)	Recipients (in millions)	Dollars Outstanding (in billions)	Recipients (in millions)
2020	Q1	$126.1	6.9	$24.4	1.1	$883.0	26.3	$125.3	3.8
2020	Q2	$134.6	6.8	$23.1	1.2	$841.4	24.8	$144.0	4.1
2020	Q3	$109.5	5.9	$36.9	1.5	$106.3	4.6	$119.7	3.5
2020	Q4	$125.0	6.7	$43.8	1.7	$125.6	5.1	$123.0	3.6

Federal Fiscal Year		Forbearance		Cumulative in Default		Other		Total Dollars Outstanding (in billions)
		Dollars Outstanding (in billions)	Recipients (in millions)	Dollars Outstanding (in billions)	Recipients (in millions)	Dollars Outstanding (in billions)	Recipients (in millions)	
2020	Q1	$145.1	3.5	$192.6	9.5	$12.7	0.3	$1,509.2
2020	Q2	$185.2	4.7	$195.8	9.5	$12.9	0.3	$1,537.0
2020	Q3	$962.3	25.9	$192.9	9.3	$11.7	0.3	$1,539.3
2020	Q4	$943.8	25.3	$188.9	9.1	$11.0	0.3	$1,561.1

Source: U.S. Department of Education, National Student Loan Data System (NSLDS)

Changes to borrower accounts as a result of the administration's executive actions, and provisions in the CARES Act, resulted in large shifts in some loan statuses.

In-School: loans that have never entered repayment as a result of the borrower's enrollment in school.

Grace: loans that have entered a six-month grace period after the borrower is no longer enrolled in school at least half-time. Borrowers are not expected to make payments during grace.

Repayment: loans that are in an active repayment status.

Deferment: loans in which payments have been postponed as a result of certain circumstances such as returning to school, military service, or economic hardship.

Forbearance: loans in which payments have been temporary suspended or reduced as a result of certain types of financial hardships.

Cumulative in Default: loans that are more than 360 days delinquent.

Other: loans that are in non-defaulted bankruptcy and in a disability status.

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The table below shows the percentage of dollars outstanding in each of the status categories. Before the pandemic policies about 55% to 58% of loan balances were in repayment. This is the range going back a few years. Roughly 18% of loan balances were either in deferment or forbearance before the pandemic, with 12%-13% of balances in default. We can see that half or more of all loan balances are affected by the CARES Act policies.

Direct & Federal Family Education Loan (FFEL) Portfolio, Loan Status Distribution

Includes outstanding principal and interest balances, as of Sept. 30, 2020

Federal Fiscal Year		Percent of Dollars Outstanding						
		In-School	Grace	Repayment	Deferment	Forbearance	In Default	Other
2020	Q1	8.4%	1.6%	58.5%	8.3%	9.6%	12.8%	0.8%
2020	Q2	8.8%	1.5%	54.7%	9.4%	12.0%	12.7%	0.8%
2020	Q3	7.1%	2.4%	6.9%	7.8%	62.5%	12.5%	0.8%
2020	Q4	8.0%	2.8%	8.0%	7.9%	60.5%	12.1%	0.7%

Source: U.S. Department of Education, National Student Loan Data System (NSLDS)

Changes to borrower accounts as a result of the administration's executive actions, and provisions in the CARES ACT, resulted in large shifts in some loan statuses.

In-School: loans that have never entered repayment as a result of the borrower's enrollment in school.

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Forbearance: loans in which payments have been temporary suspended or reduced as a result of certain types of financial hardships.

Cumulative in Default: loans that are more than 360 days delinquent.

Other: loans that are in non-defaulted bankruptcy and in a disability status.

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The traditional categories — repayment, deferment and forbearance — do not give a good picture of the actual extent of economic hardship or the stress on borrowers. This is because there are several subcategories within each. Repayment is broken down into loans that are current, and those that are delinquent to varying degrees, up to 360 days. Deferments can be granted because a borrower went back to school, is in a new grace period, has military service or is undergoing cancer treatment, among the most common reasons. Likewise, forbearance can be granted for a number of reasons, including gathering paperwork or administrative review, economic hardships and various types of public service or internships.

