Policy Brief: Education debt in Maine

Predatory actors worsen borrowers' woes as debt holds back ME economy

by Jody Harris, Associate Director | December 10, 2018

Higher education is a boon to graduates and Maine's economy. It increases degree holders' lifetime earnings, improves business competitiveness, and spurs consumer spending.[1]

But escalating college debt and rising rates of student loan defaults threaten to derail the benefits of higher education for Maine's families and our economy. Money that normally would be spent at local businesses or to support household needs is tied up in loan payments and interest — resulting in a loss of jobs, decreased spending, and reduced economic security for families.

Research shows that Maine student borrowers struggle to repay their loans to the detriment of the state's economy, while unscrupulous for-profit colleges and student loan servicing companies increase student borrowers' debt and make it more difficult to pay down their student loans.[2]

Most college-going students expect to have to borrow to get their degrees. But some of the worst for-profit colleges deceive Maine students into taking on higher amounts of debt for degrees that are often worthless.[3] Meanwhile, private companies that service student loans on behalf of the federal government engage in a range of practices that likewise lead to greater loan costs and financial adversity for borrowers.[4]

Mainers who borrow to achieve the financial stability that a college degree offers find themselves saddled with debt and repayment plans that make it difficult for them to pay their bills or save for retirement.

Other student borrowers delay making big purchases, put off starting a family, or leave the state to find better-paying jobs that allow them to more easily pay off their loans.[5]

Predatory schools and loan servicing practices target our most vulnerable borrowers and Maine laws let them. Maine's lax oversight contributes to escalating student loan debt and puts an additional drag on Maine's economy.

State policymakers must enact smart consumer financial protections to prevent fraudulent lending and loan repayment abuses that are holding back Maine families and our economy.

By addressing the negative effects of student debt and predatory financial service providers, Maine can ensure families and the economy reap the full benefits of higher education.

Student debt stifles consumer spending, job creation in Maine

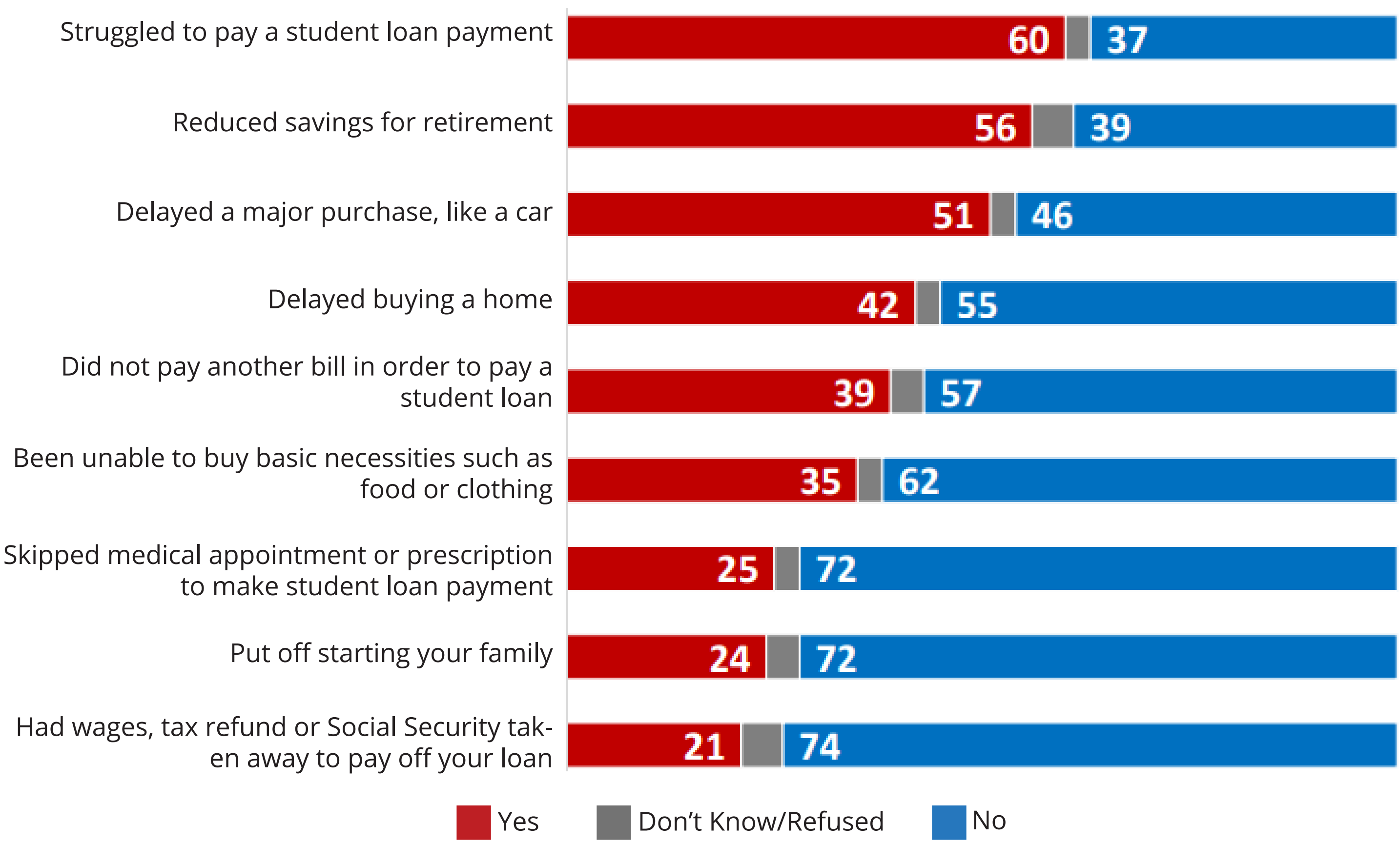
Maine's college graduates owe nearly $6 billion in federal student loan debt.[6] The debt and interest carried by student borrowers would support 6,000 jobs and generate $726 million in spending at local businesses if it were circulating through Maine's economy instead of going to federal lenders and loan servicers.[7]

