

# Data Point: Borrower Experiences on Income-Driven Repayment

The CFPB Office of Research



This is another in an occasional series of publications from the Consumer Financial Protection Bureau’s Office of Research. These publications are intended to further the Bureau’s objective of providing an evidence-based perspective on consumer financial markets, consumer behavior, and regulations to inform the public discourse. See 12 U.S.C. §5493(b).<sup>1</sup>

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# Table of contents

<b>Table of contents.....</b>	<b>2</b>
<b>1. Introduction.....</b>	<b>3</b>
<b>2. Background and data .....</b>	<b>8</b>
2.1 Income-driven repayment.....	9
2.2 Data.....	11
<b>3. Who is on IDR? .....</b>	<b>19</b>
3.1 Summary statistics on IDR borrowers .....	19
3.2 Payments and delinquency on IDR.....	24
<b>4. Initial experience on IDR .....</b>	<b>30</b>
4.1 Differences across total loan balances .....	30
4.2 Differences across payment reduction.....	32
4.3 Delinquencies on other products .....	34
<b>5. Beyond the first year .....</b>	<b>40</b>
5.1 Recertification .....	40
<b>6. Conclusion .....</b>	<b>49</b>

# 1. Introduction

Student loans are now the largest non-mortgage form of debt held by consumers in the U.S., but there remains limited evidence of how this growing debt burden affects the use of other financial products and services.<sup>2</sup> As student loan burdens have grown, the federal government has introduced several income-driven repayment (IDR) plans to reduce financial distress for borrowers by helping them “manage their debt” and by “ensuring borrower protections.”<sup>3</sup> Initial take up of these IDR plans was limited, but IDR use has increased dramatically in recent years and policymakers continue to propose new IDR plans.<sup>4</sup> Understanding how these changes affect consumers across their entire balance sheets is necessary for many stakeholders<sup>5</sup> but is especially important for the CFPB to fulfill part of its mission to anticipate and monitor risks across consumer credit markets and help educate consumers.<sup>6</sup> Other policymakers may find the effect of IDR on consumer balance sheets useful in their own assessments of the benefits and costs of IDR.

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<sup>2</sup> For examples of existing work on these spillover and interaction effects, see Zachary Bleemer, Meta Brown, Donghoon Lee, Katherine Strair, and Wilbert van der Klaauw, “Echoes of Rising Tuition in Students’ Borrowing, Educational Attainment, and Homeownership in Post-Recession America” (July 2017), available at [https://www.newyorkfed.org/research/staff\\_reports/sr820.html](https://www.newyorkfed.org/research/staff_reports/sr820.html); Thomas Conkling and Nicholas Tremper, “Data Point: Final Student Loan Payments and Broader Household Borrowing” (June 2018), available at [https://files.consumerfinance.gov/f/documents/cfpb\\_data-point\\_final-student-loan-payments-household-borrowing.pdf](https://files.consumerfinance.gov/f/documents/cfpb_data-point_final-student-loan-payments-household-borrowing.pdf); and Alvaro Mezza, Daniel Ringo, Shane Sherlund, and Kamila Sommer, “Student Loans and Homeownership” (June 2017), available at <https://doi.org/10.17016/FEDS.2016.010r1>.

<sup>3</sup> See House of Representatives Report No 110-210 (2007) available at <https://www.congress.gov/congressional-report/110th-congress/house-report/210/1>. For additional discussions of the goal of income-driven repayment plans, also see 111<sup>th</sup> Congress Public Law 152 available at <https://www.govtrack.us/congress/bills/113/hr2055>, 2012 White House blog post “Income Based Repayment: Everything You Need to Know” available at <https://obamawhitehouse.archives.gov/the-press-office/2012/06/07/presidential-memorandum-improving-repayment-options-federal-student-loan>, and the U.S. Government Accountability Office’s report “Federal Student Loans: Education Needs to Improve its Income-Driven Repayment Plan Budget Estimates” (September 2016) available at <https://www.gao.gov/assets/690/681064.pdf>.

<sup>4</sup> See, for example, the U.S. Department of Education’s blog post “The President’s Budget: Simplifying Funding for Postsecondary Education” at <https://blog.ed.gov/2017/05/simplifying-funding-for-postsecondary-education-through-the-fy-2018-budget/> and the Institute for College Access and Success’s blog post “Plans to Streamline Income-Driven Repayment Show Both Overlap and Divergence” at <https://icas.org/affordability-2/plans-streamline-income-driven-repayment-show-both-overlap-and-divergence/>, for examples of such proposals.

<sup>5</sup> See, for example, remarks from William Dudley as President of the Federal Reserve Bank of New York at <https://www.newyorkfed.org/news/events/speeches/2017/dud171006> and from Federal Reserve Board President Jerome Powell at <https://www.marketwatch.com/story/new-fed-chair-wonders-why-student-debt-can-t-be-discharged-in-bankruptcy-2018-03-01>.

<sup>6</sup> See the “Bureau of Consumer Financial Protection Strategic Plan: FY 2018-2022” at [https://files.consumerfinance.gov/f/documents/cfpb\\_strategic\\_plan\\_fy2018-fy2022.pdf](https://files.consumerfinance.gov/f/documents/cfpb_strategic_plan_fy2018-fy2022.pdf).

Not much is known about the types of borrowers using IDR plans.<sup>7</sup> Existing research has only been able to consider narrow samples of borrowers, such as those with older loans who are introduced to IDR plans after they fall behind on their loans,<sup>8</sup> or those with student loans in default.<sup>9</sup> Further, different data, samples, and methods highlight different experiences with IDR. For example, aggregated public data from the U.S. Department of Education show that borrowers actively enrolled on an IDR plan have substantially lower delinquency rates than the general student loan borrower population.<sup>10</sup> Other research shows that some borrowers who have enrolled have not successfully remained in good standing on their loans or have not successfully maintained their enrollment.<sup>11</sup> There is also evidence that not all borrowers who might benefit from using IDR have taken advantage of these programs.<sup>12</sup>

This *Data Point* provides new background on which types of student loan borrowers use IDR, how their delinquencies on student loans and other credit products evolve as they transition onto IDR and thereafter, and borrower experiences with the enrollment recertification process. Delinquencies are an important measure of financial distress, as they help capture whether borrowers are falling behind on debt payments or are able to better manage their debts as intended under the IDR program. This research uses the Bureau's Consumer Credit Panel (CCP), which is a panel of a nationally representative 1-in-48 sample of de-identified credit records, to identify and analyze likely IDR borrowers and to provide broader and more

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<sup>7</sup> Data on the reported incomes of IDR borrowers, as well as analyses highlighting potential misreporting of in and family size by borrowers, are provided in the U.S. Government Accountability Office's "Federal Student Loans: Education Needs to Verify Borrowers' Information for Income-Driven Repayment Plans" (June 2019), available at <https://www.gao.gov/assets/700/699968.pdf> (2019 GAO Report).

<sup>8</sup> See Dan Herbst "Liquidity and Insurance in Student Loan Contracts: The Effects of Income-Driven Repayment on Borrower Outcomes," March 2019.

<sup>9</sup> See Holger M. Mueller and Constantine Yannelis, "The rise in student loan defaults," July 2018 in *Journal of Financial Economics* 131(1).

<sup>10</sup> See "Direct Loan Portfolio by Delinquency Status and Repayment Plan" from the U.S. Department of Education, Federal Student Aid available at <https://studentaid.ed.gov/sa/sites/default/files/fsawg/datacenter/library/DI-by-Delinquency-Repayment-Plan.xls>.

<sup>11</sup> See Consumer Financial Protection Bureau's "Annual Report for the CFPB Student Loan Ombudsman" (October 2015), available at [http://files.consumerfinance.gov/f/201510\\_cfpb\\_annual-report-of-the-cfpb-student-loan-ombudsman.pdf](http://files.consumerfinance.gov/f/201510_cfpb_annual-report-of-the-cfpb-student-loan-ombudsman.pdf) and "OES 2016 Project Abstract, Income-Driven Repayment: Recertification," available at <https://oes.gsa.gov/assets/abstracts/1604-Income-Driven%20Repayment-Recertification.pdf>.

<sup>12</sup> See the U.S. Government Accountability Office's report "Federal Student Loans: Education Could Do More to Help Ensure Borrowers Are Aware of Repayment and Forgiveness Options" (September 2015), available at <https://www.gao.gov/assets/680/672136.pdf>.

comprehensive statistics on IDR borrowers over the past decade.<sup>13</sup> In using data unique to the Bureau to address these questions, the Bureau furthers the objective of providing an evidence-based perspective on consumers' use of financial products and services, with a focus on student lending and IDR, and informing the public discourse on these topics.<sup>14</sup>

Overall, the results in this *Data Point* show that the available aggregate statistics mask a fair amount of variation in borrower circumstances and outcomes. Borrowers on IDR include both those who obtain only temporary payment relief as well as those who will enroll for multiple years, and both those struggling with high delinquency rates as well as relatively affluent borrowers with high balances. Income-driven repayment plans offer temporary relief for some borrowers and provide more sustained relief for others. At the same time, a large share of borrowers continues to struggle while on an IDR plan, and many move in and out of forbearance. Apart from measuring these different outcomes, this *Data Point* is a first step in understanding which types of borrowers use IDR as a stepping stone to repaying their loans and which borrowers continue to face hardship despite the availability of IDR.<sup>15</sup>

Key findings include:

- IDR serves borrowers with low balances, high delinquency rates, low credit scores, and relatively limited use of other credit products as well as borrowers with high balances who have low delinquency rates, near-prime credit scores, and elevated use of forbearances and deferments—which relieve the borrower of any payment obligation—the year prior to enrollment.
- Many borrowers went into delinquency on their student loans prior to enrolling in IDR, especially as borrowers exited deferment or forbearance periods, but rates of delinquency stabilized or dropped following enrollment. For borrowers with partial payment relief, delinquencies decreased 19 to 26 percent one year into IDR enrollment relative to the quarter before enrollment. However, the only segment of borrowers for

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<sup>13</sup> Because the data do not include income and family size or the actual IDR enrollment request form, this analysis cannot assess whether borrowers obtained more (or less) of a reduction in payments than their actual income would warrant under IDR program rules.

<sup>14</sup> See 12 U.S.C. §5493(b).

<sup>15</sup> This *Data Point* does not measure the timing and amounts repaid when IDR is available versus when it is not available or when some other type of repayment plan is available. To do so would require assumptions on borrowers' repayment behavior in the absence of IDR and for the full repayment period after enrolling in IDR. Thus, this research does not consider the fiscal impacts of IDR to the government and taxpayers. For more information on some of these assumptions, the potential subsidy costs of IDR, and how this interacts with other repayment plans, see the U.S. Government Accountability Office's report "Federal Student Loans: Education Needs to Improve Its Income-Driven Repayment Plan Budget Estimates" (November 2016), available at <https://www.gao.gov/assets/690/681064.pdf>.

whom delinquencies were fully cured were those with a \$0 monthly minimum payment after entering IDR. Overall, the share of borrowers actively in repayment on their loans was 27 percent higher at the end of borrowers' first year in IDR than just before IDR enrollment.

- For delinquent student loan borrowers, IDR enrollment was followed by a 17 percent reduction in delinquencies on other credit products, suggesting broader improvements across their entire household budget. These improvements likely reflect in part borrowers reallocating some payments from their student loans to their other debts. However, one in five such borrowers were still behind on their payments on these other credit products one year later, reflecting persistent financial struggles for some borrowers.
- About two-thirds of borrowers recertified their IDR enrollment for a second year immediately or within two months after the initial IDR period ends. An additional 12 percent of borrowers entered forbearance or deferment. Difficulties could persist for borrowers who do not recertify on time, with 25 percent in forbearance and 7 percent delinquent while still not recertified six months later.
- Delinquencies more than tripled for borrowers who did not recertify on time after their first year, while delinquency rates improved gradually among those who recertified after their first year. Those borrowers who recertified on time also had the lowest delinquency rates on other credit products before enrolling in IDR and were able to lower those rates further while repaying under IDR.
- Over half of borrowers who failed to initially recertify continued to use some form of reduced payments, either through forbearance or delayed IDR recertification. Together with the two-thirds of borrowers who did recertify on time, more than 80 percent of IDR-enrolled borrowers sought out prolonged payment relief beyond a single year.

This Data Point focuses only on one outcome related to IDR: near-term delinquencies following take-up. A full assessment of IDR would look at additional outcomes and effects. For example, the direct costs to the federal student loan programs from extended repayment terms and loan forgiveness could be weighed against potentially decreased costs of collections and loan rehabilitations due to reductions in delinquency and default. Similarly, the longer-term effects on borrowers of extended repayment, loan forgiveness, and avoided delinquency could be assessed. Most broadly, the availability of IDR provides a form of insurance for federal student loan borrowers, which could have effects on their educational or career decisions, as well as on the other products and services offered in the higher education and education finance markets.

This *Data Point* is organized as follows. After providing some background information on IDR and describing the analysis sample, the third section of this *Data Point* gives an overview of IDR borrowers in the year before enrollment and their first two years on IDR. Section 4 provides a more detailed analysis of the borrower experience in the first year followed by a look at how borrowers fare thereafter in Section 5.

## 2. Background and data

Borrowers apply for federal student loans through the Free Application for Federal Student Aid (FAFSA) form and receive funds via their school's financial aid office. Through the Office of Federal Student Aid, the Department of Education funds these loans.<sup>16</sup> The Department of Education also contracts with several third-party servicers to interact directly with borrowers to collect payments and assist borrowers with enrolling in various repayment plans, among other services.<sup>17</sup>

Federal student loan borrowers typically take out new loans each year in school, with no required monthly payments until several months after the borrower leaves school. After these in-school deferments and a six-month grace period, borrowers are required to begin repayment.<sup>18</sup> The standard repayment plan for federal student loans features fixed monthly, fully amortizing payments of at least \$50 for up to ten years, much like a payment plan for a typical installment loan. For decades, this was the only repayment plan available to borrowers and it remains the default repayment plan for borrowers unless they actively select an alternative repayment plan. According to data from the U.S. Department of Education, 45 percent of all borrowers in repayment were on the standard repayment plan as of December 2018.<sup>19</sup> An additional 24 percent of borrowers were enrolled in another repayment plan not tied

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<sup>16</sup> Prior to 2010, many federal student loans were originated and serviced by private lenders through the Federal Family Education Loan (FFEL) program but guaranteed by the federal government in the event of borrower default. All federal student loans originated since (and many prior to) 2010 are Direct Loans originated directly by the Department of Education. Under both programs, the federal government subsidizes the cost of federal student loans and any unrecovered loans (due to default, death, or forgiveness) are funded via cross-subsidization within the program or via the federal government. For more information on the cost of these programs, see Deborah Lucas and Damien Moore's "Guaranteed vs. direct lending: The case of student loans" in *Measuring and Managing Federal Financial Risk* (2007) and U.S. Government Accountability Office's report "Federal Student Loans: Education Needs to Improve its Income-Driven Repayment Plan Budget Estimates" (September 2016) available at <https://www.gao.gov/assets/690/681064.pdf>.

<sup>17</sup> For more information on the role student loan servicers serve in the federal student loan program, see <https://studentaid.ed.gov/sa/repay-loans/understand/servicers>.

<sup>18</sup> For Federal Perkins loans, this grace period instead lasts nine months, but these represent less than one percent of all federal student loans.

<sup>19</sup> This includes borrowers not in active repayment who are in forbearance on their loans or in a deferment but does not include borrowers who have not yet entered repayment and are in an in-school or grace status. See "Portfolio by Repayment Plan" from the U.S. Department of Education, Federal Student Aid available at <https://studentaid.ed.gov/sa/sites/default/files/fsawg/datacenter/library/DIPortfolioByRepaymentPlan.xls>. Data only include Direct Loan or ED-held FFEL borrowers. Numbers may not add up to 100 percent due to rounding. Repayment plan enrollment rates for privately held FFEL borrowers are not publicly available. Borrowers enrolled in the "alternative repayment" plan are classified as on a repayment plan not tied to their income.

to their income, and the remaining 30 percent were on some form of income-driven repayment plan.