To get a better sense of the actual overall state of outstanding federal student loans we have organized the balances in the various categories and subcategories of loan status into groupings that more accurately reflect situations in common. First, we have loans for which no payment is required or are current in repayment. Roughly $930 billion in loan balances were in this state prior to the pandemic policy changes. Second, we have loans that have been granted either an administrative, military or other special deferment or forbearance that does not directly indicate economic hardship. Prior to the pandemic, this applied to about $60-$90 billion of debt, but approximately $850 billion has been moved into these classes under the CARES Act. Third, there are loans that have been given deferments or forbearance related to unemployment and other economic hardship. Roughly $100 billion of outstanding debt fell into this category early in 2020. The fourth category is the loans that are in repayment but are 31 to 360 days delinquent. There were over $90 billion of delinquent balances at the beginning of last year. Fifth, defaulted loans total $190 billion. Finally, we have loans in bankruptcy and disability status that are not being paid (but would presumably otherwise be subject to repayment). There are $12 billion of such loans.

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Federally Managed Direct & Federal Family Education Loan (FFEL) Portfolio, by Payment Status

Includes outstanding principal and interest balances, as of Sept. 30, 2020

		No Payment Needed or Current		Administrative, Military or Special Deferment or Forbearance		Economic Hardship Accommodation	
Federal Fiscal Year		Dollars Outstanding (in billions)	Recipients (in millions)	Dollars Outstanding (in billions)	Recipients (in millions)	Dollars Outstanding (in billions)	Recipients (in millions)
2020	Q1	$927.8	28.7	$59.6	1.6	$98.1	2.2
2020	Q2	$936.7	28.6	$98.4	2.9	$100.7	2.2
2020	Q3	$276.0	11.2	$961.3	25.9	$1.5	0.1
2020	Q4	$304.8	12.4	$942.3	25.3	$1.5	0.1

		Delinquent		Defaulted		Other Nonpayment	
Federal Fiscal Year		Dollars Outstanding (in billions)	Recipients (in millions)	Dollars Outstanding (in billions)	Recipients (in millions)	Dollars Outstanding (in billions)	Recipients (in millions)
2020	Q1	$96.9	3.2	$192.6	9.5	$12.7	0.3
2020	Q2	$73.6	1.5	$195.8	9.5	$12.9	0.3
2020	Q3	$0.0	0	$192.9	9.3	$11.7	0.3
2020	Q4	$0.0	0	$188.9	9.1	$11.0	0.3

Source: U.S. Department of Education, National Student Loan Data System (NSLDS)

No Payment Needed or Current: In-school, Grace period, or Current in Repayment.

Administrative, Military or Special Deferment or Forbearance: Military or Other Deferment; Administrative, Mandatory, or Mandatory Administrative Forbearance.

Economic Hardship Accommodation: Unemployment, Economic Hardship or Cancer Treatment Deferment; Discretionary Forbearance.

Delinquent: In Repayment but 31-360 days delinquent or loans transferring to the Debt Management and Collections System.

Defaulted: loans that are more than 360 days delinquent.

Other Nonpayment: loans that are in non-defaulted bankruptcy and in a disability status.

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The table below summarizes this information in terms of problem loan balances. Of the federally managed student loan portfolio, which encompasses 93% of the entire federal student loan program portfolio (there are some FFEL loans managed by commercial lenders and Perkins loans managed by the schools), and 85% of the entire educational loan market (which includes the private installment loans), a very significant portion currently exhibits signs of economic hardship and repayment stress. Prior to the pandemic policies, at least 28% of outstanding balances had either been given economic hardship accommodations, were more than a month delinquent, had already defaulted or were otherwise not in repayment when they should have been. Those distressed loans included about a third of all borrowers.

