Congressional Research Service
Informing the legislative debate since 1914

IN FOCUS

March 23, 2015

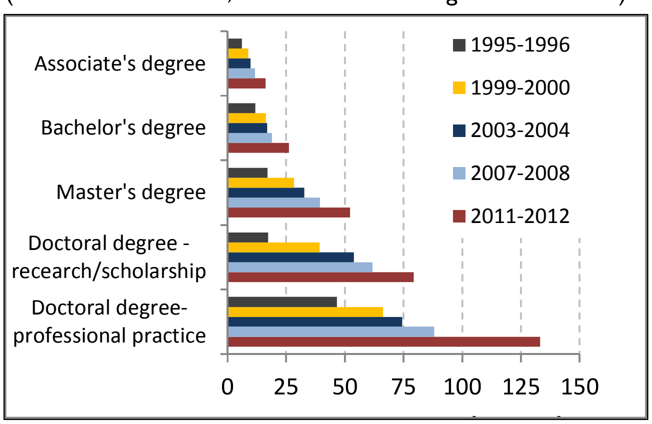
A Snapshot of Student Loan Debt

A growing reliance on federal student loans to finance increasingly costly postsecondary education expenses has resulted in borrowers accumulating larger amounts of student loan debt. By a number of metrics, the debt being incurred by current borrowers is considerably larger than amounts incurred by past cohorts. Many borrowers also are taking advantage of repayment flexibilities that allow them to extend the period over which they repay their loans, but which may lead to larger overall amounts paid due to increased interest expenses. In aggregate terms, the federal student loan portfolio has grown considerably in recent years and the outstanding balance of federal student loans now exceeds $1 trillion—more than a tenfold increase over the outstanding balance two decades ago.

Total Student Loan Debt, by Type of Degree Completed

Department of Education data show that for students completing degrees of all types, both the percentage with federal loan debt and the average cumulative amounts owed steadily increased over the past two decades (**Figure 1**).

Figure 1. Average Cumulative Amount Owed on Federal Student Loans, by Type of Degree Completed
(Thousands of dollars, AY1995-1996 through AY2011-2012)



Source: U.S. Department of Education, National Postsecondary Student Aid Studies (NPSAS): 1996, 2000, 2004, 2008, and 2012.
Note: Nominal dollars.

For undergraduate students, average cumulative federal student loan debt at degree completion more than doubled between award year (AY) 1995-1996 and AY2011-2012. In AY1995-1996, 26% of associate degree recipients had loans and owed an average cumulative total of $6,200; by AY2011-2012, 42% had loans and owed an average of $16,300. Among bachelor degree recipients, in AY1995-1996, 49% had loans and owed an average of $11,900; by AY2011-2012, 62% had loans and owed an average of $26,200.

Cumulative student loan debt of graduate and professional degree recipients has increased even more. (Estimates also include undergraduate debt.) In AY1995-1996, 44% of master's degree recipients had federal student loan debt and owed an average cumulative total of $17,000; by AY2011-2012, 59% had loans and the average cumulative amount owed had increased to $52,100. Among doctoral degree recipients in research and scholarship fields (e.g., Ph.D.), in AY1995-1996, 30% had loan debt and the average cumulative owed was $17,300; by AY2011-2012, 43% had loans and the average amount owed had increased to $79,300. The debt of professional practice doctoral degree recipients (e.g., M.D., J.D.) increased the most starkly. In AY1996-1996, 74% had loans and owed an average of $46,600; by AY2011-2012, 78% had debt and owed an average cumulative total of $133,300.

How Student Loans Are Repaid

Federal student loans are characterized by myriad ways in which repayment may be structured and temporarily delayed. Borrowers may select from among several different loan repayment plans. They also may extend the repayment term of their loans by including them in a Consolidation Loan. Additional flexibilities include deferment and forbearance, which allow borrowers to temporarily delay making payments on their loans. Use of these flexibilities, however, may delay or slow the rate of repayment and may ultimately increase the total amount of interest borrowers pay on their loans.

Repayment Plans

Unless a borrower chooses otherwise, student loans are repaid according to a standard repayment plan, with equal monthly installments paid over a period of not more than 10 years. Increasingly, borrowers are using the income-driven repayment plans (income-based repayment (IBR), income-contingent repayment (ICR), and Pay-As-You-Earn (PAYE)) in which payment amounts are capped at a portion of discretionary income and adjusted annually, and in which the repayment period may be extended up to 20 or 25 years. Under the income-driven plans, any loan balance that a borrower has been unable to pay by the end of the specified repayment term is discharged.

Other available repayment plans include graduated repayment, in which borrowers' monthly payment amounts gradually increase over the course of the repayment period; extended repayment, in which borrowers with total loan balances that exceed $30,000 may make lower monthly payments over a longer repayment period; and alternative repayment plans, which may be made available to borrowers who demonstrate they are unable to repay according to the other plans.