Maine's economy suffers when people are burdened with debt. Student loans prevent Maine families from getting ahead in their jobs, jeopardizes retirement security, and reduces economic activity.

In an October 2018 survey conducted by Lake Research Partners, 42 percent of Mainers with education debt reported delaying buying a house, an important indicator of a state's economic prosperity.

But it isn't just an inability to plant roots in their communities that's holding back Maine's education debt holders. More than half said they are delaying buying a car, restricting their ability to get to work. One in four are waiting longer to start a family, adding to Maine's well-publicized demographic concerns. More than 40 percent of Mainers with student loan debt know someone who moved to another state in order to take a job that better equips them to pay off their loans, exacerbating Maine's worker shortages.[8]

Figure 1: Student debt leaves borrowers without resources to sustain healthy families



Responses to the following prompt: "I am going to ask you a couple of questions about the impact of your student loans. After I read each statement, please tell me if it has happened to you in the last few years. Has this happened to you in the last few years?" Source: Lake Research Partners. "Student Lending Reform: Findings from a Survey of 400 Maine Adults with Education Debt," November 2018.

Debt forcing Mainers, including seniors, into financial crisis

One in five Mainers owe money for their college education[9] and student loans now can take decades to pay off, with half of undergraduate borrowers nationally still owing tens of thousands of dollars 20 years after college.[10]

Student debt can damage a families' health and financial security. Fifty-six percent of Mainers with student loans have reduced their retirement contributions. Sixty percent of student loan borrowers in Maine have skipped other bills to make a loan payment and 25 percent have missed medical appointments or chosen not to fill prescriptions as a result of their debt. One out of three are unable to buy basic necessities like food or clothing (see Figure 1).[11]

While conversation about student debt conjures images of young people, the fastest-growing population of student borrowers in Maine is seniors who are repaying their own student loans or loans that they co-signed for their children or grandchildren.[12] More than 20,000 Mainers over the age of 60 carry a half-billion dollars of student loan debt,[13] and the number of student borrowers over the age of 60 in Maine increased by 46 percent between 2012 and 2017[14]. Older borrowers experience greater hardship than younger borrowers. Nationally, they are more likely to be behind on their loan payments, skip necessary health care, and have saved less for retirement.[15] When the federal government takes Social Security income to repay student loans, many senior borrowers drop below the poverty level.[16]

Defaults increase uncertainty for Mainers with low-incomes

Loan default rates are on the rise in Maine, doubling since the mid-2000s. Today, 10 percent of Maine student borrowers are in default, up from 5 percent in 2004.[17] Economists project that the rate of default on student loans nationally will reach 40 percent within the next five years.[18]

Defaulting on a student loan has serious economic consequences, triggering wage seizures, poor credit scores, and debt collection proceedings. One in five Mainers with student loan debt has had their wages or income tax refund garnished or their social security check taken away to pay for their student loans.[19]

Loan default rates in Maine have doubled since 2004, with 10 percent of today's borrowers in default.

While those with the largest debt payoff totals command the most attention in the public conversation about student debt, it is those with smaller debts who are most likely to default. According to the Brookings Institution, Americans with less than $6,125 in total education debt had a 37 percent default rate, while those with more than $24,000 in debt had a default rate of 24 percent.

The likely explanation is that borrowers with the smallest amount of student loan debt are more likely not to have completed their degrees, or they have graduated from programs that lead to jobs that tend to pay less.

That leaves them carrying education debt, but unable to obtain higher-paying jobs, thus increasing their risk for default.

Mainers who borrowed to finance education at a for-profit college fare worse in the labor market and face greater hardship as a result of their debt than Mainers who attended traditional colleges and universities.

Student borrowers at private, for-profit colleges fare the worst

Mainers who attend for-profit colleges struggle the most with the financial insecurity resulting from student loan debt.

Seeking to profit from federal student grant and loan funds, for-profit colleges target and disproportionately enroll Maine's low-income students. They also target women and minorities who face added challenges in repaying loans due to the prevalence of wage discrimination.