Federally Managed Student Loan Portfolio

Percent with either Economic Hardship Accommodations, are 31+ Days Delinquent, have Defaulted, or Other Nonpayment

Federal Fiscal Year		Dollars Outstanding	Recipients
2020	Q1	28.8%	33.5%
2020	Q2	27.0%	29.9%
2020	Q3	14.3%	20.7%
2020	Q4	13.9%	20.1%

Source: U.S. Department of Education, National Student Loan Data System (NSLDS)

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We can also see this stress in the types of payment plans borrowers are entering. All loans in repayment, deferment and forbearance are enrolled in a specific repayment plan (a loan cannot be put into deferment or forbearance unless it is already in repayment). There are several plans, but two main types. The first is a level or graduated payment plan, in which payments are either fixed at a particular dollar amount over a period of years (level) or gradually increase over a set period of years and then are fixed for the remaining years (graduated). The second type of payment plan is income dependent. Income dependent plans are based on the borrower's adjusted gross or discretionary income (usually adjusted gross income minus a percentage of the poverty level for a single person), can be adjusted as situations change, and any remaining loan balances can be forgiven after 20 or 25 years of qualifying payments.

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Federally Managed Portfolio by Repayment Plan, Income Dependent versus Level or Graduated Repayment Plans

Includes outstanding principal and interest balances of Direct Loan and ED-held Federal Family Education Loan (FFEL) borrowers in Repayment, Deferment, and Forbearance

Federal Fiscal Year		Level or Graduated Repayment Plan: Dollars Outstanding (in billions)	Recipients (in millions)	Average Balance	Income Dependent Repayment Plan: Dollars Outstanding (in billions)	Recipients (in millions)	Average Balance	Percent of Borrowers in Income Dependent Repayment Plan	Percent of Dollars in Income Dependent Repayment Plan
2020	Q1	$421.1	17.12	$24,597	$558.8	10.07	$55,492	37.0%	57.0%
2020	Q2	$415.0	16.84	$24,644	$573.6	10.28	$55,798	37.9%	58.0%
2020	Q3	$411.8	16.74	$24,600	$579.0	10.36	$55,888	38.2%	58.4%
2020	Q4	$410.4	16.73	$24,531	$582.1	10.42	$55,864	38.4%	58.6%

Source: U.S. Department of Education, National Student Loan Data System (NSLDS)

Level plans have fixed payments over a period of years. Graduated plans have payments that gradually increase over a period of years and then level off for a period of years. Income dependent plans are based on the borrower's adjusted gross or discretionary income and remaining loan balances can be forgiven after 20 or 25 years of qualifying payments.

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From this table we can see that about 38% of borrowers have opted for an income dependent payment plan, which represents 58% of outstanding balances. Presumably, these are loans for which the monthly payment on a standard-level payment plan is too much for the borrower to bear. Indeed, the average balance for the $410 billion worth of loans in a level or graduated payment plan is just $24,500, while the $580 billion of loans in an income dependent plan have an average balance of $55,800. For example, the monthly payment on a $24,500 loan, with 5% interest, over a 10-year payment period is $260 per month. For a $55,800 loan the monthly payment amount would be $592.

There is evidence that these stresses have been building for some time. The chart below shows the percentage of all outstanding federal student loan balances that were officially in default over the last seven years.