In addition to these alternative repayment plans, federal student loan borrowers can temporarily stop making or reduce their required payments by applying for a deferment or forbearance. Deferments and forbearance may be granted to borrowers experiencing financial difficulties, as well as to those returning to school, entering active duty military service, or other specific circumstances, though interest may continue to accumulate for some loans.<sup>20</sup>

## 2.1 Income-driven repayment

IDR plans encompass five different alternative federal student loan repayment plans for which the scheduled monthly payment amounts depend on income. Federal student loan borrowers have had access to alternative repayment plans for more than 20 years, beginning with Congress's introduction of the income-contingent repayment (ICR) plan in 1994, which capped payments as a share of the borrower's discretionary income for Direct Loan borrowers.<sup>21</sup> By 1995, the first IDR plan for Federal Family Education Loan (FFEL) Program borrowers, the income-sensitive repayment (ISR) plan, was introduced.<sup>22</sup> Beginning in 2009, the federal government introduced additional IDR plans with lower monthly payment caps: income-based repayment (IBR) in 2009, pay as you earn (PAYE) in 2012, and revised pay as you earn (REPAYE) in 2015. These four IDR plans cap payments at different percentages of the borrower's discretionary income—10 to 20 percent—and have different maximum repayment

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<sup>20</sup> Eligibility for deferments is typically more restrictive than for forbearances and borrowers may not be responsible for accruing interest on their subsidized loans under a deferment. For further information on deferment and forbearance rules, see <https://studentaid.ed.gov/sa/repay-loans/deferment-forbearance>.

<sup>21</sup> The U.S. Department of Education defines discretionary income as “the difference between [the borrower’s] annual income and 150 percent of the poverty guideline for [the borrower’s] family size and state of residence” for IBR and PAYE and “the difference between [the borrower’s] annual income and 100 percent of the poverty guideline” (<https://studentaid.ed.gov/sa/glossary>). For more information on this and the other IDR plans Direct loan borrowers are eligible for, see “The Department’s Communication Regarding the Costs of Income-Driven Repayment Plans and Loan Forgiveness Programs,” ED-OIG/Ao9Q003, U.S. Department of Education Office of the Inspector General, January 31, 2018 available at <https://www2.ed.gov/about/offices/list/oig/auditreports/fy2018/a09q0003.pdf>.

<sup>22</sup> The details of this plan differ from the other IDR plans discussed here. One key difference is that ISR payments cannot be less than the accruing monthly interest; thus, negative amortization is not allowed. According to data from the U.S. Department of Education, very few borrowers are enrolled in ISR; see [https://studentaid.ed.gov/sites/default/files/fsawg/datacenter/library/DI\\_PortfoliobyRepaymentPlan.xls](https://studentaid.ed.gov/sites/default/files/fsawg/datacenter/library/DI_PortfoliobyRepaymentPlan.xls). In 1998, two additional alternative repayment plans were introduced, but these plans did not tie payments to income, and instead gradually increased payment amounts throughout the standard repayment period, offered lower payments for an extended repayment period, or both.

periods—20 to 25 years—after which any remaining balances are forgiven by the government.<sup>23</sup> This *Data Point* studies borrowers on any one of these four IDR plans, without regard to the specific type of IDR plan.

The terms of repayment options for federal student loans, including IDR plans, are authorized and defined in laws passed by Congress.<sup>24</sup> The Department of Education issues new regulations implementing some of these repayment plans.<sup>25</sup> Most federal student loan borrowers can qualify under at least one of these IDR plans depending on the type of loans they hold, when they took out their loans, and potentially their income and family size.<sup>26</sup> Payments are held fixed for 12 months after a borrower enrolls in or recertifies for an IDR plan but may change in later years if their income or family size changes or if they do not recertify to remain enrolled.<sup>27</sup>

Capping borrowers' payments at a share of their discretionary income means that borrowers with sufficiently low income may qualify for a low monthly payment that does not cover the monthly interest on their loans. IDR provides a benefit in such cases, as the accruing interest may be covered in part or full by the federal government depending on the IDR plan type, loan type, and number of months the borrower has already received interest forgiveness.<sup>28</sup> Otherwise, as is also the case with forbearances, the difference is capitalized into (added to) the balance of the loan.

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<sup>23</sup> Under current law, the forgiven balances are considered taxable income in the year of forgiveness for most borrowers. For borrowers repaying under the Public Service Loan Forgiveness Program, forgiveness occurs sooner (after 120 qualifying payments), and the amount forgiven is not considered income for tax purposes.

<sup>24</sup> See, for example, the College Cost Reduction and Access Act of 2007, available at <https://www.congress.gov/bill/110th-congress/house-bill/2669>.

<sup>25</sup> See, for example, 80 FR 39607 available at <https://www.federalregister.gov/documents/2015/07/09/2015-16623/student-assistance-general-provisions-federal-family-education-loan-program-and-william-d-ford>

<sup>26</sup> For more information on the specifics of how these loan and borrower characteristics affect plan eligibility, see “Federal Student Loans: Repaying Your Loans” from the U.S. Department of Education, Federal Student Aid available at <https://studentaid.ed.gov/sa/sites/default/files/repaying-your-loans.pdf>.

<sup>27</sup> Borrowers may re-certify before the end of the 12-month period if they experience a change in income or family size, but there are no public data available detailing how often this occurs.

<sup>28</sup> For specifics on interest paid by the government by repayment plan, see <https://studentaid.ed.gov/sa/repay-loans/understand/plans/income-driven/questions#miscellaneous>

### 2.1.1 Enrolling in an IDR plan

To enroll in an IDR plan, borrowers must submit an application to their student loan servicer(s). On the “Income-Driven Repayment Plan Request” form,<sup>29</sup> borrowers must report information on their number of dependents and their marital status.<sup>30</sup> Borrowers must also provide documentation of their and, if applicable, their spouse’s, income.<sup>31</sup> Borrowers may also self-report that they have no income. If borrowers do not submit a complete application with full supporting documentation, their applications will not be processed and their enrollment in IDR will be delayed.

Borrowers enroll in an IDR plan for 12 months at a time and must recertify their income and household size each year in order to maintain income-driven payments eligible for interest subsidies and principal forgiveness. Borrowers who fail to submit all documentation by the recertification deadline are subject to a new, higher monthly payment and may have unpaid interest capitalized into the loan.<sup>32</sup> Borrowers may continue making lower payments through an IDR plan if their loans, income, and family size still make them eligible and if they resubmit the full documentation. Upon recertification, a borrower’s payments may change if there were changes in their income or family size since their last application. Borrowers enrolled in IDR may also, at any time, reapply through the same process if they experience a loss of income and wish to apply for a lower monthly payment before their annual recertification period.

## 2.2 Data

The Consumer Credit Panel (CCP) is a panel of a nationally representative 1-in-48 sample of de-identified credit records from one of the three nationwide consumer reporting agencies (NCRAs). These credit records provide information on amounts borrowed, outstanding balances, and payment histories for all credit accounts reported to the NCRA for each consumer in the sample. These accounts include student loans, the primary focus of this report, as well as

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<sup>29</sup> Borrowers use this form to enroll in IBR, PAYE, REPAYE, and ICR; borrowers do not use this form to request income-sensitive repayment.

<sup>30</sup> Borrowers must also select their preferred IDR plan or choose to have their servicer determine which plan will result in the lowest monthly payment.

<sup>31</sup> If the borrower did not have a significant change in income, she can submit her federal income tax return from the prior year. If there was a change in income, she can submit a pay stub or letter from her employer listing her gross pay so long as it is no older than 90 days from the application date. For more information, see the “Income-Driven Repayment (IDR) Plan Request” form at <https://studentloans.gov/myDirectLoan/images/idrPreview.pdf>.

<sup>32</sup> Borrowers must recertify their income to remain enrolled in the REPAYE plan; failure to recertify will result in the loans being rescheduled under the Alternative Repayment Plan. See <https://studentaid.ed.gov/sa/repay-loans/understand/plans/income-driven#fail-to-recertify> for more information.

other credit products such as credit cards, auto loans, mortgages, and collections. This report uses quarterly data from the panel covering the period 2008–2018.

These data include both federal and private student loans and, among the former, loans in the Direct Loan, FFEL, and Perkins Loan programs. These loan types are not directly identified in the CCP, though the data contain some identifiers that help to distinguish between loan types such as presence of a cosigner or a government claim.

The CCP does not contain information on consumers' income or their family size. As a result, there is not sufficient information to directly determine whether a borrower would meet the eligibility test required for a specific IDR plan. This, combined with limited information on the specific type of loans a borrower has, also means the data cannot reveal which IDR plan a borrower is enrolled in. The analyses in this *Data Point* assume borrowers' incomes and family sizes are accurately reported, and scheduled payments are calculated following published IDR payment formulas. To the extent that actual IDR enrollments or payments differ, IDR outcomes may differ for the full population of eligible consumers.<sup>33</sup>

## 2.2.1 Identifying borrowers on IDR

Student loan servicers do not report whether a student loan borrower is on an IDR plan when furnishing data to the nationwide consumer reporting agencies. Therefore, a borrower's repayment plan cannot be directly identified from credit records, including the CCP. However, certain details that are reported, such as scheduled payment amount and loan term, can help indicate that a borrower is likely on an IDR or other alternative repayment plan.

In this report, a borrower is considered likely to be in IDR (hereafter, simply “in IDR” or an “IDR borrower”) if any of the following is true for at least two-thirds of their student loans in repayment:

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<sup>33</sup> See 2019 GAO report. The 2019 GAO report analyzed IDR plans and found approximately 11.2 percent of borrowers in an IDR plan and making zero-dollar payments reported no income yet potentially earned sufficient wages to make monthly student loan payments. The report also found that approximately 1.2 percent of borrowers with an IDR plan were approved based on an atypical family size of nine or more (2019 GAO report at 12 and 17). Cases of inaccurate information in IDR enrollments could be the result of misrepresentation of the consumer's financial situation by consumers or student loan debt relief companies, the latter of which are highlighted in the Bureau's October 2019 Annual Report of the CFPB Private Education Loan Ombudsman, available at [https://files.consumerfinance.gov/f/documents/cfpb\\_annual-report\\_private-education-loan-ombudsman\\_2019.pdf](https://files.consumerfinance.gov/f/documents/cfpb_annual-report_private-education-loan-ombudsman_2019.pdf).

- The reported minimum monthly payment amount<sup>34</sup> is less than what would be required to repay the loan by the end of the scheduled term for any positive interest rate;<sup>35</sup> or
- There is a drop in the scheduled payment of at least 10 percent<sup>36</sup> from the previous reported monthly payment along with no decrease in the loan term;<sup>37</sup> or
- The reported minimum monthly payment is zero and no code for deferment or forbearance is reported.

Additionally, the new scheduled monthly payment must be constant for at least four quarters.<sup>38</sup> However, a large share of borrowers who appear to be on an IDR plan experience a period of deferment or forbearance during their first year in IDR. To accommodate this feature of the data, the four-quarter constant payment restriction allows the borrower to have no required monthly payment due to deferment or forbearance in the third or fourth quarter so long as the payments in the three other quarters are constant. To focus the analysis on borrowers on an IDR plan (and not include borrowers with other types of payment modifications), borrowers with more than one quarter in deferment or forbearance after the payment change are excluded from this analysis.<sup>39</sup> Similarly, borrowers with constant payments who appear to be on alternative repayment plans not tied to income levels (graduated or extended repayment plans) are excluded for similar reasons and are beyond the scope of this analysis.

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<sup>34</sup> Because all amounts are reported in whole dollars, the inferred interest rate may be negative due to rounding. To reduce the likelihood of incorrectly calculating a negative interest rate, the rate is calculated using the reported monthly payment amount plus \$1. Additionally, because the federal government covers unpaid interest for some qualifying loans under an IDR plan, calculating interest rates using changes in balances given scheduled payments in consecutive periods cannot be used to reliably identify these loans.

<sup>35</sup> While the minimum monthly payment under the graduated repayment plan is often too low to fully repay the loan within the scheduled term, the inferred interest rate is not negative for loans on this plan because the plan requires that the monthly payment cover all accruing interest.

<sup>36</sup> Minimum monthly payments may also drop following a decrease in the interest rate on variable rate loans. However, given interest rates during the period covered here and the minimum monthly payment on the standard repayment plan, these annual interest rate changes should not flag a loan as on IDR except for variable rate loans following the June 2008 interest rate change. As a result, a 15 percent threshold instead is used for payment changes in 2008.

<sup>37</sup> Occasionally, the reported loan term increases when the monthly minimum payment decreases, but this is not consistent over time or across servicers, and a decrease in the minimum payments with no change in the loan term is common. Monthly payment decreases coupled with term decreases are excluded here because a decrease in the loan term is generally inconsistent with a change to an IDR plan.

<sup>38</sup> Due to potential rounding issues, allowances are made to include borrowers with a change of \$1 between their largest and smallest monthly payment during the four-quarter-period, though this affects very few borrowers in practice.

<sup>39</sup> Additionally, cases where borrowers' reported payments appear to have been reallocated across their loans, rather than having been actually reduced, are excluded.

Because not all loans are eligible for enrollment in an IDR plan, many loans are excluded from the above IDR assignment process. Specifically, the following types of loans are excluded: those that are not in good standing (those in default,<sup>40</sup> in collections, or subject to wage garnishment), those with an indication they are private education loans (such as cosigned/joint loans or with terms too short for a federal student loan), those without a reported term length at any point, and those in deferment or forbearance. Some of these characteristics may change from month to month, and the loan is only excluded from this classification while that status applies.<sup>41</sup>

Because of these reporting differences and exclusion criteria, this IDR enrollment classification process likely undercounts the number of borrowers beginning an IDR plan at any point in time. For example, borrowers with \$0 monthly payments on an IDR plan who are coded as in deferment or forbearance are excluded because they are indistinguishable from borrowers who are in deferment or forbearance. Likewise, inconsistent reporting (e.g., terms that are unreported or not updated) may make it difficult to identify some borrowers on IDR.<sup>42</sup> Additionally, borrowers who reapply for IDR in order to lower their payments before the end of the 12-month enrollment period can be mistaken for borrowers using some other modification. Finally, borrowers who enter IDR from deferment or forbearance with payments that are still large enough to reduce their outstanding balance are difficult to distinguish from borrowers with relatively low interest rate loans. Taken together, borrowers classified as on IDR in the CCP will be a subset of the true number of borrowers on IDR.

In all, this “on IDR” classification results in a subsample of 116,765 borrowers in the CCP data, representing 5.6 million student loan borrowers who first entered IDR between 2008 and 2017 given the CCP’s 1-in-48 sample. Figure 1 shows the enrollment by year for these borrowers, with a relatively small number of new enrollments each year for the first few years and then a sharp increase beginning in 2012 and 2013, with the introduction of PAYE in 2014, and again in 2015, when REPAYE became available.<sup>43</sup>

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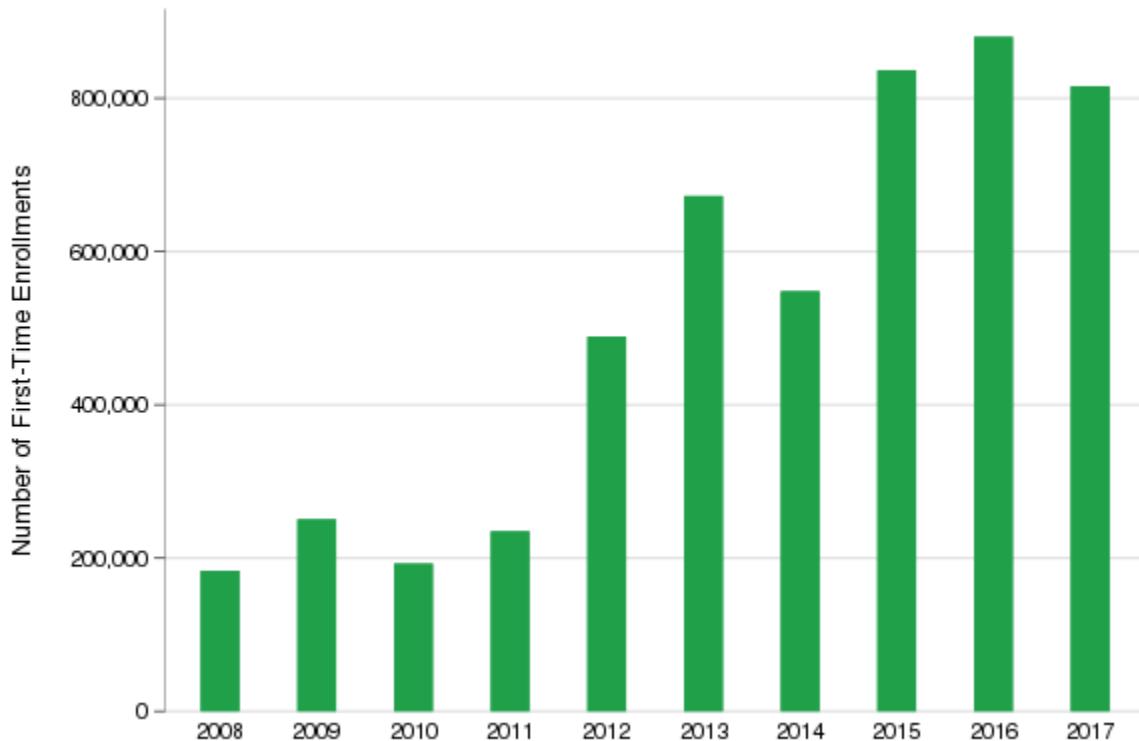
<sup>40</sup> For Direct and FFEL student loans, borrowers are considered to be in default if they have not made their scheduled payments for at least 270 days. For more information on the consequences of default, see <https://studentaid.ed.gov/sa/repay-loans/default>.

