



# FAULT LINES IN BORROWING: ACADEMIC OUTCOMES OF STUDENTS IN DEFAULT

A profile of Florida's Valencia College reveals association between student loan default and poorer academic outcomes.

By Rachel Rush-Marlowe





## ACKNOWLEDGEMENTS

This report was researched and written by Association of Community College Trustees (ACCT) Senior Program Manager Rachel Rush-Marlowe. The author thanks ACCT Senior Vice President Jee Hang Lee for his support and guidance. We also thank Valencia College Institutional Research Analyst Donna Payne and Assistant Vice President of Financial Aid Daniel Barkowitz, who contributed insights and experiences that were critically valuable to this work. Finally, we would like to thank the Seldin/Haring-Smith Foundation for their generous support for this project. We especially appreciate the support from CEO and Co-Founder Abigail Seldin and Senior Research Associate Ellie Bruecker.

---

ACCT is a non-profit educational organization of governing boards representing more than 6,500 elected and appointed trustees who govern over 1,100 community, technical, and junior colleges in the United States and beyond. These community professionals, business officials, public policy leaders, and leading citizens offer their time and talent to serve on the governing boards of this century's most innovative higher education institutions and make decisions that affect more than 13 million students annually. For more information about ACCT, visit [www.acct.org](http://www.acct.org).

*Rachel Rush-Marlowe is a Senior Program Manager at the Association of Community College Trustees.*

This report was made possible by a grant from the Seldin/Haring Smith Foundation and data from Valencia College.

---

### December 2020

**Suggested citation:** Rush-Marlowe, R. (2020). *Fault Lines in Borrowing: Academic Outcomes of Students in Default*. Washington, D.C. Association of Community College Trustees. This paper may only be reproduced or disseminated, in whole or in part, with proper attribution and within terms of this Creative Commons license for noncommercial use: <https://creativecommons.org/licenses/by-nc/3.0/us/>

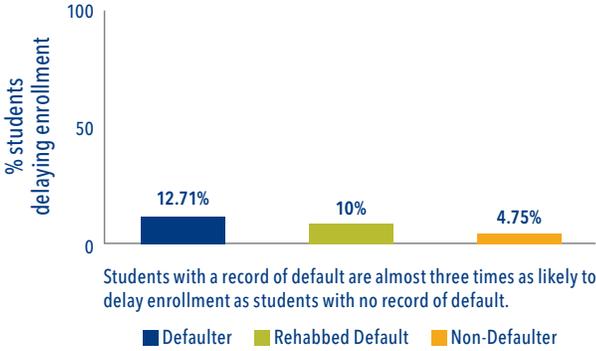
Cover photo by eyecrave/Getty Images, courtesy of Seldin/Haring-Smith Foundation

Every year, more than one million students default on their loans, and a disproportionate number of these are community college students. Community college students are less likely to take out federal loans than students in other sectors, but have higher default rates than the national average of defaults among all higher education institutions. Beginning in March of 2020, federal student loan payments were automatically suspended and placed into administrative forbearance as part of a coronavirus economic relief effort. Pausing these payments has likely prevented thousands of at-risk borrowers from entering default, but it has done nothing to help those currently in default or struggling to rehabilitate their loans.

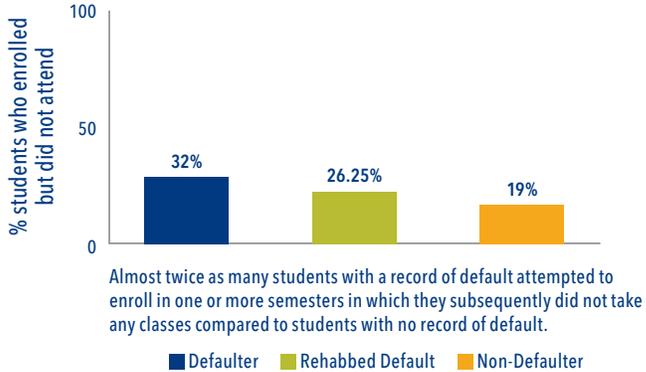
The student default crisis predates the pandemic and will likely outlast it as well. Research suggests that by the year 2023, nearly 40% of student borrowers may default on their loans. Default does not impact all borrowers equally: students who have stopped out or who have completed some college credits but have not yet earned a degree or credential are especially at risk for default. Non-traditional age students, students of color, and low-income students are also at greater risk. The median defaulter owes less than ten thousand dollars, and students with the smallest amounts of debt are the most likely to default.