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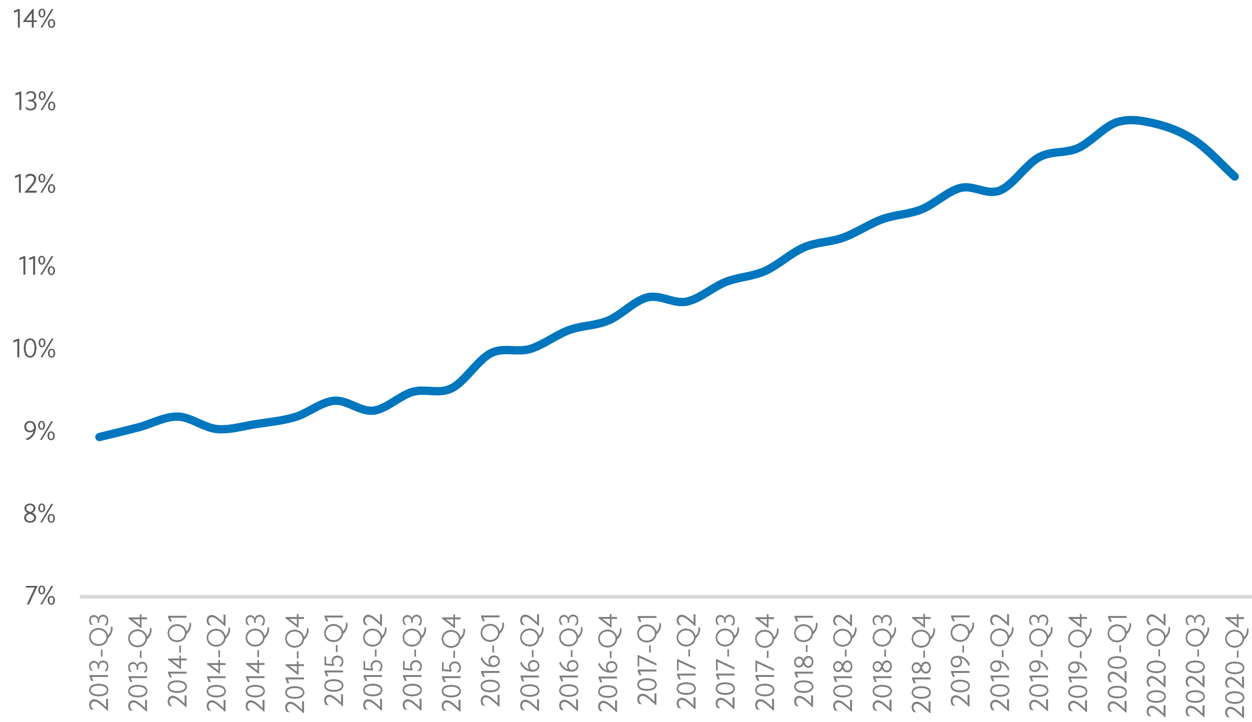
Percent of Outstanding Federal Student Loan Balances in Default

Q3 2013 – Q4 2020 (Federal Fiscal Years)



Source: U.S. Department of Education, Student Loan Portfolio by Loan Status report, as of Sept. 30, 2020.

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The percentage has risen steadily from just under 9% to nearly 13% at the beginning of the pandemic. The chart actually understates the relative growth in defaults. The portfolio of older FFEL loans (which were phased out from 2006 to 2010) has a current default rate of 27%, but as some of those loans are paid off the share of FFEL loans among the entire portfolio drops. When we look only at the Direct loan program, begun in 2006, the default rate has doubled from 5% to 10% of outstanding balances over the last 7 to 8 years, and until the pandemic increased each quarter since 2013.

Repayment and default for recent Kentucky loan borrowers

Unfortunately, we do not have ready access to this level of information for the portfolio of student loans that is the responsibility of Kentucky residents. We do, however, have reports on the default rates among recent students at Kentucky postsecondary institutions and debt-to-earnings ratios for former students in certain degree fields. They paint a picture that is nearly identical to the national one.

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The U.S. Department of Education releases an annual cohort default rate report which shows the number of former students beginning the repayment period for their federal student loans during each fiscal year and the number of those borrowers who have defaulted on their loans within a few years of beginning repayment. Technically, cohorts are defined as borrowers who begin repayment of their loans during the same fiscal year. They do not have to have graduated or have begun receiving loans at the same time. But they all begin the repayment period (they are no longer enrolled and their grace period has ended) during the same fiscal year. The 2017 cohort, for example, consists of all borrowers who began repayment of their loans between October 2016 and the end of September 2017. If a borrower becomes more than 360 days delinquent on a loan before the end of the second fiscal year following the fiscal year in which they began repayment, they are considered in default. The cohort default rate is the percentage of each cohort of former students that is in default on a loan. The numerator in the cohort default rate calculation for the 2017 cohort is the number of 2017 cohort borrowers who were in default at the end of the 2019 fiscal year (Sept. 30, 2019). For previous cohorts, simply adjust those dates back the appropriate number of years.