<sup>41</sup> For example, a borrower may request their loan be put into forbearance while their IDR application is processed, or a borrower may apply for IDR while still in their post-school grace period. In these cases, the loan is not eligible to be categorized as on IDR until the forbearance or deferment code is no longer present for this report.

<sup>42</sup> As noted in the [2019 GAO report](#), the Department of Education has also experienced discrepancies in data reported by at least one servicer.

<sup>43</sup> These increases may represent an increase in true enrollments following the introduction of new IDR plans and changes in reporting which allow for easier identification of loans enrolled on IDR. As far as possible, this analysis errs on the side of omitting borrowers who appear to be in their second year on IDR following an initial enrollment that cannot be cleanly identified for the full first year.

**FIGURE 1:** FIRST TIME IDR ENROLLMENT BY YEAR, WEIGHTED CCP SUBSAMPLE



## 2.2.2 Comparison with U.S. Department of Education IDR Enrollments

The U.S. Department of Education Federal Student Aid reports number of borrowers and total outstanding balances enrolled by repayment plan for Direct loans and “ED-held” FFEL Program loans for the last several years.<sup>44</sup> These counts from the Department of Education do not include loans in default or in an in-school status or grace period. Because counts of borrowers and balances are only reported back to 2016 for this full set of loans, Figures 2 and 3 below use only Direct loans to allow comparisons back to 2013, but also include all federally managed loans as of September 2016 and later.<sup>45</sup> Figure 2 shows the share of borrowers flagged as enrolled in IDR

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<sup>44</sup> See <https://studentaid.ed.gov/sa/sites/default/files/fsawg/datacenter/library/DLPortfolioByRepaymentPlan.xls> for the latest data from the U.S. Department of Education.

<sup>45</sup> Because the share of federally managed borrowers and loan balances that are ED-held FFEL represent about seven percent of all federally managed loans since 2016, changes in IDR usage by Direct loan borrowers drive most of the IDR enrollment changes observed in the Department of Education data. During the period for which repayment plan information is available for ED-held FFEL Program loans, the share of FFEL borrowers and balances in IDR grew as

in the CCP and the share reported by the Department of Education. To match the Department of Education loan subset, the CCP sample also excludes loans in default in addition to loans that are flagged as private education loans or are missing a term length, since it is impossible to determine the IDR status of such loans.<sup>46</sup>

According to Department of Education statistics, about 10 percent of all student loan borrowers were enrolled in an income-driven repayment plan in 2013. In comparison, the methodology described above for the CCP identifies seven percent of student loan borrowers who were enrolled in an income-driven repayment plan in that year. By late 2017, this gap between the Department of Education's enrollment figures and IDR borrowers identified in the CCP had roughly tripled to almost nine percentage points. The share of borrowers identified as on IDR in the CCP in each year is around 65 percent of the share according to the U.S. Department of Education.

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the number of FFEL borrowers enrolled increased by over 28 percent while the total number of FFEL borrowers decreased about 28 percent.

<sup>46</sup> Because the credit report data do not identify enrollment spells, the CCP sample includes not only loans in deferment or forbearance as reported by the Department of Education, but also loans in an in-school deferment or grace period that the Department of Education's statistics exclude. As a result, the CCP sample will underestimate the share of borrowers enrolled in an IDR plan.

**FIGURE 2: SHARE OF BORROWERS ON IDR IN CCP AND DEPARTMENT OF EDUCATION**

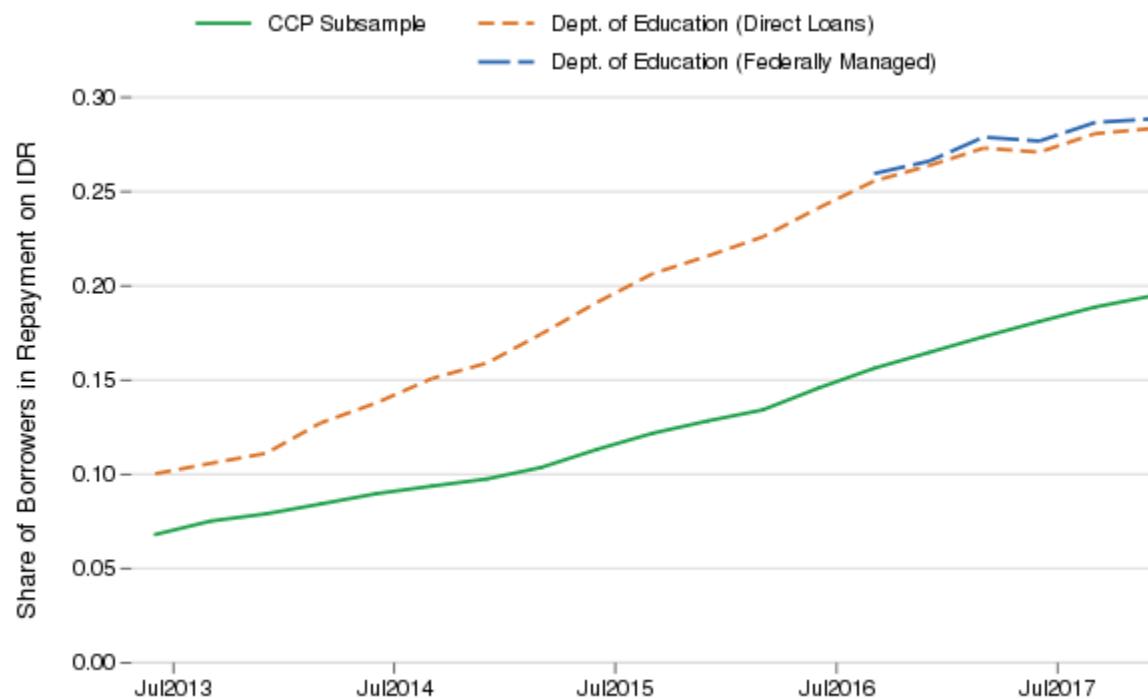
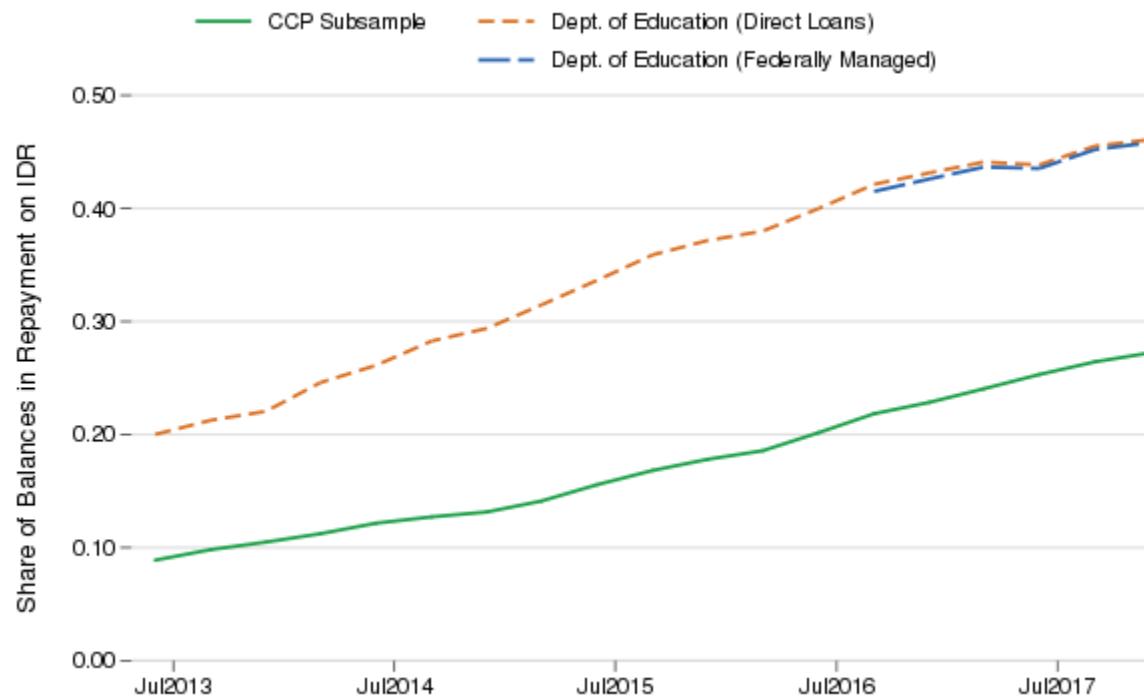


Figure 3 shows a similar or slightly larger gap in the share of balances in an IDR plan between the Department of Education and the CCP sample in each year. In 2013, 20 percent of all Direct loan balances in repayment, deferment or forbearance, were in an IDR plan as reported by the Department of Education and this grew to more than 45 percent by late 2017. In the CCP sample, the share of balances in IDR grew from 9 percent to 28 percent over this same period. The share of balances in IDR exceeds the share of borrowers in IDR in both the Department of Education administrative data and in this CCP sample, as IDR borrowers have high student loan balances relative to the average student loan borrower.

Given the conservative approach to categorizing loans on IDR described above, the discrepancy between IDR loans in the CCP and the Department of Education is to be expected. However, based on the limited information available, the sample of IDR borrowers in the CCP appears to be representative of IDR borrowers overall and some relevant comparisons are presented in section 3.

**FIGURE 3:** SHARE OF BALANCES ON IDR IN CCP AND DEPARTMENT OF EDUCATION



### 2.2.3 Analysis Sample

This *Data Point* evaluates the experience of IDR borrowers, from the year before they enroll until one and a half years after first enrolling in IDR. To maintain a consistent, balanced panel over this period, all borrowers without a full year in the data before enrollment or one and a half years post-enrollment are dropped. On average, these borrowers without complete pre- and post- enrollment periods have total loan balances about 1.8 percent lower than those in the primary analysis sample, are two years older on average, and have comparable credit scores and delinquencies on other products. Of borrowers who first entered IDR between January 2008 and September 2017, 10,609 borrowers are dropped because of this restriction leaving a final analysis sample of 91,214 borrowers.

# 3. Who is on IDR?

This section describes the characteristics and finances of borrowers in our sample and introduces the basic patterns of student loan payments and delinquencies for borrowers on IDR plans.

## 3.1 Summary statistics on IDR borrowers

Table 1 summarizes credit characteristics at the time of IDR enrollment for the sample of borrowers identified by the methodology described in Section 2.<sup>47</sup> The first column shows that, on average, these borrowers have \$34,601 in student loans in IDR when they first enter IDR. Borrowers' average scheduled payments on these loans drop 56 percent, from \$219 prior to enrollment to \$97 after enrollment. The analyses in this *Data Point* focus on those loans enrolled in IDR, though on average these borrowers have more than \$10,000 in additional student loans not enrolled in IDR.<sup>48</sup> For comparison, the average balance of all IDR borrowers was over \$53,000 in 2017 according to data from the U.S. Department of Education, though this figure includes not only borrowers in their first year of IDR enrollment, like those in this report, but also borrowers who have been enrolled in IDR for multiple years.<sup>49</sup>

The typical IDR borrower last opened a new student loan four years before entering an IDR plan (not shown), consistent with the average age of 36 for IDR borrowers at the time of enrollment. This aligns with aggregate data from the Department of Education showing 54 percent of IDR borrowers in 2017 were 34 or younger and 34 percent of borrowers were 35 to 49 years old.<sup>50</sup>

Student loan balances vary widely among IDR borrowers, potentially reflecting differences in degree completion and level of degree attainment (e.g., associate, bachelor, graduate, or professional). Prior research shows borrowers with lower balances are more likely to be

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<sup>47</sup> The CCP administrative data do not contain any demographic information other than age.

<sup>48</sup> These additional loans may include private loans and federal loans ineligible for IDR (e.g., Parent PLUS).

<sup>49</sup> To the extent that low balance borrowers are less likely to recertify and remain on IDR for multiple years, this will result in higher average balance in the U.S. Department of Education Data. See “Federally Managed Portfolio by Repayment Plan” from the U.S. Department of Education, Federal Student Aid available at [https://studentaid.ed.gov/sa/sites/default/files/fsawg/datacenter/library/DI\\_PortfoliobyRepaymentPlan.xls](https://studentaid.ed.gov/sa/sites/default/files/fsawg/datacenter/library/DI_PortfoliobyRepaymentPlan.xls)

<sup>50</sup> See “Income-Driven Portfolio by Borrower Age” from the U.S. Department of Education, Federal Student Aid available at <https://studentaid.ed.gov/sa/sites/default/files/fsawg/datacenter/library>IDRPortfolio-by-Age.xls>

delinquent on their student loans due to differences in degree attainment.<sup>51</sup> To compare within the sample of IDR borrowers, the remaining columns of Table 1 show characteristics separately for borrowers by their total student loan balances.

While 15 percent of all IDR borrowers had a student loan delinquency in the year prior to enrollment, this rate declines across loan balances: the delinquency rate was 19 percent for borrowers with balances under \$10,000 and only 9 percent for those with balances over \$80,000, consistent with findings for the general population of student borrowers.<sup>52</sup> IDR borrowers with higher balances are slightly older; are more likely to have credit cards, auto loans, and mortgages; and are less likely to have been delinquent on these other loans. Consistent with this credit usage, high-balance IDR borrowers have higher average credit scores—around the threshold for near-prime—than low-balance borrowers, whose average falls near the bottom of the near-prime range.

These patterns may result from differences in life circumstances or differences in borrowers' success navigating student loan repayment options.<sup>53</sup> While the data do not contain additional information that could allow definitive tests of these possibilities, Section 4 compares the IDR experiences of borrowers with varied balances, payment amounts, and pre-enrollment financial distress.

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<sup>51</sup> See Alvaro Mezza and Kamila Sommer, "A Trillion Dollar Question: What Predicts Student Loan Delinquencies?" *FEDS Working Paper No 2015-98*, 2015, available at <https://www.federalreserve.gov/econresdata/feds/2015/files/2015098pap.pdf>; Adam Looney and Constantine Yannelis, "A Crisis in Student Loans? How Changes in the Characteristics of Borrowers and in the Institutions They Attended Contributed to Rising Loan Defaults," *Brookings Papers on Economic Activity*, Fall 2015, available at <https://www.brookings.edu/wp-content/uploads/2015/09/LooneyTextFall15BPEA.pdf>.

<sup>52</sup> For a look at delinquency among the general student loan borrower population, see Christa Gibbs, "CFPB Data Point: Student Loan Repayment" (August 2017), available at [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=3288836](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3288836)

<sup>53</sup> For example, with additional data it would be possible to test whether low-balance student loan borrowers—who on average have lower levels of degree attainment and income—more often use IDR to cope with financial distress while high-balance borrowers more frequently use IDR to pre-emptively lower their monthly payments to smooth consumption and avoid delinquency. Alternatively, these patterns are also consistent with high-balance borrowers having more successfully accessed student loan repayment options to avoid delinquency, including through a higher use of deferment and forbearance options before their IDR enrollments. A greater share of these high-balance borrowers may also be seeking Public Service Loan Forgiveness, which requires ten years of timely payments to qualify for loan forgiveness. For more information, see <https://studentaid.ed.gov/sa/repay-loans/forgiveness-cancellation/public-service>.