For-profit institutions also have been found to fail students' in terms of educational outcomes. Students at public institutions are more than twice as likely to graduate within six years as students at private, for-profit colleges.[20]

Students at for-profit colleges don't see their fortunes improve after leaving school, either. Nationally, borrowers who attend for-profit colleges have lower earnings and are more likely to be unemployed or out of the labor market than students who attend public or nonprofit institutions.[21]

Maine students with loans from for-profit colleges experience greater negative financial consequences than other student loan borrowers. They borrow more, leave with substantially higher debt levels, and have lower repayment rates than those at Maine's public and private colleges.[22] Borrowers who attended for-profit colleges skip buying food or clothes in order to make their student loan payments at a rate 25 percent higher than the Maine average. They also delay major purchases and forgo medical needs more than other student loan borrowers.[23]

Aggressive marketing by for-profit colleges convinces borrowers to commit to expensive programs and loans without their full understanding, jeopardizing their economic futures and leaving them with a lifetime of debt and credit-ruining defaults.

Problems with student loan servicers linked to economic hardship

As Mainers struggle to pay down their debt, evidence suggests their troubles are exacerbated by predatory and deceitful loan servicing. In 2017, the federal Consumer Finance Protection Bureau sued Navient, the country's largest student loan servicer, for deceiving customers to save costs.[24] In recent years, the Bureau has uncovered or alleged predatory practices such as failing to provide information that would help borrowers repay their debt; illegally increasing borrowers' interest rates; and unfairly allocating payments in a way that maximized fees, among other concerns.

Unsurprisingly, Mainers also report problems with servicers that make it harder to pay down their debt. One in three Maine student borrowers say servicing companies failed to tell them about income-based repayment plans that would help them keep up with payments.[25] Roughly four of every ten Mainers with student loan debt say they had a problem with servicers that lowered their credit score. One-third report that the cost of their student loan increased from new fees or higher interest rates due to problems with servicers, 28 percent said problems with their loan servicer caused them to default on their loan.[26]

When Mainers have recurring trouble with loan servicers, they're more likely to face hardship as a result of their debt. For example, 42 percent of those with multiple loan servicer problems said they had skipped needed medical appointments or chosen not to buy a prescribed medicine in order to pay a student loan, compared to the average Maine borrower rate of 25 percent.[27]

Conclusion

Higher education is good for individuals and our economy, but the negative effects of Mainers' growing student debt load and predatory practices by for-profit colleges and student loan servicing companies threaten to derail the economic benefits of a college degree. Unfortunately, President Donald Trump's administration has taken a step back from holding these entities more accountable. Absent stronger federal oversight, state policymakers can do three things to address the growing crisis and unleash the economic power of Mainers currently held down by education debt:

- First, they can pursue debt relief programs for Mainers already saddled with loans. Maine's Educational Opportunity Tax Credit has been described as a solution both to individual Mainers' debt woes and to the state's challenge in attracting a young cohort of skilled workers. However, few eligible Mainers utilize the program. Even if participation increases, more will need to be done to mitigate the harmful effects of education debt on Maine families. Policymakers should continue to explore debt forgiveness programs and other creative means of releasing Mainers from the grip of education debt.

- Second, policymakers can step up consumer finance protections to create real accountability for predatory actors in the higher education and student loan ecosystem, including for-profit colleges and loan servicing companies. The Legislature took steps in the right direction with the enactment of two bills — LD 1404 and LD 1507 — which would have created greater oversight and accountability for for-profit colleges and loan servicers operating in Maine. However, Gov. Paul LePage vetoed both bills. The new Legislature and Gov.-elect Janet Mills should re-examine the proposals, or similar ones, to ensure all actors in Maine's higher education system are supporting Mainers ability to obtain degrees or credentials and pay down their debt.

- Third, policymakers, advocates, and higher education officials can work together to find solutions that will allow the next generation of students to earn a degree or post-secondary credential with significantly less debt. Expanding the State of Maine Grant to more adequately meet the needs of low-income students is a solution that could be enacted today, while more systemic reforms are crafted with a goal of debt-free higher education for all Mainers.

Higher education is one of society's greatest providers of economic mobility. The higher incomes and skills acquired by graduates improve financial security for those individuals and their families, and those benefits ripple throughout the entire economy. With decisive action to reverse the startling trends outlined in this report, Maine can put itself on track to more fully realize the promise of higher education for families, communities, and the state.

About MECEP

The Maine Center for Economic Policy is a nonprofit research and policy organization dedicated to improving the economic well-being of low- and moderate-income Mainers. Since its founding in 1994, MECEP has provided policymakers, advocates, media organizations, and the public with credible, rigorous analysis that advances economic justice and shared prosperity. MECEP is an independent, nonpartisan organization.

About the Author

Jody Harris is the associate director for the Maine Center for Economic Policy, where she serves as MECEP's policy lead on working poor families and consumer finance protection. She has 30 years of experience in public management, having served in policy roles in Maine state government under four governors and as town manager in two Maine towns. She has a master's degree in public administration from the University of Maine.

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