The chart below shows the number of students who attended Kentucky postsecondary institutions, both public and private, of all types, who began federal loan repayment as part of the 2015, 2016, and 2017 cohorts and the number of those former students in each cohort year who had defaulted on their loans by the end of the second fiscal year following their beginning repayment (Septembers 2017, 2018 and 2019, respectively). The data is based upon where the borrower attended school, not where they currently live, so some members of each cohort no longer live in Kentucky.

We can see that the chart reflects the overall drop in postsecondary enrollment that has occurred since the peak following the Great Recession (there were 9,000 more people in the 2015 cohort than in the 2017 cohort). We see that over the last couple years more than 7,000 former Kentucky students defaulted on their loans within a relatively short period of time of beginning repayment. The cohort default rate for the 2015 cohort was 14% and was 12% for both the 2016 and 2017 cohorts. Nationally, we saw that 12.5 to 13% of the entire portfolio of federal student loans is in default, so this statistic for recent cohorts lines up pretty well. If more members of the cohorts eventually default, and a lesser number of loans are rehabilitated and put back into repayment, the long term picture for recent graduates of Kentucky postsecondary institutions may be greater than a 13% default rate.

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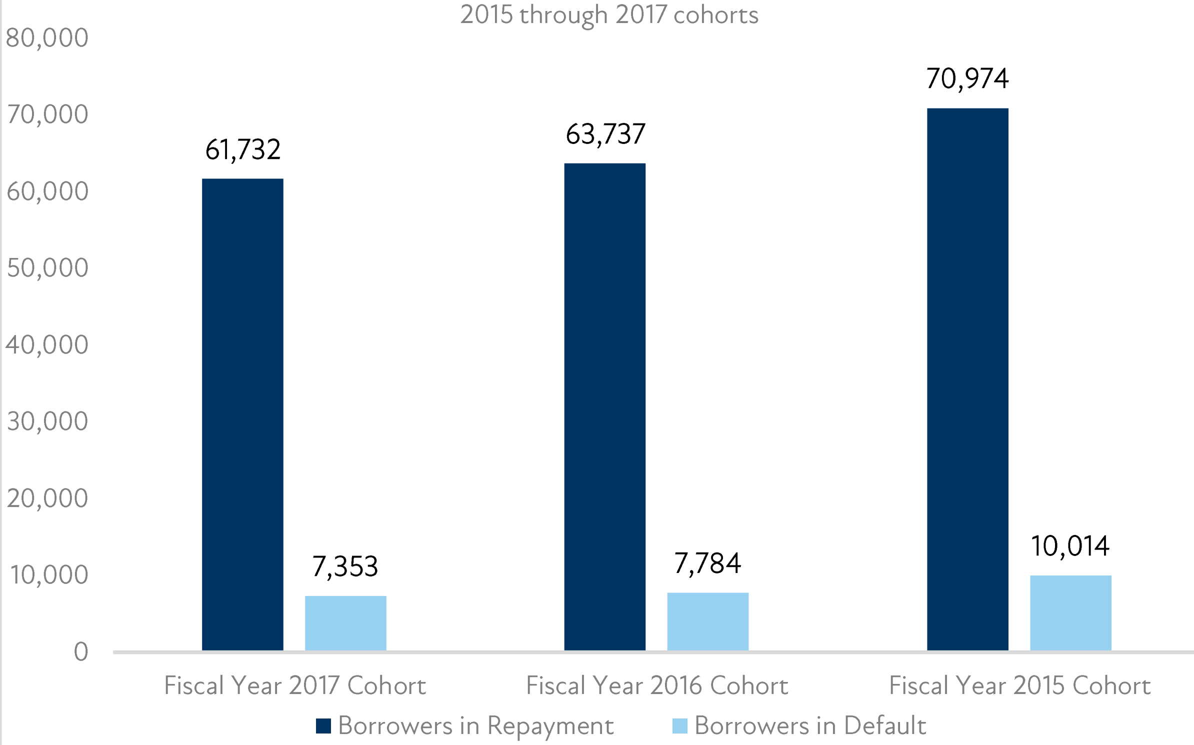
Federal Student Loan Borrowers Beginning Repayment and Default Rates, Kentucky Postsecondary Institutions

2015 through 2017 cohorts



Source: U.S. Department of Education.