**TABLE 1: SUMMARY STATISTICS FOR IDR BORROWERS BY BALANCE ON IDR ENROLLED LOANS AT ENROLLMENT**

Borrower characteristics	Full sample	Balance \$1– \$4,999	Balance \$5,000– \$9,999	Balance \$10,000– \$19,999	Balance \$20,000– \$39,999	Balance \$40,000– \$79,999	Balance \$80,000 +
Average total balance on IDR enrolled loans (\$)	34,601	2,922	7,437	14,519	28,807	55,430	144,455
Average payment quarter before enrollment (\$) <sup>54</sup>	219	64	83	128	205	329	688
Average payment after enrollment (\$)	97	35	47	67	100	139	239
Average total balance on other student loans (\$)	10,865	7,242	8,533	9,840	11,728	12,196	16,973
Delinquent on student loan, year prior to enrollment (%)	15	19	19	17	13	13	9
Delinquent on other loan, year prior to enrollment (%)	8	9	10	9	7	8	7
Ever deferred, year prior to enrollment (%)	58	42	52	56	63	66	62
Average age (years)	36	36	35	35	35	37	38
Credit Score	637	628	617	628	643	645	666
Has a credit card (%)	75	68	66	71	79	80	88
Has an auto loan (%)	49	46	46	48	50	53	50
Has a mortgage (%)	25	27	22	23	24	26	26
Average payments on non-mortgage/non-IDR debts (\$)	452	416	386	420	465	502	549
<b>Number of sample borrowers</b>	<b>91,214</b>	<b>11,219</b>	<b>13,555</b>	<b>18,920</b>	<b>23,197</b>	<b>16,108</b>	<b>8,215</b>

Another important difference across IDR borrowers is the size of the payment change at enrollment. Payments on IDR are determined by income and household size, so some borrowers have payments reduced to \$0, others have partial payment reductions, and some borrowers

<sup>54</sup> As an alternative measure, average payments in the year prior to enrollment excluding periods of deferment and forbearance are \$297 for the full sample, \$75 for borrowers with balances of \$1–\$4,999, \$95 for balances of \$5,000–\$9,999, \$146 for balances of \$10,000–\$19,999, \$240 for balances of \$20,000–\$39,999, \$362 for balances of \$40,000–\$79,999, and \$768 for balances of \$80,000 and above.

enroll directly after loan deferment (and have an increase in their scheduled monthly payment).<sup>55</sup> In this *Data Point*, borrowers are categorized into relative payment change groups based on the average scheduled minimum monthly payments for their IDR loans in the four quarters prior to enrolling in an IDR plan. Thus, the category of borrowers without a payment decrease will include both those who enter IDR directly after leaving school, as well as those previously in repayment but whose loans were in deferment or forbearance all four quarters prior to IDR enrollment.

Table 2 presents the same credit and demographic characteristics as Table 1 for groups of borrowers based on their monthly payment change, split between those with a 100 percent payment reduction (i.e., down to \$0); average payment reductions of 70–99 percent, 40–69 percent, 1–39 percent, and no payment reduction. The differences across these groups provide insight into the different ways IDR is used by borrowers. Borrowers who have recently lost a job or who have income below or near the federal poverty guideline can obtain full payment relief through IDR. These borrowers' generally fragile financial situations are reflected in their low average credit scores and lower use of other credit products.

In contrast, borrowers who obtain only partial payment reductions presumably have higher incomes or smaller families. For these borrowers, IDR allows them to pay down their loans over a term longer than a standard 10-year plan and have payments more closely tied to their income than an extended or graduated repayment plan. Still, 13 percent of borrowers with 1–39 percent payment reductions were delinquent on their student loans in the year prior to enrollment, suggesting that those with partial reductions may be in similar financial distress to those receiving full payment relief. Borrowers leaving school or other deferments may enroll in IDR from the beginning of repayment, setting their payments in line with their income from the start. Such borrowers are the youngest in our sample, with an average age of 33, and are less likely to have other credit products. These borrowers had relatively high credit scores on average prior to enrolling in IDR, but their scores were not negatively affected by their student loan delinquencies since they had no previously required payments.

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<sup>55</sup> Because coding used for furnishing credit data do not necessarily distinguish between deferment and forbearance, they are not distinguished here. The terms “deferment” and “forbearance” are used to mean either type of payment suspension in this report.

**TABLE 2: SUMMARY STATISTICS FOR IDR BORROWERS BY PAYMENT CHANGE AT ENROLLMENT**

Borrower characteristics	Full sample	Borrowers with 100% payment reduction	Borrowers with 70–99% payment reduction	Borrowers with 40–69% payment reduction	Borrowers with 1–39% payment reduction	Borrowers without payment reduction (prior deferment)
Average total balance on IDR enrolled loans (\$)	34,601	43,198	46,906	26,734	30,639	38,140
Average payment quarter before enrollment (\$) <sup>56</sup>	219	213	429	244	223	0
Average payment after enrollment (\$)	97	0	67	117	162	78
Average total balance on other student loans (\$)	10,865	9,588	15,810	9,588	10,332	12,211
Delinquent on student loan, year prior to enrollment (%)	15	22	16	20	13	0
Delinquent on other loan, year prior to enrollment (%)	8	10	8	9	8	6
Ever deferred, year prior to enrollment (%)	58	76	55	52	32	100
Average age (years)	36	36	35	36	38	33
Credit score	637	605	636	626	660	655
Has a credit card (%)	75	63	77	73	83	74
Has an auto loan (%)	49	42	50	50	56	42
Has a mortgage (%)	25	10	20	27	38	17
Average payments on non-mortgage/non-IDR debts (\$)	452	330	455	461	565	375
<b>Number of sample borrowers</b>	<b>91,214</b>	<b>16,144</b>	<b>10,295</b>	<b>27,443</b>	<b>24,225</b>	<b>13,107</b>

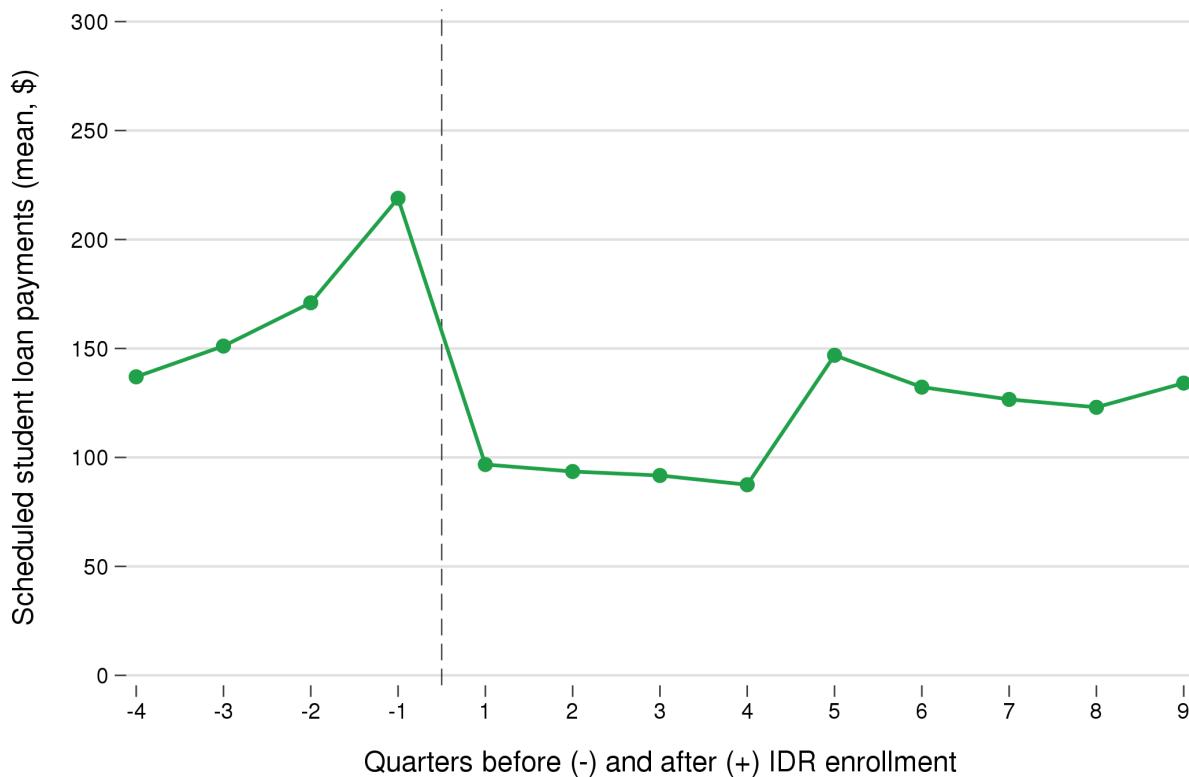
<sup>56</sup> Calculations for the percentage payment reduction under IDR use an alternative measure, average payments in the year prior to enrollment excluding periods of deferment and forbearance. Under this measure, pre-enrollment payments are \$297 for the full sample, \$339 for borrowers with a 100 percent payment reduction, \$566 for 70 to 99 percent payment reductions, \$249 for 40 to 69 percent payment reductions, and \$214 for 1 to 39 percent payment reductions.

## 3.2 Payments and delinquency on IDR

This subsection describes the overall patterns in payments, delinquency, and the use of forbearance and deferment for the identified sample of IDR borrowers. The two sections that follow provide more in-depth analyses of the first year on IDR and borrowers' experiences with recertification after the first year.

Figure 4 shows borrowers' average scheduled payments on student loans enrolled in IDR, prior to and after enrollment. Average scheduled payments rise in the months leading up to enrollment, as some borrowers enter repayment after leaving school or exit other deferments or forbearances. At the time of IDR enrollment, average payments drop to \$97, a \$122 reduction relative to the \$219 average payment in the quarter prior to enrollment. Payments remain at this lower level for one year, at which point borrowers must recertify their income and family size to maintain their lower monthly payment. If borrowers do not recertify their income, have an increase in their income, or have a decrease in family size, then monthly payments reset to a higher level, as seen in the fifth quarter (12 to 14 months) after enrollment where the average scheduled payment increases more than 50 percent.

**FIGURE 4: AVERAGE SCHEDULED STUDENT LOAN PAYMENTS (IDR ENROLLED LOANS)**



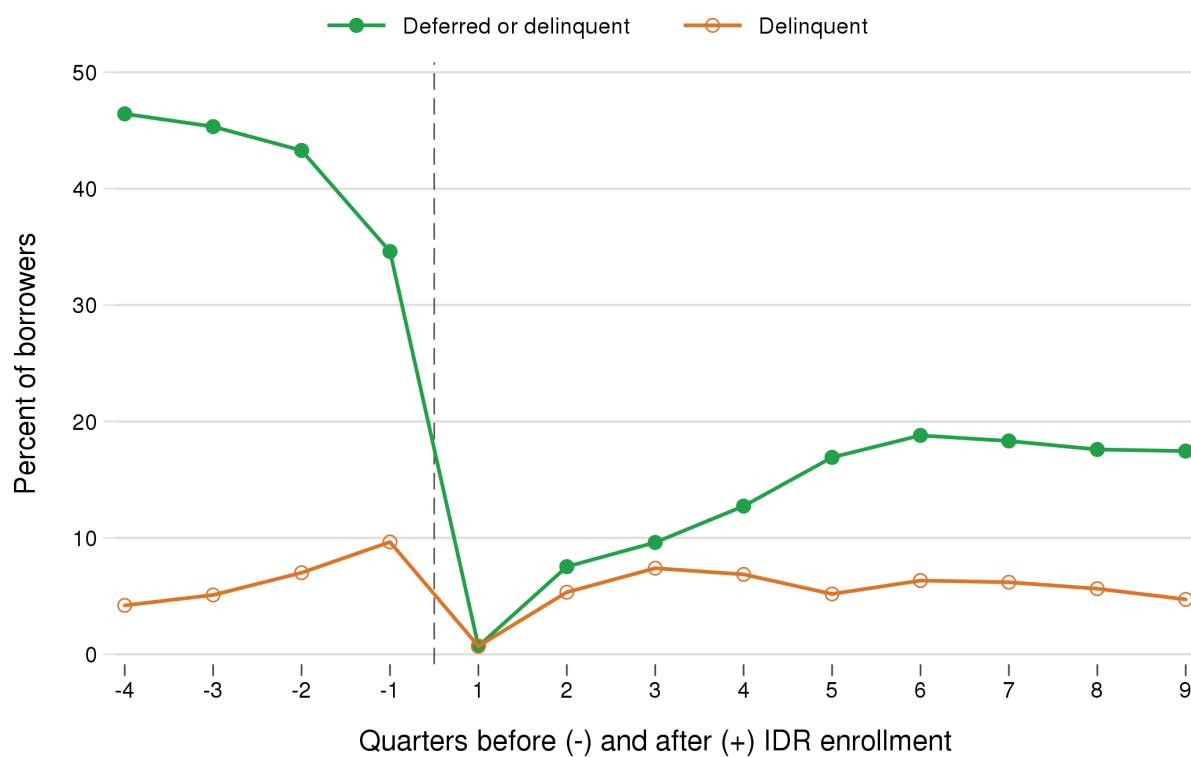
As scheduled monthly payments rise prior to IDR enrollment, so too do student loan delinquencies. Figure 5 shows the percent of borrowers with a student loan 90 or more days past due (90+ day delinquencies) as well as the combined share of borrowers either 90+ days delinquent or in deferment.<sup>57</sup> Leading up to IDR enrollment, the combined share of borrowers delinquent or in deferment falls despite a rise in reported 90+ day delinquencies, reflecting some borrowers transitioning out of deferment and into repayment. Delinquencies rise to 10 percent in the quarter prior to enrollment before effectively dropping to zero at the time of enrollment. IDR program rules require that borrowers cannot be delinquent at the time they enroll. However, borrowers can be placed in “administrative forbearances” while they complete their IDR enrollment paperwork, curing their delinquencies.<sup>58</sup> Because administrative

<sup>57</sup> Delinquencies on federal student loans are generally only reported in the CCP data once they reach 90 or more days, so these statistics only measure serious 90+ day delinquencies. Deferment here is defined broadly to include borrowers in deferment, forbearance, in-school, or grace period statuses.

<sup>58</sup> In data detailing the number borrowers in each type of forbearance, administrative forbearance is defined such that it “includes loans for which payments have been temporary suspended or reduced, often to help cover transition periods while the borrowers provide proper documentation or the lender/servicer reviews the documentation to

forbearances or other temporary cures are common, the remaining figures on student loan delinquency use lighter, dotted lines leading into and following the first quarter of IDR enrollment. This presentation is meant to emphasize the more stable outcomes observed in later quarters rather than the immediate, transitory shifts which may reflect the mechanics of the IDR program more than borrowers' financial circumstances or actual performance on their loans. By the second quarter of IDR enrollment, average 90+ day delinquencies return to five percent.