Loan Consolidation

Borrowers may simplify the repayment of their federal student loans by including them in a new Consolidation Loan. Through loan consolidation, borrowers begin a new repayment term that—depending on the loan balance—may be for a period of up to 30 years. This may reduce the monthly payment amount, but may lead to an increase in the total amount of interest paid. Consolidation Loans comprise 35% of the federal student loan portfolio.

Effects of Interest Accrual During Periods When No or Reduced Payments Are Made

Borrowers are relieved of making payments on their loans during certain periods, such as while they are in school, during a six-month post-enrollment grace period, while in deferment, or when granted forbearance.

For most loans (except need-based Subsidized Loans) interest begins accruing when a loan is disbursed and continues to accrue even during periods of delayed or deferred repayment. While borrowers may delay paying the interest that accrues during these periods, it is eventually capitalized (i.e., added to the principal balance). Due to the accrual and capitalization of unpaid interest following periods of delayed repayment, many borrowers begin repayment on their loans owing hundreds or thousands of dollars more than they initially borrowed.

The income-driven repayment plans permit borrowers to repay their loans over a period that may exceed 10 years. Additionally, those borrowers with substantial debt relative to their incomes may qualify to make monthly payments of less than even the interest that accrues on their loans. If this occurs, the unpaid interest continues to accrue and eventually may be capitalized into the principal balance of the loan, increasing the total amount owed.

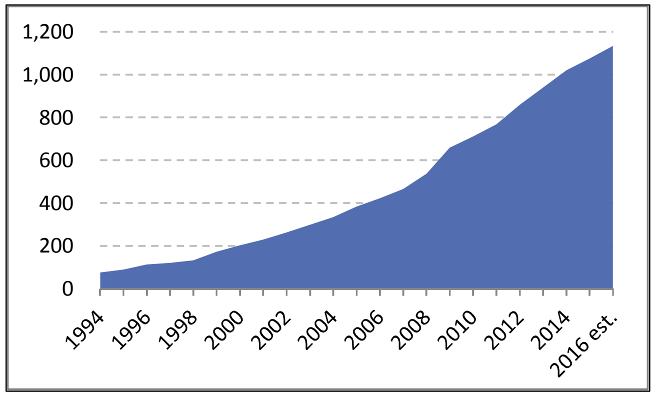
Student Loan Debt in the Aggregate

The federal student loan portfolio has been steadily increasing due to factors that include growth in the overall number of borrowers, individuals borrowing larger amounts to finance their education expenses, and the availability and use of options to delay or extend loan repayment. More than 41 million individuals—one in six adult Americans—currently have federal student loan debt. Since 2010, student loans have been the nation's second largest source of consumer debt, exceeded only by mortgage debt.

During the period from FY1994 through FY2003, the total volume of student loans outstanding increased from less than $100 billion to nearly $300 billion (**Figure 2**). During this period, federal student loans were disbursed at a rate that remained under $50 billion per year. From FY2004 to FY2010, annual disbursements gradually increased from $50 billion to $100 billion, and since FY2010, disbursements have remained slightly above $100 billion per year. The total volume of federal student loans outstanding surpassed $500 billion in FY2008, and exceeded $1 trillion in FY2014.

Figure 2. Cumulative Outstanding Direct and Guaranteed Student Loans

(Billions of dollars, FY1994 to FY2016 est.)



Source: Budget of the United States Government, Fiscal Year 2016 (and prior years), Appendix for the Department of Education.

Policy Issues

Congress may consider the following policy issues in the context of reauthorization of the Higher Education Act of 1965, which authorizes the federal student loan programs.

Loan availability. Should new constraints be established to limit how much student loan debt individuals may incur or the extent to which postsecondary education expenses may be financed with federal student loans?

Loan repayment terms. What are the long-term benefits and costs to borrowers and society of existing loan repayment flexibilities such as allowing borrowers to spread the repayment of their loans over an extended period of time or to make reduced monthly payments, but which lead to increased interest expenses?

Debt and societal well-being. To what extent does federal student loan debt affect borrowers' opportunities and choices concerning careers, family formation, home ownership, and wealth accumulation?

Sustainability of the federal loan portfolio. Although most loans are repaid and defaulted student loans are in many cases rehabilitated or collected on, consideration may be given to the rate at which the federal loan portfolio will grow over the long term and to the proportion of loans that will ultimately be repaid in full.

For more information, see CRS Report R40122, *Federal Student Loans Made Under the Federal Family Education Loan Program and the William D. Ford Federal Direct Loan Program: Terms and Conditions for Borrowers*, by David P. Smole.

David P. Smole, dsmole@crs.loc.gov, 7-0624

IF10158