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The table below breaks out the cohort default rate statistics by type of institution in two ways. First, by highest credential or degree offered — these are schools that offer just one-year non-degree credentials, at most a two-year non-degree credential, and associate's, bachelor's and graduate degrees. Second, by ownership and nonprofit status — these are schools that are either public nonprofits, private nonprofits or proprietary (private, for-profit ventures). We also break out for the combination of the two categories.

There is quite a bit of stability in cohort default rates from year to year within each subgroup of institution, but quite a bit of difference between types of schools on both dimensions. The cohort default rate is quite a bit higher for Associate degree level institutions (which are almost entirely public two-year colleges) than for the other levels of school. Over the three cohort years, 21% of federal student loan borrowers had defaulted within two years. For that type of institution, Kentucky's two proprietary schools have a cohort default rate (around 15%) consistently lower than their public counterparts.

One- and two-year non-degree-offering institutions in Kentucky have essentially the same cohort default rates, almost 17%, and there is no difference between private nonprofit and proprietary ownership types.

Institutions offering at most a bachelor's degree have an average cohort default rate of just over 12%, which is very consistent across time. There is a big difference among ownership type, however, with the state's private nonprofits, all small liberal arts colleges, having the lowest cohort default rates of any subgroup of school, just under 7%. The proprietary for-profit schools have a default rate similar to the non-degree-offering institutions. The state's public four-year universities and the array of smaller private liberal arts colleges and universities that offer graduate degrees have the same rates of default among their former students, consistently just over 8%. The state's two graduate-degree-offering, proprietary, for-profit schools have a higher cohort default rate (11%), but this rate is still better than all but the state universities and liberal arts colleges and universities (the one with a narrower, career-training focus actually has a default rate comparable to the public universities).

Cohort Default Rates for Kentucky Postsecondary Educational Institutions

Fiscal Years 2015 through 2017 Cohorts

		2015-2017 Cohorts		2017 Cohort		2016 Cohort		2015 Cohort	
	Number of Schools	Borrowers Entering Repayment	Default Rate	Borrowers Entering Repayment	Default Rate	Borrowers Entering Repayment	Default Rate	Borrowers Entering Repayment	Default Rate
All Postsecondary Schools in Kentucky	68	196,443	12.8%	61,732	11.9%	63,737	12.2%	70,974	14.1%
Highest Credential or Degree Offered									
Non-Degree 1 Year (900-1799 hours)	9	1,010	16.7%	415	18.6%	291	16.5%	304	14.5%
Non-Degree 2 Years (1800-2699 hours)	6	2,322	16.8%	650	17.4%	800	18.4%	872	14.9%
Associate's Degree	18	59,711	21.2%	17,119	19.1%	19,160	19.7%	23,432	23.9%
Bachelor's Degree	8	8,233	12.4%	2,486	12.0%	2,620	12.2%	3,127	12.9%
Master's Degree or Doctor's Degree	27	125,167	8.7%	41,062	8.8%	40,866	8.5%	43,239	8.9%
Ownership, Non-Profit Status									
Public	24	138,120	13.8%	42,240	12.4%	44,266	12.9%	51,614	15.6%
Private Non-Profit	24	32,523	8.2%	10,733	8.2%	10,670	8.3%	11,120	8.2%
Proprietary	20	25,800	13.4%	8,759	13.8%	8,801	13.3%	8,240	13.0%
Highest Credential or Degree Offered by Ownership, Non-Profit Status									
Non-Degree 1 Year (900-1799 hrs), Proprietary	9	1,010	16.7%	415	18.6%	291	16.5%	304	14.5%
Non-Degree 2 Years (1800-2699 hours), Private	1	574	19.0%	154	16.9%	188	22.9%	232	17.2%
Non-Degree 2 Years (1800-2699 hrs), Proprietary	5	1,748	16.1%	496	17.5%	612	17.0%	640	14.1%
Associate's Degree, Public	16	55,643	21.6%	15,539	19.2%	17,450	20.2%	22,654	24.3%
Associate's Degree, Proprietary	2	4,068	15.5%	1,580	17.4%	1,710	15.2%	778	12.1%
Bachelor's Degree, Private	6	3,299	6.9%	1,055	7.8%	1,063	6.2%	1,181	6.8%
Bachelor's Degree, Proprietary	2	4,934	16.1%	1,431	15.1%	1,557	16.3%	1,946	16.6%
Master's Degree or Doctor's Degree, Public	8	82,477	8.5%	26,701	8.5%	26,816	8.2%	28,960	8.8%
Master's Degree or Doctor's Degree, Private	17	28,650	8.2%	9,524	8.2%	9,419	8.2%	9,707	8.2%
Master's or Doctor's Degree, Proprietary	2	14,040	11.2%	4,837	11.5%	4,631	10.9%	4,572	11.3%