**FIGURE 5: PERCENT OF BORROWERS WITH ANY STUDENT LOAN 90+ DAYS DELINQUENT AND WITH ANY STUDENT LOAN 90+ DELINQUENT OR IN DEFERMENT (IDR ENROLLED LOANS)**



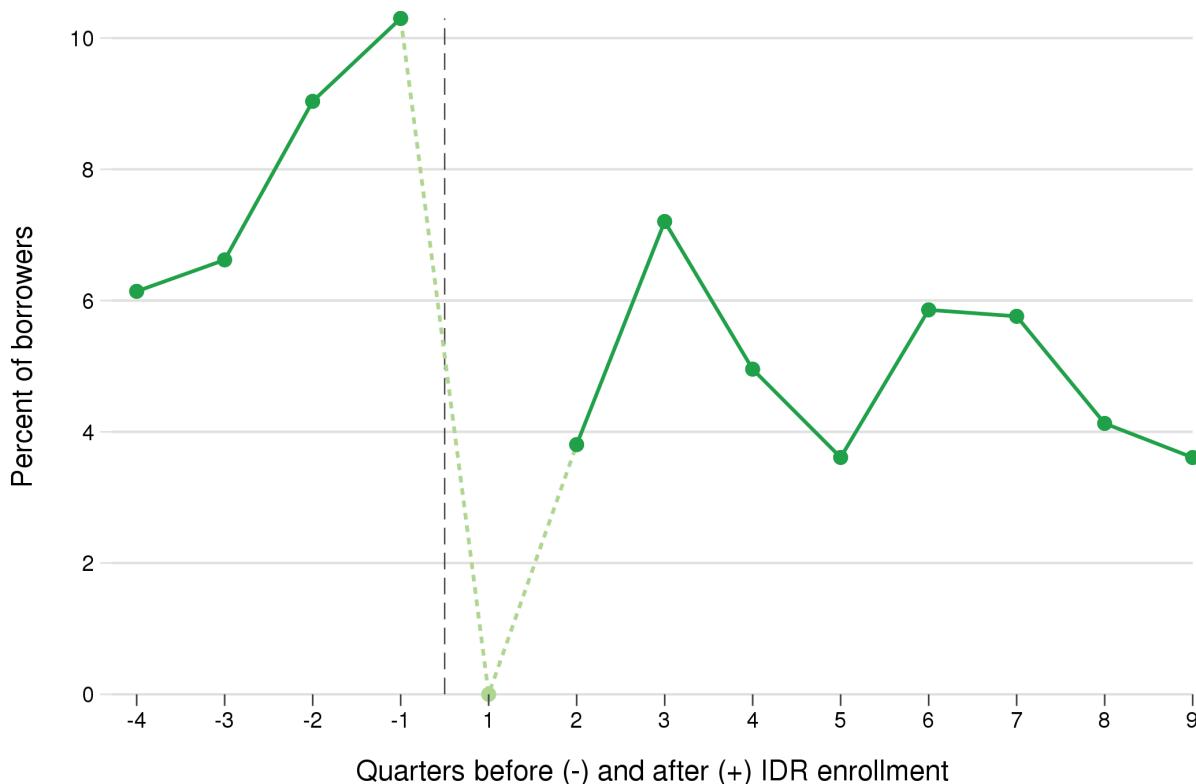
The similarity between delinquency rates six months after IDR enrollment and prior to enrollment might suggest that many IDR-enrolled borrowers continue to struggle with their payments. However, the share of borrowers actively in repayment (neither delinquent nor in deferment) is 27 percent higher after a full year in IDR, consistent with improved borrower

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determine borrower" eligibility for certain programs/benefits." See "Direct Loan Portfolio by Forbearance Type" from the U.S. Department of Education, Federal Student Aid available at <https://studentaid.ed.gov/sa/sites/default/files/fsawg/datacenter/library/DLbyForbearanceType.xls>.

outcomes.<sup>59</sup> Figure 6 shows the rate of new or worsening delinquencies for borrowers in repayment (i.e., excluding those in deferment or forbearance). After rising each quarter prior to enrollment, the share of borrowers with new or worsening delinquencies falls and remains below the level immediately prior to enrollment for two years.

**FIGURE 6: PERCENT OF NEW OR WORSENING STUDENT LOAN DELINQUENCIES AMONG BORROWERS IN REPAYMENT (IDR ENROLLED LOANS)**



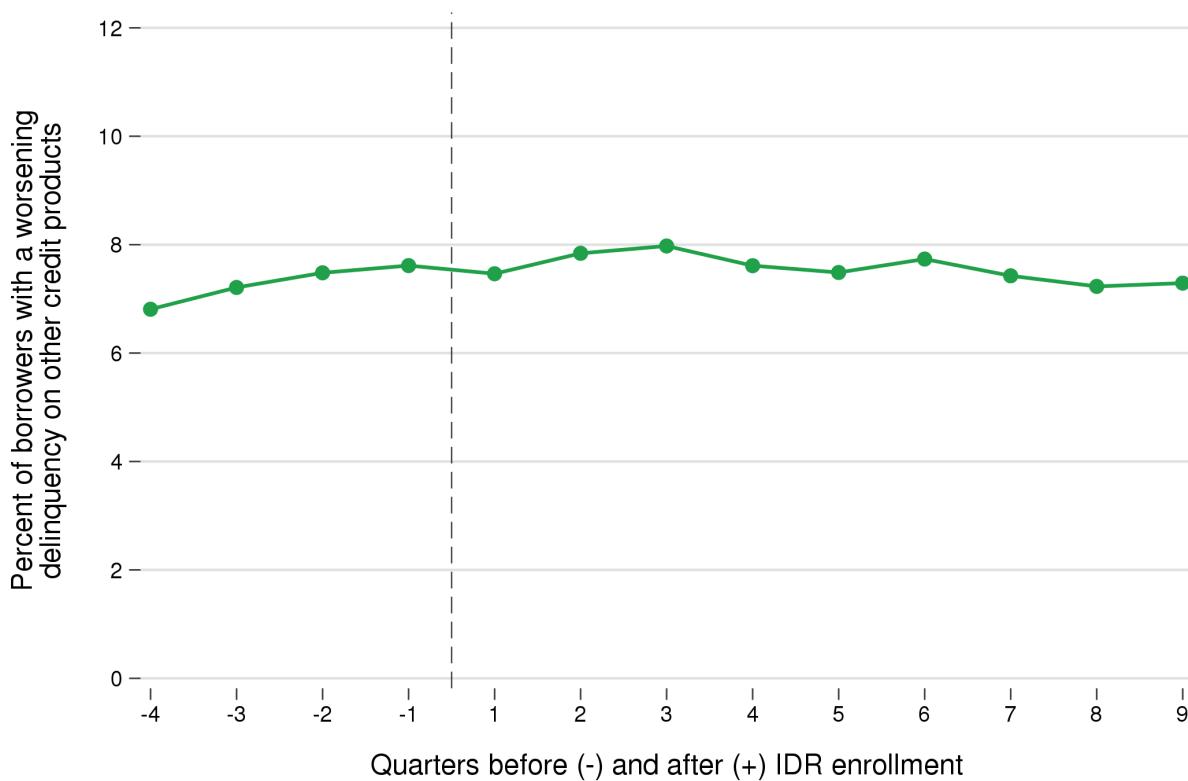
This pattern of rising delinquencies prior to enrollment and improvement after is also seen for the other credit products held by borrowers. As shown in Table 1, 75 percent of IDR borrowers had a credit card, 49 percent had an auto loan, and 25 percent had a mortgage at the time of enrollment. Figure 7 shows the percent of borrowers with new or worsening delinquencies on credit cards, mortgages, or auto loans among borrowers who had at least one of these products in the year before IDR enrollment.<sup>60</sup> The rising rate of new or worsening delinquencies (6.8

<sup>59</sup> The share of borrowers in deferment or 90+ days delinquent falls from 34.6 to 16.9 percent between the first quarter prior to enrollment and the fifth quarter after enrollment, meaning the share not 90+ days delinquent or in deferment rose from 65.4 to 83.1 percent.

<sup>60</sup> For these non-student loan products, the delinquencies are reported in the credit data beginning at 30 or more days past due, but delinquencies of 90 days past due or longer follow a similar trend though are lower overall.

percent to 7.6 percent overall) occurs across all three product types, but is influenced the most by credit cards, the most common type of non-student loan credit held by IDR borrowers. While this rise in delinquencies is not as severe as for student loans, the rate of new or worsening delinquencies stabilizes following IDR enrollment. This suggests the availability and use of IDR could have spillover effects within households' balance sheets. The next section further explores these relationships.

**FIGURE 7:** PERCENT OF BORROWERS WITH A NEW OR WORSENING DELINQUENCY ON CREDIT CARDS, MORTGAGES, OR AUTO LOANS



Finally, following the large reductions in scheduled student loan payments for borrowers as they enter IDR, very few borrowers make progress on paying down their student loan balances while enrolled in their first year of IDR. Overall, the typical borrower makes no progress on reducing her balances, but she also does not have an increase in her balances during this period as a combination of her payments and the various interest subsidies that minimize the impact of negative amortization (not shown). Given the sustained increases in borrowers' balances before enrolling in IDR, this appears to be an improvement in their financial situation above and beyond any decreases in delinquencies they experience. This is consistent with the findings in Herbst's analysis of FFEL borrowers.<sup>61</sup>

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<sup>61</sup> See Dan Herbst "Liquidity and Insurance in Student Loan Contracts: The Effects of Income-Driven Repayment on Borrower Outcomes," March 2019.

# 4. Initial experience on IDR

This section provides a more detailed look at the changes in scheduled payments, delinquencies, and use of other credit discussed in the last section, but with a focus on borrowers' first year in IDR. By looking at these outcomes across different initial loan balances, payment changes, and level of delinquency, this analysis assesses the extent to which IDR plans help different types of borrowers remain in good standing on their student loans and other credit products.

## 4.1 Differences across total loan balances

As described in Section 3, the amount of student debt held by IDR borrowers at enrollment varies widely. Borrowers' loan amounts largely determine their monthly payments under the standard repayment plan, reflected in the higher payments prior to enrollment for borrowers with larger loan balances.<sup>62</sup> After enrolling in IDR, monthly payments instead become tied to the borrower's income and family size, so the relationship between loan amounts (or balances) and monthly loan payments could break down. However, this connection between loan balances and monthly payment amounts may continue after borrowers enroll in IDR as a result of the fact, as demonstrated in prior studies, that higher loan balances often are the result of higher levels of educational attainment and thus are positively correlated with borrower incomes.<sup>63</sup>

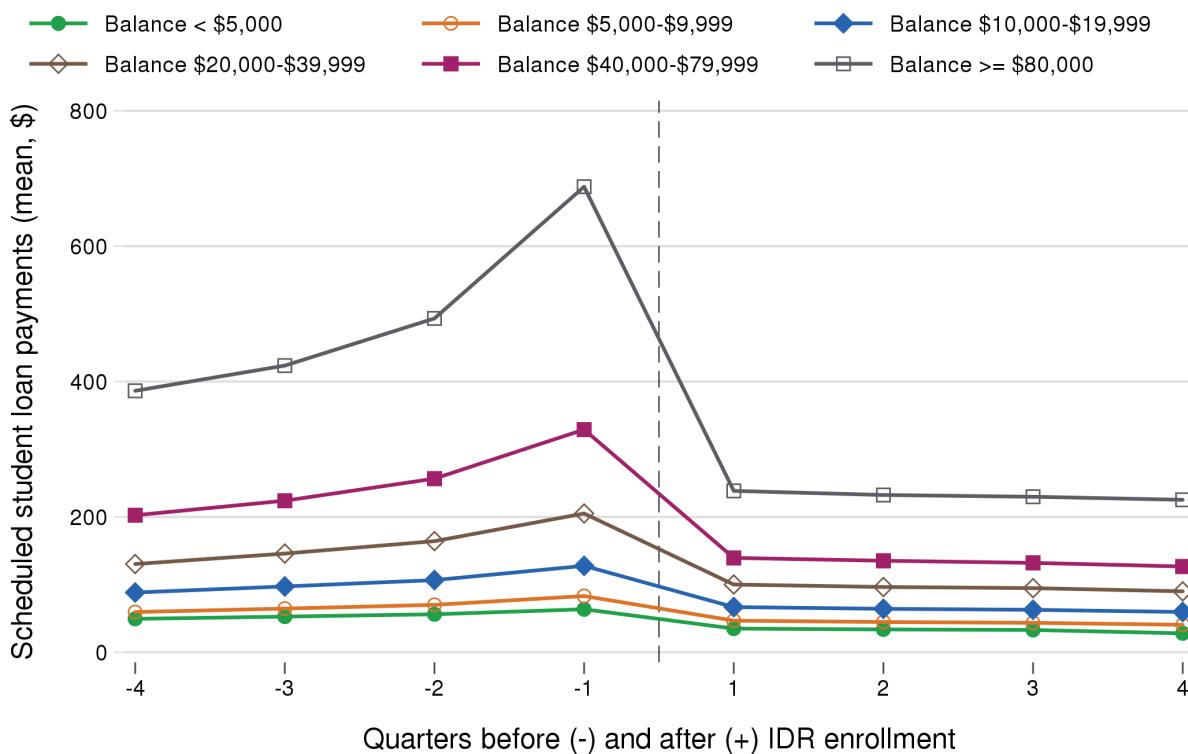
This relationship likely persists even after IDR enrollment as seen in Figure 8, which shows scheduled student loan payments for borrowers with varying levels of student loan debt. At one extreme, borrowers with balances of \$80,000 or more still have the largest average monthly payment after enrolling in IDR (\$239) despite a \$449 payment decrease. Those borrowers with balances under \$5,000 have the smallest reduction (\$29) but continue to have the lowest average monthly payments of \$35 after enrollment, with their lower pre-enrollment payments reflecting lower initial amounts borrowed, and their lower post-enrollment payments likely reflecting lower household income.

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<sup>62</sup> For the typical borrowing entering IDR for the first time, total loan balances and total original amount borrowed are quite similar (balances are about 98 percent of amount borrowed).

<sup>63</sup> See Looney and Yannelis (2015) for evidence on the positive relationship between balances and incomes. In addition to this relationship, higher-income borrowers are only likely to receive lower payments under IDR if they have higher loan amounts (and therefore higher monthly payments under a standard repayment plan), all else equal.

**FIGURE 8: SCHEDULED STUDENT LOAN PAYMENTS (IDR ENROLLED LOANS), BY LOAN BALANCE**

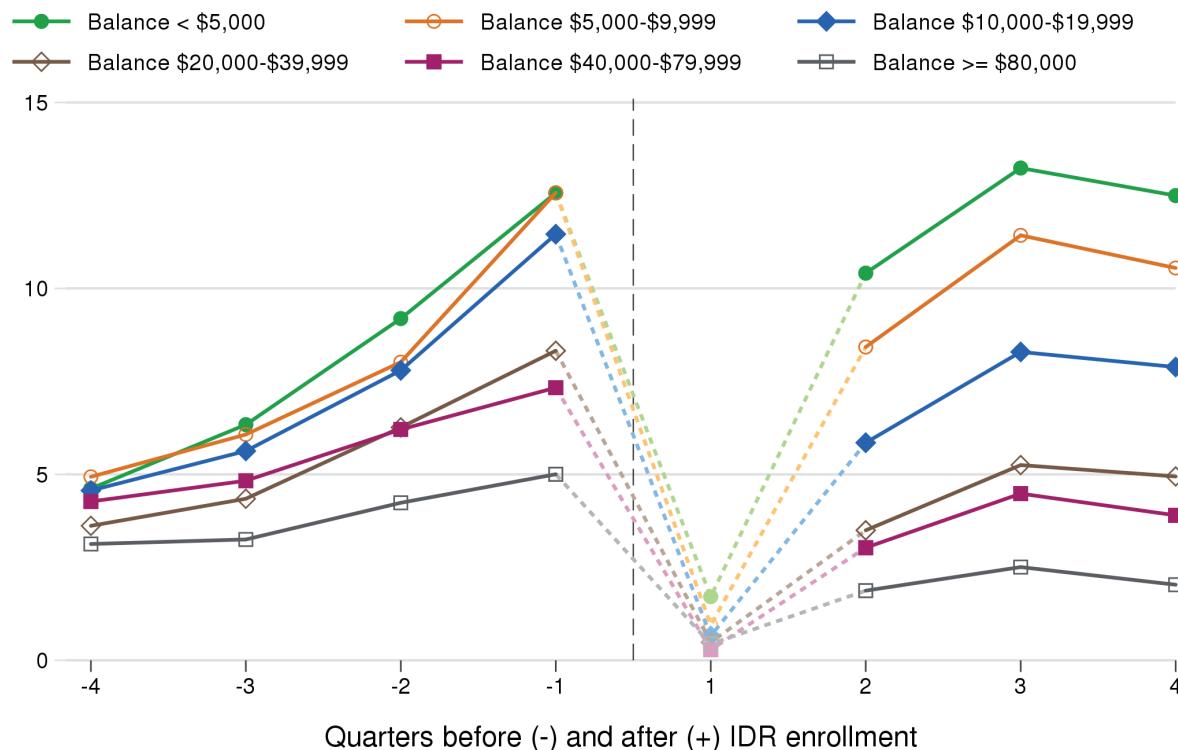


As shown in Table 1, IDR borrowers with higher loan balances tend to have lower rates of delinquency prior to enrollment. Figure 9 shows average 90+ day delinquency rates the year before and the year after IDR enrollment for borrowers with different student loan balances. Both before and after IDR enrollment, student loan delinquencies decline with loan balance. Delinquency rates increase prior to enrollment for all groups, with the steepest increases for those with the lowest student loan balances. Given that these low-balance borrowers choose to enroll in IDR despite already relatively small scheduled payments prior to enrollment, this higher delinquency rate may reflect their particularly strained financial situation.