Source: U.S. Department of Education.

Cohorts are defined as borrowers who begin repayment of their loans during the same fiscal year. The 2017 Cohort consists of all borrowers who began repayment of their loans between October 2016 and the end of September 2017. If a borrower becomes more than 360 days delinquent on a loan before the end of the second fiscal year following the fiscal year they began repayment they are considered in default. The numerator in the Cohort Default Rate calculation for the 2017 Cohort is the number of 2017 Cohort borrowers who were in default at the end of the 2019 fiscal year (September 30, 2019).

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It is clear from the table that if there is a crisis in the manageability of student loan debt that it is largely among those who attended non-degree-offering or at most associate's-degree-offering institutions. However, even among the groups of schools with the lowest cohort default rates, the long-term default rate (beyond the two-year window of these statistics) is likely to be around 10%. Since students at these schools also tend to borrow more money, the percentage of balances potentially in default could be well above the current national figure of roughly 12.5%. Indeed, we saw above the long-term trend of rising default balance percentages.

Since cohort default rates are significantly higher among schools that offer at most an associate's degree compared to those that offer bachelor's or graduate degrees, it is useful to look at U.S. Department of Education reports for curriculum programs that were subject to the "gainful employment rule." The gainful employment rule, effective from 2014 through June 2019, applied to all postsecondary credential and degree programs designed as career programs (and seems likely to be reactivated by the new administration). Most career programs result in either a certificate or associate's degree, so the overlap with institutions that offer at most an associate's degree is substantial. The gainful employment rule required calculation of debt-to-earnings ratios for cohorts of students who completed career programs and graded the programs according to the percentage of the income a typical graduate in the field would earn that was needed to make loan payments. The greater the percentage of income needed for loan payments, the lower the grade.

Kentucky Postsecondary Education Curriculum Programs Subject to the Gainful Employment Rule

Debt-to-Earnings (D/E) Ratios and Program Grades, 2015

Gainful Employment Curriculum Programs	Number of Programs	Median Debt-to-Earnings Annual Income Rate	Pass (D/E Ratio < 8%)	Zone (D/E Ratio 8% - 12%)	Fail (D/E Ratio > 12%)	Median Debt-to-Earnings Discretionary Income Rate	Pass (D/DI Ratio < 20%)	Zone (D/DI Ratio 20% - 30%)	Fail (D/DI Ratio > 30%)
Programs by Certificate or Degree Level									
Undergraduate Certificate	78	1.7%	68	8	2	6.0%	52	7	19
Associates Degree	41	9.3%	15	15	11	24.7%	18	5	18
Bachelors Degree	7	5.9%	4	3	0	11.1%	6	1	0
Masters or Doctoral Degree	5	5.3%	5	0	0	8.8%	5	0	0
Statewide	**131**	**5.5%**	**92**	**26**	**13**	**12.4%**	**81**	**13**	**37**
Programs by General Curriculum Field									
Business Administration and Management	19	4.7%	16	2	1	8.8%	17	1	1
Computer & Info. Sciences and Engineering Tech.	18	6.2%	12	5	1	10.7%	13	3	2
Construction, Mechanical and Building Trades	10	0.6%	8	2	0	1.0%	9	1	0
Child Care and Early Childhood Education	2	6.8%	1	0	1	50.0%	1	0	1
Legal and Criminal Justice	5	11.6%	0	3	2	43.9%	1	0	4
Medical Fields	65	4.7%	48	11	6	16.1%	38	8	19
Personal and Culinary Services	12	8.3%	7	3	2	100.0%	2	0	10

Source: U.S. Department of Education.

The Gainful Employment Rule, effective from 2014 through June, 2019, applied to all postsecondary credential and degree programs designed as career programs. The Debt/Earnings rate is based on the typical loan debt and earnings of a cohort of the program's former students who completed the program, usually those who completed during a two-year period concluding two years prior to the Debt/Earnings rate calculation year. The rule required any program where typical graduates' debts exceed both 8 percent of their total income and 20 percent of discretionary income to improve or lose access to federal financial aid. Programs with higher ratios were put on notice. Failing programs were those where typical graduates' estimated student loan payments exceeded both 12 percent of total income and 30 percent of discretionary income; programs that failed in two out of three years lost eligibility for federal financial aid.

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The debt/earnings rate is based on the typical loan debt and earnings of a cohort of the program's former students who completed the program, usually those who completed during a two-year period concluding two years prior to the debt/earnings rate calculation year (to give time for former students' earnings to ramp up). The rule required any program where typical graduates' debts exceed both 8% of their total income and 20% of discretionary income to improve or lose access to federal financial aid. Programs with higher ratios were put on notice. Failing programs were those where typical graduates' estimated student loan payments exceeded both 12% of total income and 30% of discretionary income. Programs that failed in two out of three years lost eligibility for federal financial aid. Income data by profession is drawn from the Social Security Administration, and debt burden is calculated based on the median debt of the cohort of students with repayment over a fixed 10-year period. Discretionary income subtracts 150% of the federal poverty guideline for a single person household ($17,655 in the table below) from the typical income amount.

The table above shows the gainful employment rule data for Kentucky students who finished their programs during the 2015 academic year. We see that most of the 131 curriculum programs offered at postsecondary institutions in Kentucky resulted in a certificate or associate's degree, and that half of them were in medical fields. Overall, the debt-to-earnings ratios are well below the danger thresholds where it becomes difficult to manage expenses. But the 41 associate's degree programs were collectively above the thresholds for both total income and discretionary income. In fact, less than half of those programs received a passing grade on either measure of debt stress.

Looking at the list broken down by general curriculum field, we see that the issue of too much debt given the potential income arises mostly for some of the programs in the bottom four categories listed: child care and early childhood education; legal and criminal justice; medical fields; and personal and culinary services. For the child care and early childhood education and the personal and culinary services programs, the driving force behind the low scores is the low wages typically earned in the fields. For legal and criminal justice programs the driving force is relatively high levels of debt. In the medical field, most of the programs with high debt-to-earnings ratios are for various types of medical office assistants, as opposed to medical practitioners (though there are some medical practitioner programs, for very routinized work, that have high debt-to-earnings ratios). People attempting to better their long term financial prospects can wind up with untenable levels of debt.

[1] The author of this report attended the second highest cost school in the country at the time, and received the maximum NDSL (Perkins) amount each year, with interest rates of 3%, 4%, 5%, and 5% at a time when 30-year mortgage interest rates varied between 12.2% and 18.6%.
[2] Race and ethnic categories are problematic in that many people feel associations to more than one group of people, "Hispanic" groups together many different subcultures, and some identities are not routinely presented as a survey answer. So, these answers should be taken to be how people self-identified given the choices presented to them.
[3] The totals do not add exactly to the totals shown in the first table of this section due to rounding that occurs in the original Department of Education public data.
[4] Again, race and ethnic categories are problematic in that many people feel associations to more than one group of people, "Hispanic" groups together many different subcultures, and some identities are not routinely presented as a survey answer. So, these answers should be taken to be how people self-identified given the choices presented to them.
[5] Except for $5 billion in the Perkins loan program, which is administered by the fund distributing schools.