Delinquency rates fall sharply immediately after IDR enrollment, then rise and plateau three to four quarters after enrollment. Delinquency remains below the levels seen immediately prior to enrollment for borrowers with balances over \$10,000 but approaches or exceeds pre-enrollment levels for those with under \$10,000 in balances. Overall, this suggests IDR likely helps reduce delinquencies, though for the set of borrowers with balances less than \$10,000 this may only slow or halt the pre-enrollment rise in delinquencies. Even for the higher balance borrowers, IDR does not eliminate delinquency entirely.

Examining repeat delinquencies at the borrower level within these different groups, 51 to 55 percent of borrowers delinquent a year after enrollment were also delinquent during the year prior to enrollment (not shown). While IDR offers many benefits to borrowers, this suggests that some borrowers remain delinquent even with the payment relief.

**FIGURE 9: PERCENT OF BORROWERS WITH A STUDENT LOAN 90+ DAYS DELINQUENT, BY LOAN BALANCE**



## 4.2 Differences across payment reduction

While IDR enrollment reduces borrowers' payments by \$123 on average, the size of their payment relief varies greatly depending on income, family size, and loan balance. Following Table 2, Figure 10 splits borrowers into those with payment drops of 1–39 percent, 40–69 percent, 70–99 percent, and 100 percent relative to their payment prior to enrollment, as well as those borrowers previously in deferment or forbearance prior to IDR enrollment. Borrowers with a complete payment reduction had the lowest average monthly payments (\$213) of those not in deferment prior to enrollment. Those with the second largest payment drop (70–99 percent) had the highest average monthly payment at \$429 in the quarter prior to enrollment,

but after enrollment this group has the lowest non-zero average monthly payments. Meanwhile, borrowers with relatively small or moderate payment reductions had very similar average payments prior to enrollment. While scheduled monthly payments decrease for nearly all borrowers, actual monthly payments made increase for many borrowers who were delinquent or in forbearance prior to enrolling in IDR (not shown).

**FIGURE 10:** SCHEDULED STUDENT LOAN PAYMENTS ON IDR LOANS, BY SIZE OF PAYMENT DROP

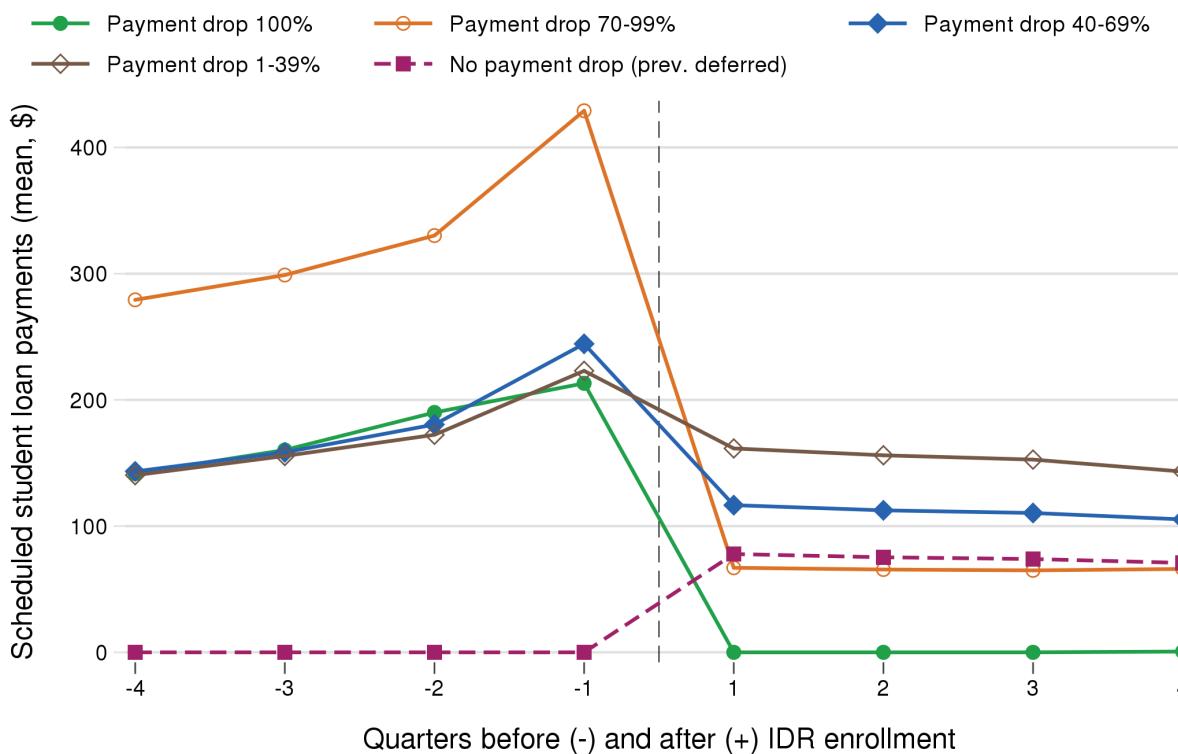
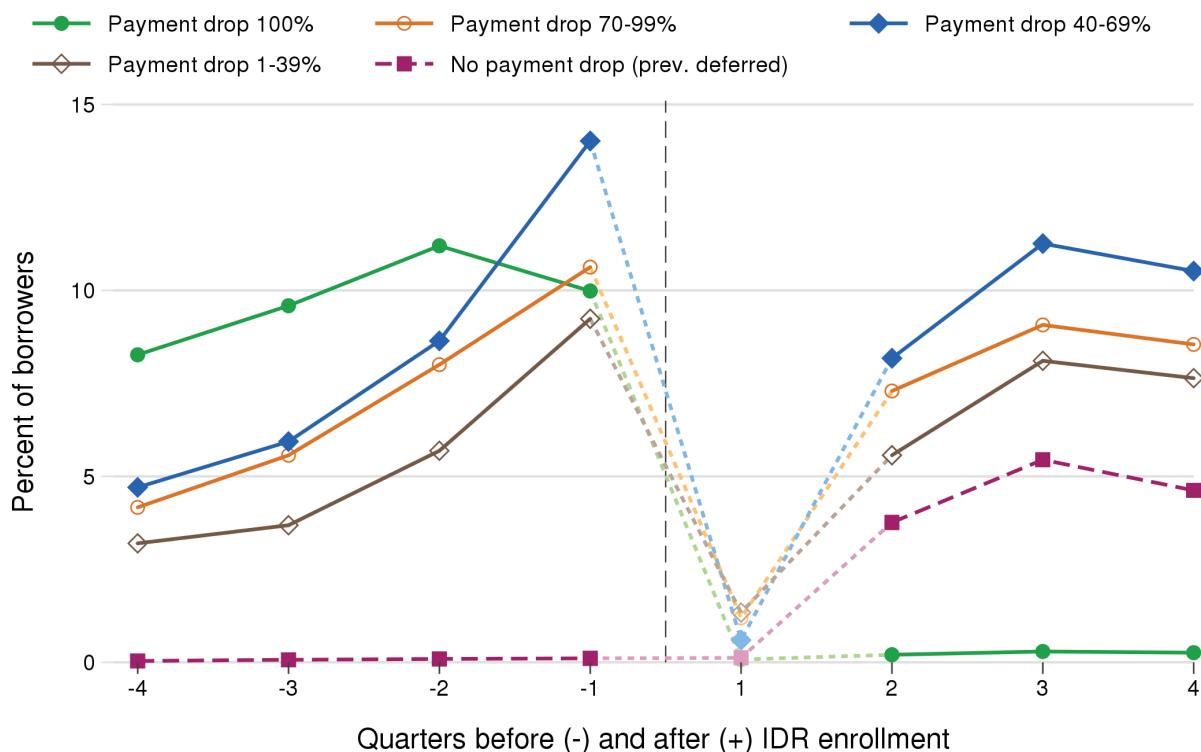


Figure 11 shows the share of IDR borrowers with at least one student loan 90+ days delinquent each quarter, split by the size of their payment drop. Delinquency rates fall for all groups following IDR enrollment except for borrowers previously in deferment, who necessarily had no delinquencies prior to enrollment. Delinquency rates only drop to zero for borrowers with a 100 percent payment reduction. However, for those borrowers receiving only a partial payment reduction, rates of serious delinquencies in the third and fourth quarters after enrollment approach those observed prior to enrollment. For these groups with a payment reduction of less than 100 percent, delinquency rates stabilize 19 to 26 percent lower than in the quarter prior to

enrollment but still greater than two to four quarters before enrollment.<sup>64</sup> Given the trend of increasing delinquencies prior to enrollment, delinquencies may have been even higher post-enrollment absent the use of an IDR plan. But these results also suggest that some borrowers continue to struggle even with their lower IDR payments.

**FIGURE 11: PERCENT OF BORROWERS WITH A STUDENT LOAN 90+ DAYS DELINQUENT, BY SIZE OF PAYMENT REDUCTION (IDR ENROLLED LOANS)**



## 4.3 Delinquencies on other products

Borrowers having difficulty making their student loan payments may also be struggling with other expenses or monthly debt payments. Even if some borrowers remain delinquent on their student loans, the payment relief offered by IDR may help borrowers pay other expenses or reduce delinquency on their other loans. Such reductions could also represent a reallocation of

<sup>64</sup> Four quarters after enrollment, delinquency rates decrease from 10.7 to 8.4 percent for those with 70-99 percent lower payments, from 14.1 to 10.4 percent for those with 40-69 percent lower payments, and from 9.3 to 7.5 percent for those with 1-39 percent lower payments.

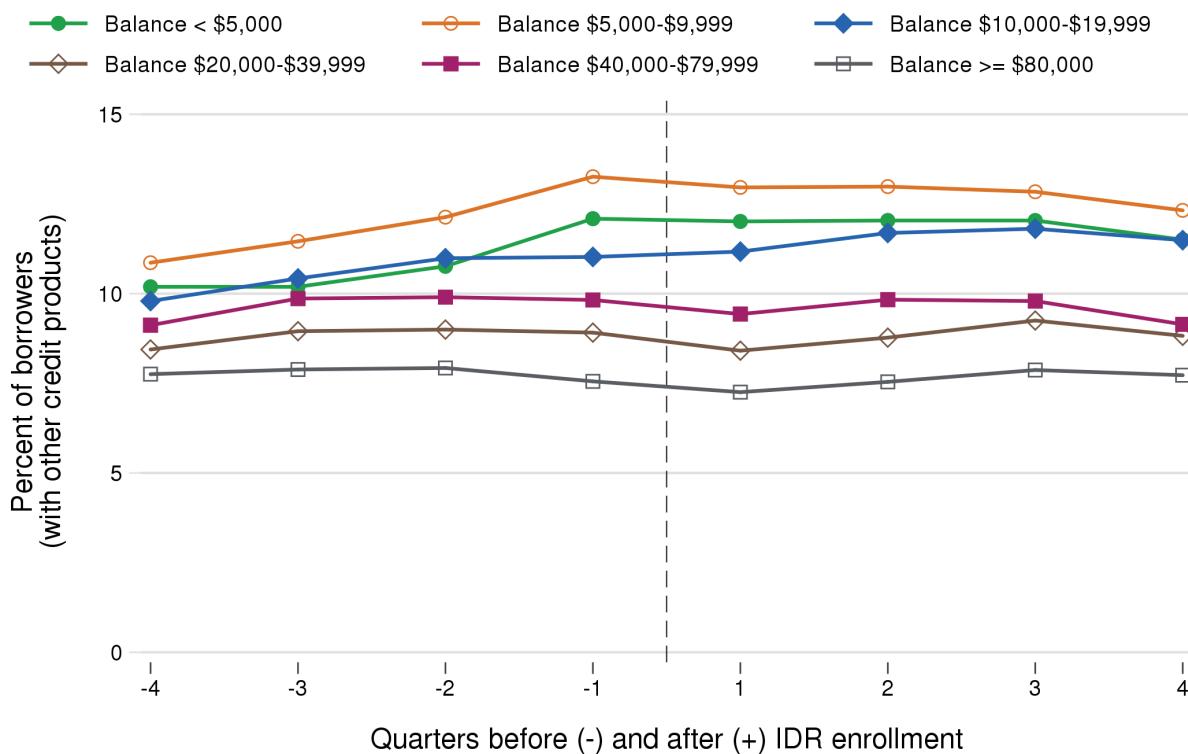
payments away from borrowers' student loans and towards their other credit products. As the data do not contain information on all of these possible expenses (e.g., rent payments, utility bills, medical expenses), this section focuses on whether enrolling in IDR may help borrowers free up space in their monthly budget to stay in or move to good standing on their credit cards, auto loans, or mortgages.

Figure 12 shows the shares of IDR-enrolled borrowers who are 30 or more days delinquent on at least one of these other credit products.<sup>65</sup> Delinquencies rose prior to enrollment for borrowers with student loan balances under \$20,000, most severely for those with less than \$10,000 in student loans when they enter IDR. For borrowers with higher balances, delinquencies were lower and more stable prior to enrollment. Given that student loan delinquencies rose prior to enrollment for all of these borrowers (Figure 9), these relative trends suggest borrowers with low student loan balances may be more constrained across their entire budget.

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<sup>65</sup> Only borrowers with at least one of these credit products for the full year prior to enrollment are included, but this includes 75 percent of the sample of IDR-enrolled borrowers in the CCP. Tables 1 and 2 show unconditional delinquency rates on other products for the entire sample.

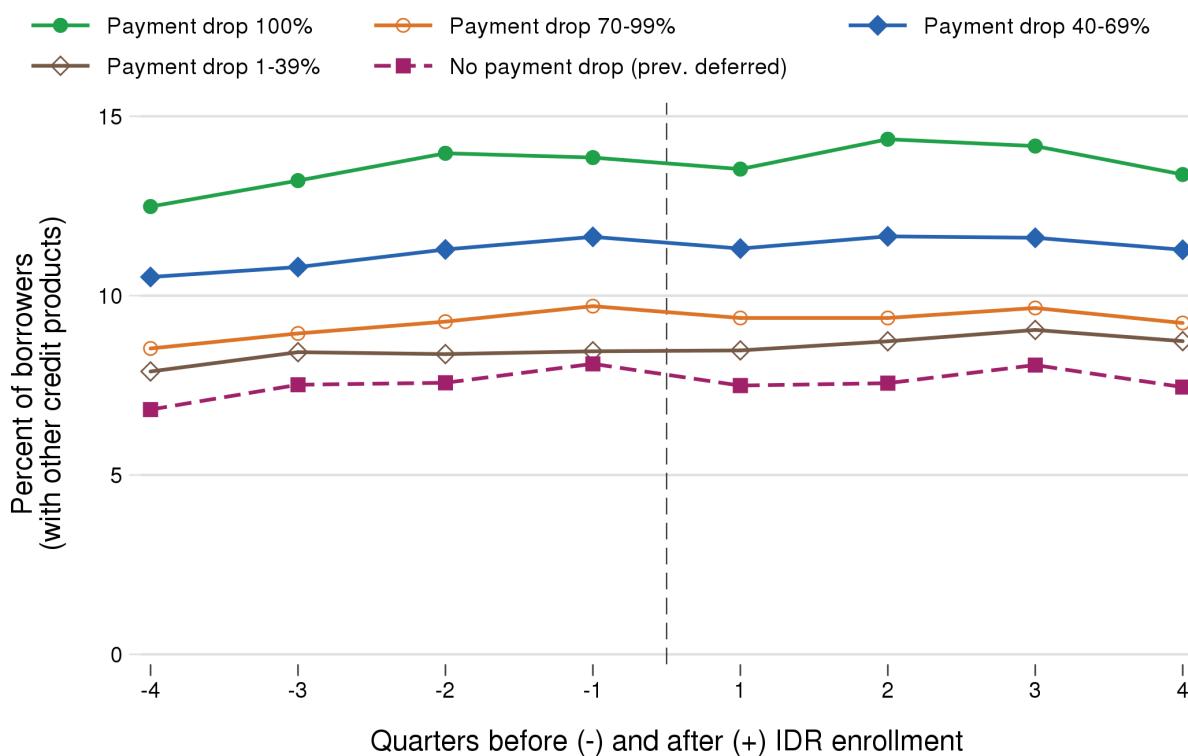
**FIGURE 12: PERCENT OF BORROWERS WITH A CREDIT CARD, AUTO LOAN, OR MORTGAGE 30+ DAYS DELINQUENT, BY STUDENT LOAN BALANCE**



Following enrollment in IDR, most borrower segments have a small decrease in delinquency on other products (with the exception of those with balances between \$10,000 and \$20,000). For those borrowers with balances under \$10,000, there is an improvement in delinquency relative to their pre-enrollment trend. That is, lower balance IDR borrowers continue to have the higher delinquency rates on other products, but these rates are stable and declining later in the year instead of continuing to quickly rise.

Figure 13 again shows delinquencies on other credit products but split by the percentage payment reduction at the time of IDR enrollment. The level of delinquency both prior to and after enrollment varies across these payment-change groups: rates are generally lower for groups with smaller payment drops though those with the third largest payment drop (40–69 percent) have the second-highest delinquency rate. Trends in worsening delinquencies prior to enrollment followed by flat or reduced delinquencies after enrollment are fairly consistent, with the exception of those with the smallest payment decreases of 1–39 percent who have more stable delinquency rates before and after IDR enrollment. This stands in contrast to the patterns for student loan delinquency, where borrowers with 100 percent payment reductions had very different experiences (i.e., the elimination of delinquencies resulting from a \$0 payment obligation) from those with partial payment reductions.

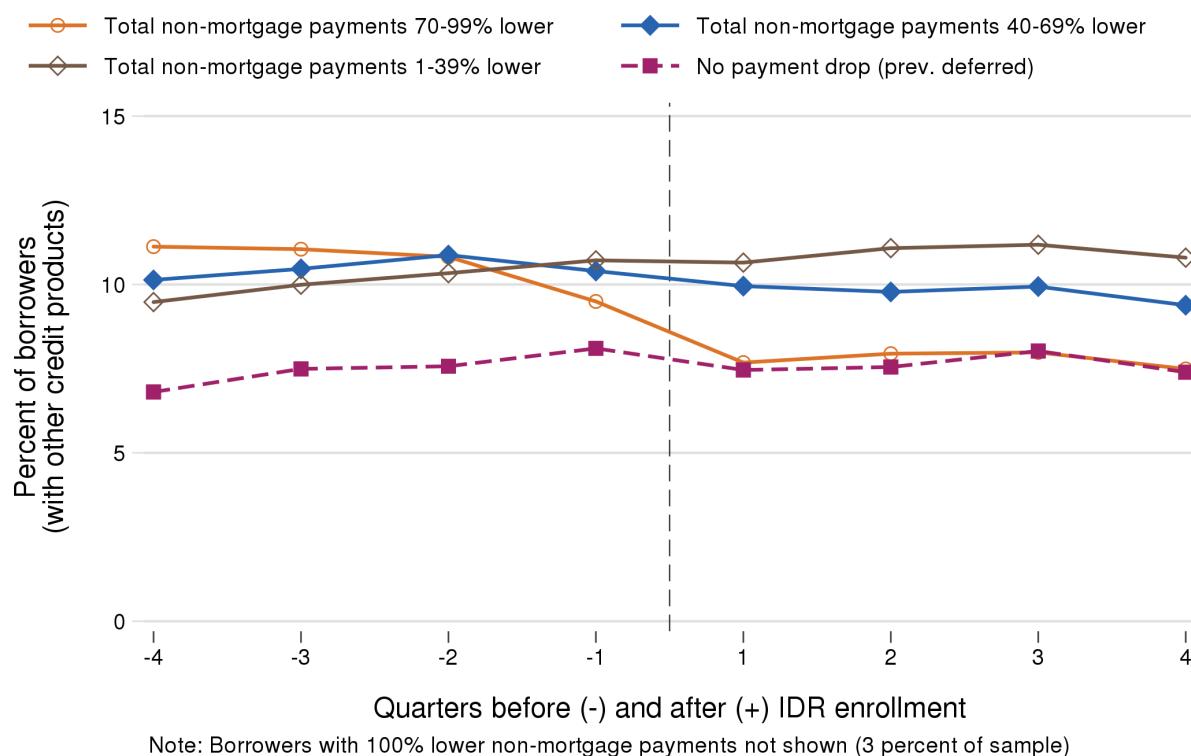
**FIGURE 13: PERCENT OF BORROWERS WITH A CREDIT CARD, AUTO LOAN, OR MORTGAGE 30+ DAYS DELINQUENT, BY SIZE OF PAYMENT REDUCTION**



The potential of IDR to improve delinquency on other credit products may depend on how large the student loan payment relief is relative to borrowers' other debt payment burdens. To explore this possibility, Figure 14 splits borrowers into groups based on the reduction in total scheduled non-mortgage debt payments, rather than the reduction in scheduled payments on only their IDR-enrolled loans.<sup>66</sup> This analysis excludes mortgage payments because rent payments—the equivalent housing liability for renters—cannot be observed in the CCP data.

<sup>66</sup> Outcomes for the three percent of borrowers with a 100 percent reduction in non-mortgage payments are not shown, as these borrowers by definition have zero required payments on their non-mortgage debts at the time of IDR enrollment. In addition, scheduled payments for credit cards are the minimum required payments.

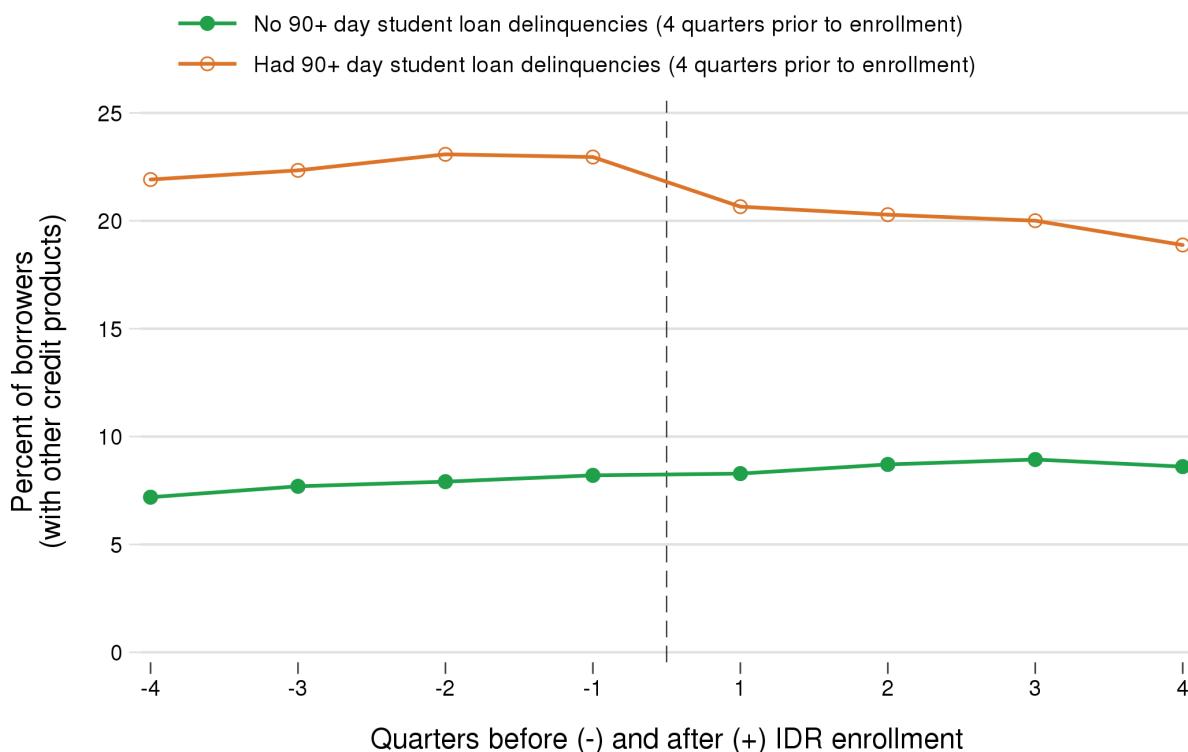
**FIGURE 14: PERCENT OF BORROWERS WITH A CREDIT CARD, AUTO LOAN, OR MORTGAGE 30+ DAYS DELINQUENT, BY REDUCTION IN TOTAL NON-MORTGAGE DEBT PAYMENTS**



Delinquency rates on other credit products improve more for borrowers whose IDR payment reduction represents a larger share of their total debt payments. In particular, delinquency falls from 9.5 to 7.7 percent for borrowers whose total payments drop over 70 percent; by contrast, for those with total payment reductions below 40 percent, delinquency rates do not drop after IDR enrollment and generally have limited improvement relative to the pre-enrollment upward trend. Together, these results suggest that the benefits from IDR may be more broadly dispersed when examining financial well-being beyond the enrolled loans alone. However, these spillovers are more modest than the changes for the IDR enrolled loans when the IDR payment reduction is small relative to a borrower's total monthly debt payments.

Finally, to focus on those borrowers most behind on their payments, Figure 15 again shows delinquencies on other credit products, but separately for borrowers who were 90 or more days delinquent on their student loans at some point in the year prior to enrollment.

**FIGURE 15: PERCENT OF BORROWERS WITH A CREDIT CARD, AUTO LOAN, OR MORTGAGE 30+ DAYS DELINQUENT, BY STUDENT LOAN DELINQUENCY IN YEAR PRIOR TO ENROLLMENT**



By the quarter before enrollment, 23 percent of IDR borrowers 90+ days past due on a student loan were also delinquent on another credit product. The situation improves for these borrowers after enrollment, with delinquency on other products dropping to 19 percent one year later.<sup>67</sup> These results further suggest that IDR enrollment improves delinquency rates not only on student loans, but on other credit products as well. At the same time, many borrowers remain behind on payments even after enrollment, just as with student loans.<sup>68</sup> Delinquency rates remain high for borrowers despite their use of IDR plans, suggesting more fundamental challenges with borrowers' ability to handle their debt burdens.

<sup>67</sup> When examined individually, the pattern of delinquencies rising prior to enrollment and falling after is seen across auto loans, mortgages, and credit cards.

<sup>68</sup> These are not necessarily the same set of borrowers. Of those delinquent on a credit card, auto loan, or mortgage a year after enrolling in IDR, less than one in five borrowers are also delinquent on a student loan. Of those delinquent on a student loan one year after IDR enrollment, less than one in three are delinquent on another type of credit.

# 5. Beyond the first year

As discussed in Section 2, borrowers must recertify their income and family size 12 months after their initial enrollment to maintain their IDR payments. Payments reset to a higher level for borrowers who do not recertify their eligibility on time, typically to a level near their required payments before IDR enrollment.<sup>69</sup>

This section explores what borrowers do after their first year on IDR. The first goal here is to measure the frequency with which borrowers successfully complete the recertification process. To date, published information on IDR recertification rates is rare, and most estimates come from relatively limited samples of IDR borrowers.<sup>70</sup> In addition to providing overall recertification rates, this analysis examines how long borrowers take to recertify and how some use deferments or forbearances while working through the process.

The second goal is to distinguish what fraction of borrowers successfully use IDR to contend with what appears to be temporary financial strain, make a longer-term use of IDR, or experience little or inconsistent relief from an IDR plan. To help understand these differences, borrowers' experience paying both their student loans and other credit products are examined.

## 5.1 Recertification

On-time recertification 12 months after enrollment best smooths payments for borrowers, but borrowers are also able to recertify for IDR at a later date. Table 3 shows the share of borrowers this analysis identifies as recertifying on time (measured 12–14 months after enrollment), as well as one and two quarters after the on-time date (15–17 and 18–20 months after enrollment, respectively).<sup>71</sup> Note that given quarterly observations in the CCP data, some borrowers

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<sup>69</sup> For most plans (ICR, IBR, and PAYE), payments will reset under a standard repayment plan with a 10-year term, based on the loan amount owed when the borrowers' loans *initially* entered the IDR plan. When payments reset under REPAYE, the new, amortizing payment will be based on the balance owed at the time the borrower leaves IDR, with the term set at lesser of 10 years or the unused portion of the REPAYE term (20 years for borrowers repaying only undergraduate loans; 25 years for borrowers who also have graduate school loans). For further information, see <https://studentaid.ed.gov/sa/repay-loans/understand/plans/income-driven#fail-to-recertify>.

<sup>70</sup> See “OES 2016 Project Abstract, Income-Driven Repayment: Recertification,” available at <https://oes.gsa.gov/assets/abstracts/1604-Income-Driven%20Repayment-Recertification.pdf>

<sup>71</sup> In this analysis, recertification is determined based on scheduled monthly payments five to eight quarters after a borrower initially enrolls in IDR, which may categorize some borrowers whose new IDR payments are similar to the standard repayment plan as “not recertified.”

recertifying “on-time” by this definition may in fact miss their initial deadline but recertify before they are next observed in the data.

**TABLE 3: RECERTIFICATION AND FORBEARANCE RATES FOR IDR BORROWERS**

Recertification status	At on-time recertification date (within same quarter)	One quarter after on-time date	Two quarters after on-time date
Recertified: (%)	68.8	71.3	72.5
with no payment increase (%)	57.9	60.6	61.8
with partial payment increase (%)	10.9	10.8	10.7
Deferred/forbearance (%)	11.8	12.5	12.2
Not recertified, or no longer eligible (%)	19.5	16.2	15.3
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Overall, 68.8 percent of borrowers recertify on time, and most of these borrowers have no increase in their monthly payment.<sup>72</sup> However, 11.8 percent of borrowers enter forbearance or deferment, suggesting at least some temporary difficulties with the recertification process or a change in financial circumstances that would increase their IDR payments or make short-term payment difficult. Finally, 19.5 percent of borrowers do not appear to recertify, and their payments reset, at least temporarily, to the maximum payment amounts required under program rules. Recertification rates increase another 2.5 and 1.2 percentage points one and two quarters after the on-time recertification date, as more borrowers complete the required paperwork to maintain their lower IDR payments. The combined share of borrowers not recertifying or using deferment and forbearance declines correspondingly over these quarters. Although the overall shares are relatively stable over these three periods, there is substantial

<sup>72</sup> Comparable data on recertification rates are limited and do not include payment information, but Department of Education officials stated that from November 2013 to October 2014, more than 56 percent of borrowers at the six largest student loan servicers did not recertify on time, and 36 percent went into a hardship related forbearance or deferment. See “ED Unveils New Pilot Programs On Recertification Notifications For Certain Borrowers In Income-Driven Repayment Plans,” available at [http://www.nasfaa.org/news-item/631/ED\\_Unveils\\_New\\_Pilot\\_Programs\\_On\\_Recertification\\_Notifications\\_For\\_Certain\\_Borrowers\\_In\\_Income\\_Driven\\_Repayment\\_Plans](http://www.nasfaa.org/news-item/631/ED_Unveils_New_Pilot_Programs_On_Recertification_Notifications_For_Certain_Borrowers_In_Income_Driven_Repayment_Plans). The higher recertification rates in this *Data Point* are potentially due to the longer time horizon studied, as well as the use of quarterly data, which will include any borrowers recertifying within two months of their recertification date as “on-time.” Meanwhile, recertification rates of 31.3, 64.3, and 63.8 percent were observed for three separate cohorts of borrowers in studies testing methods to improve IDR recertification in 2015. See “OES 2016 Project Abstract, Income-Driven Repayment: Recertification,” available at <https://oes.gsa.gov/assets/abstracts/1604-Income-Driven%20Repayment-Recertification.pdf>. Finally, the approach used here estimates recertification based on the payment information reported to credit bureaus. To the extent this differs from the program reporting to Federal Student Aid, estimated rates may differ.

turnover of individual borrowers moving into and out of deferment and forbearance. For example, six percent of borrowers who recertified on time are in deferment or forbearance two quarters later (not shown).

Various scenarios could lead a borrower to not recertify, each with different implications for borrowers' experiences. First, borrowers may have had an increase in income making them ineligible for a lower payment. Second, borrowers may choose to not recertify, if they believe they are able to afford the higher standard payment following a year with reduced payments and prefer to pay off their loans faster than under IDR. Third, borrowers may have failed to recertify on time, despite desiring the benefits of IDR, including lower payments and the potential for interest and principal forgiveness.<sup>73</sup> The first two scenarios could reflect successful use of IDR for short-term payment relief, while the third scenario, along with borrowers using forbearance, likely indicates borrowers struggling to navigate the IDR program requirements or unable to afford their IDR payments.

While borrowers' incomes are not observed in the data, whether borrowers who do not initially recertify do so later, fall into delinquency, or remain in good standing can be observed. Table 4 shows the recertification status one and two quarters later for borrowers who do not recertify on-time or are in forbearance or deferment. Two quarters (6–8 months) after the on-time recertification date 25.7 percent of such borrowers recertify, suggesting they may have faced initial difficulties with the recertification process. Another 25.2 percent remain in forbearance or deferment and 7.3 percent still do not recertify and become 90+ days delinquent on their loans. These borrowers in deferment, forbearance, or delinquency likely face more prolonged challenges making payments. Finally, 41.8 percent of borrowers who do not initially recertify remain in good standing as they continue to make payments at their new higher scheduled payment level.

Together, these numbers suggest that of the one-third of borrowers who do not initially recertify, about half continue to seek some form of reduced payments, either through IDR or forbearance. Together with the two-thirds of borrowers who do initially recertify, more than 80 percent of IDR enrolled borrowers seek out prolonged payment relief beyond a single year.<sup>74</sup> As a result, a sizeable share of student loan borrowers may continue to rely on the recertification

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<sup>73</sup> Even if their present income makes them ineligible for lower payments, borrowers may prefer to remain in IDR to accumulate qualifying payments towards potential future loan forgiveness.

<sup>74</sup> This recertification rate is higher than the approximately 50 percent rate observed in Herbst's (2019) sample of FFEL borrowers at a single servicer. See Daniel Herbst, "Liquidity and Insurance in Student Loan Contracts: Estimating the Effects of Income-Driven Repayment on Default and Consumption," March 2019.

process or other payment management options in the years to come, particularly given the increased popularity of IDR plans.

**TABLE 4: RECERTIFICATION RATES FOR BORROWERS INITIALLY NOT RECERTIFIED OR IN FORBEARANCE/DEFERMENT**

Recertification status, borrowers not recertified on-time	One quarter after on-time date	Two quarters after on-time date
Recertified (%)	19.7	25.7
Forbearance/deferment (%)	28.5	25.2
Not recertified, current (%)	44.4	41.8
Not recertified, delinquent (%)	7.4	7.3
<b>Total</b>	<b>100.0</b>	<b>100.0</b>

Finally, Table 5 provides a breakdown of how recertification outcomes differ across borrowers one quarter after their on-time recertification date. Assessing outcomes one quarter after recertification allows time for 90+ day delinquencies to be observed. Overall, 71.4 percent of borrowers successfully recertify (5.6 percent of whom have delinquencies), 12.5 percent are in forbearance or deferment, and 16.1 percent neither recertify nor go into forbearance (14.3 percent of whom have delinquencies). Recertification rates are higher for those with lower balances, though these borrowers also have the highest delinquency rates among recertified borrowers. That low-balance borrowers are both the most likely to continue taking advantage of lower IDR payments and the most likely to be delinquent despite those income-adjusted payments may reflect more severe financial distress.

With respect to differences across first-year payment changes, only 50.5 percent of borrowers with a 100 percent payment decrease recertify one quarter after their on-time date, the lowest rate of all payment change groups.<sup>75</sup> Borrowers with a 100 percent payment decrease by definition had \$0 payments in the first year and the lowest incomes (adjusted for family size) at the time of their IDR enrollment. Their lower recertification rate may reflect a mix of borrowers struggling with the recertification process and others using IDR for temporary payment relief potentially in response to job loss, other temporary income reduction, or an initially low income. Among borrowers with a 100 percent payment decrease, 23.0 percent are in good standing after not recertifying, 7.3 percent are delinquent after not recertifying, and an additional 19.2 percent

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<sup>75</sup> Of these borrowers, 48.4 percent recertify and are current, while 2.1 percent recertify but are reported as delinquent. Delinquencies for these borrowers with \$0 payments may reflect uncured delinquencies from the period prior to enrollment.

are in forbearance or deferment. Thus, less than half of these borrowers who do not recertify are in good standing and actively repaying their loans.

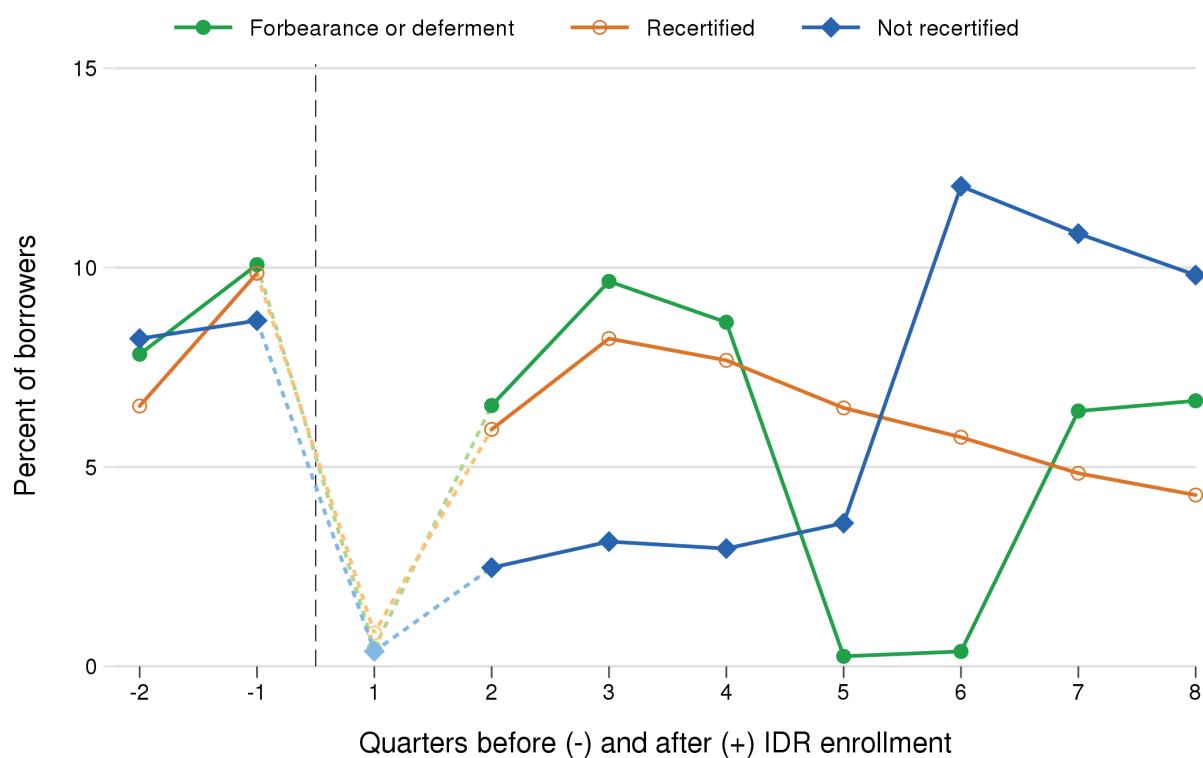
**TABLE 5: RECERTIFICATION, FORBEARANCE, AND DELINQUENCY ACROSS GROUPS, ONE QUARTER AFTER ON-TIME DATE**

Recertification status by borrower group, one quarter after on-time date	Recertified, good standing (%)	Recertified, delinquent (%)	Not recertified, good standing (%)	Not recertified, delinquent (%)	Forbearance or deferment (%)	Total (%)
Full sample	67.4	4.0	13.8	2.3	12.5	100
Balances on IDR enrolled loans:						
\$0–\$4,999	77.7	8.0	5.5	0.9	7.9	100
\$5,000–\$9,999	71.3	6.2	9.6	1.9	10.9	100
\$10,000–\$19,999	66.9	4.5	13.2	2.5	12.9	100
\$20,000–\$39,999	66.5	2.7	15.2	2.6	13.0	100
\$40,000–\$79,999	62.1	2.1	17.7	3.0	15.1	100
\$80,000+	60.4	1.1	22.4	2.2	13.9	100
Payment decrease at IDR enrollment:						
100%	48.4	2.1	23.0	7.3	19.2	100
70–99%	67.7	4.7	12.3	1.7	13.6	100
40–69%	73.3	6.3	8.3	0.9	11.2	100
1–39%	76.8	3.7	11.0	0.7	7.8	100
No decrease, previously deferred	60.5	1.5	20.6	2.6	14.8	100
Delinquency in year prior to IDR enrollment:						
Not delinquent	69.5	2.5	14.3	1.6	12.1	100
Delinquent	55.2	12.5	11.5	6.2	14.5	100

Borrowers who were 90+ days delinquent in the year prior to IDR enrollment have similar recertification rates to those who were not but are substantially more likely to have delinquent loans after recertification. Two-thirds of all borrowers who were seriously delinquent before first enrolling in IDR were in good standing one quarter after their required on-time recertification date. However, 18.7 percent of these borrowers were delinquent again one quarter after their on-time recertification date. Consistent with the patterns seen in Figure 13 for other credit products, while IDR enrollment helps many borrowers manage their student loans and other debt, there is a sizable population who appear to continue to struggle despite IDR plan availability.

Figure 16 shows 90+ day delinquency rates prior to initial IDR enrollment were relatively similar across borrowers who recertify on-time, do not recertify, or go into a forbearance/deferral at their on-time recertification date. After entering IDR, however, borrowers who eventually use forbearance or deferral experience relatively high delinquency rates, suggesting that for many their IDR plan may not be sufficient to address all of their financial distress. Their student loan delinquencies fall sharply as they begin entering forbearance four quarters after enrolling in IDR. However, this improvement is largely temporary as two years after their initial enrollment, 7 percent of these borrowers are delinquent, and 36 percent remain in forbearance or deferral (not shown).

**FIGURE 16: PERCENT OF BORROWERS WITH A STUDENT LOAN 90+ DAYS DELINQUENT, BY ON-TIME RECERTIFICATION STATUS**

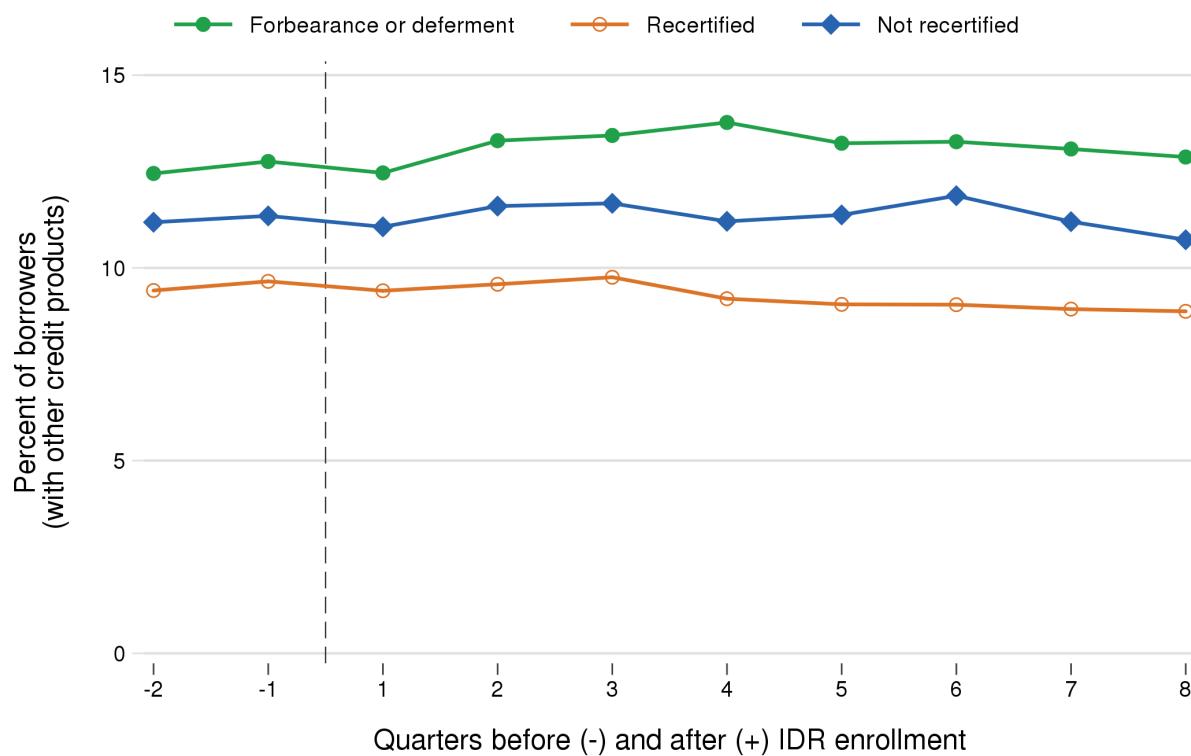


In contrast, for borrowers who recertify, student loan delinquencies follow a similar trend during their first year on IDR but then trend downward as they finish their first year and move through their second year in IDR. Most of these borrowers remain in active repayment as well, with only 7 percent of these borrowers in forbearance or deferral a year after recertification (not shown). Borrowers who neither recertify nor go into forbearance at the end of their first year on IDR experience the lowest rates of delinquency during this first IDR year, but much of this is the result of the high share of these borrowers with a \$0 monthly payment. As with

borrowers using forbearance after their first year on IDR, delinquency increases for borrowers whose payments increase after they do not recertify—the share delinquent more than triples one quarter later—and begins to drop back towards their level of delinquency prior to enrolling in IDR.

Figure 17 examines delinquencies on other products for these same groups. Borrowers who use a forbearance or deferment after their first year on IDR have higher rates of delinquency on at least one other product type before, during, and after their first year on IDR. As with their student loans, other delinquencies increase during the first year and slowly begin to improve, but without a large drop in delinquency five quarters after initial enrollment since student loan forbearances do not directly affect the delinquency status of other loans.

**FIGURE 17: PERCENT OF BORROWERS WITH A CREDIT CARD, AUTO LOAN, OR MORTGAGE 30+ DAYS DELINQUENT, BY ON-TIME RECERTIFICATION STATUS**



Borrowers who successfully recertify on time, meanwhile, have a small improvement in delinquencies on other credit products, with rates remaining below their pre-enrollment level. Finally, there is a small increase in other delinquencies for borrowers who do not recertify and return to higher student loan payments when their IDR payments reset. Together, these results

suggest that borrowers' successful use of recertification appears to spill over into their performance on other products, albeit in a more muted manner.

# 6. Conclusion

As student loans feature more heavily on consumers' balance sheets and borrowers increasingly turn to alternative repayment plans to help them cope, the need to understand how IDR plans affect borrowers grows. The Bureau and other policymakers can benefit from more information to help them project how student borrowers' finances are likely to evolve in the years to come and how this may interact with changes in other markets. These additional insights into how the effects of IDR plans vary across borrowers can also help the Bureau and other groups more effectively educate consumers and empower them to make well-informed choices.

This *Data Point* makes use of unique data available to the Bureau to show that the set of borrowers using IDR over the last decade is quite diverse. The extent to which borrowers improve their financial situation while on IDR also varies widely. Although the average IDR borrower has a relatively large student loan balance, more than a quarter of all IDR borrowers have less than \$10,000 in loans when they enroll. Additionally, a sizeable share of borrowers entering IDR were seriously delinquent or not in active repayment on their student loans prior to enrollment, while other borrowers were in good standing and appeared able to manage a variety of debts across their balance sheets.

Upon entering IDR, the financial situation of many borrowers, as measured by delinquency rates, improves. Student loan delinquencies do not entirely disappear for most groups of borrowers, but delinquencies decrease and, though balances do not decrease, most borrowers are considered to be in repayment on their loans and working toward payoff or loan forgiveness. Delinquencies on other credit products also improve, but many consumers remain or fall behind on payments.

Ultimately, some borrowers appear able to return to payments not based on income and remain in good standing, potential evidence that IDR can provide effective relief for those with short-term financial difficulties. But most borrowers remain on an IDR plan for multiple years or may struggle with the recertification process as evidenced by a lapse in their enrollment. This latter group also shows the highest delinquency rates during their first year on IDR. These borrowers remain behind on payments despite the availability of IDR, suggesting they face more fundamental challenges handling their debt burdens. Additional research is necessary to understand why these borrowers continue to struggle, but the patterns shown here can help the Bureau in designing its outreach to current and potential student loan borrowers. Additionally, this *Data Point* helps the Bureau and other researchers and policymakers understand how consumers repay their student loans and how that behavior affects their use of other financial products, important evidence not only for monitoring these markets, but also as one input into the more comprehensive discussion around the IDR program.