Regardless of the amount, defaulting on a loan carries several adverse financial consequences, which can include loan acceleration, wage garnishment, seizure of tax refunds, property liens, credit score damage, and even litigation from the loan servicer. In several states, professional licenses, as well as driver's licenses, can be revoked due to federal student loan default. This can lead to job loss, making it even more difficult for borrowers to enter repayment. These policies are especially concerning amid the COVID-19 pandemic, given that license revocation has an outsize impact on those working in the healthcare field. Students with a record of loan default attempting to enroll at a postsecondary institution are also ineligible for federal financial aid, under Title IV of the Higher Education Act, which can create barriers for enrollment and completion. This means that any student re-enrolling with an unresolved default will need to pay for credits out of pocket or find alternative financing for their education.

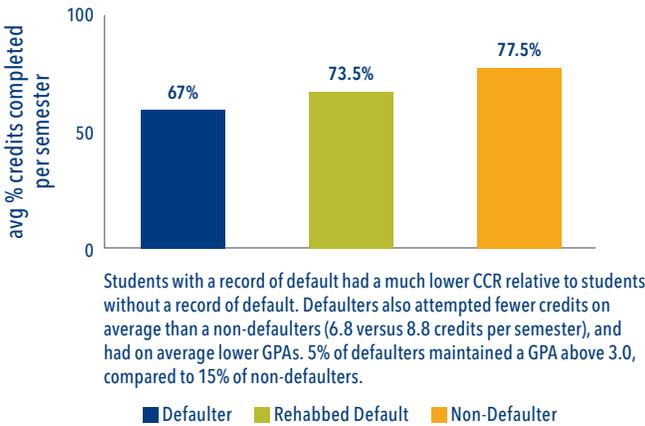
**Delayed Enrollment by Default Status**



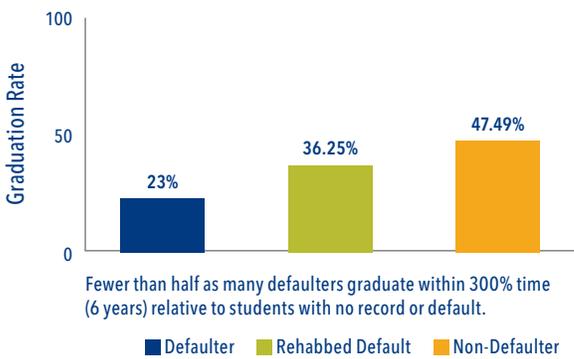
**Enrollment/No attendance by Default Status**



**Credit Completion Ration (CCR) by Default Status**



**Graduation Rate by Default Status**





## Institutional Default Profile: Valencia College

Past ACCT research focused on student borrower behavior in Iowa, Kentucky and Louisiana, and on institutional strategies for reducing default. For this report, we are expanding our analysis by taking a close look at academic outcomes for students from Valencia College in Orlando, Florida.

In examining three years of academic data from Valencia College, ACCT found that students in loan default choose to re-enroll in the college even when their default status prohibits Title IV funding and myriad other challenges. However, students with a record of default are more likely to delay enrollment, to take fewer credits, to complete fewer of the credits that they attempt, and to perform worse in the credited courses that they do complete relative to their non-defaulted peers. Defaulted students who were able to complete loan rehabilitation and clear their default performed about as well as students who had no record of default. Loan rehabilitation is a process that restores Title IV eligibility, but takes a minimum of ten months to complete, requiring a student to make nine consecutive on time payments. In the 2016-2017 academic year (the most recent year for which data was available for this study), the average amount borrowed by students at Valencia College was less than \$3,000. Significant academic barriers exist for students in default, in addition to the financial ones.

Despite not having access to federal funding, students in default are returning to school, but they are unable to achieve the same academic success of their peers. ACCT's analysis found that only 23% of Valencia students who defaulted on their loans graduated within six years of enrolling. In comparison, over 47% of Valencia students who never defaulted graduated within this timeframe.

While rehabilitation is intended to help students overcome the negative academic impacts of default, our analysis demonstrates that rehabilitated students perform better than students in default, but not as well as students who never defaulted. This is likely because the current rehabilitation process is lengthy and arduous, and other options are limited—which still creates a barrier for students' credit completion and timely graduation.

These data highlight the negative academic effects of loan default and underscore the need for immediate and extensive reform to the student loan system

## Repayment, Consolidation, Rehabilitation

Currently, students seeking to resolve a defaulted loan have three options: 1) repay the loan in full; 2) loan consolidation; and 3) loan rehabilitation.

**Repayment in full** is not a practical option for most borrowers because of the large financial burden it presents.

**Loan consolidation** allows borrowers to combine multiple federal loans into one, allowing a single monthly payment. While consolidation is a much quicker process than rehabilitation, successfully completing rehabilitation allows the record of default to be removed from a borrower's credit history, which is not the case with consolidation or full repayment. Consolidation also lengthens repayment, meaning borrowers may end up paying more in the long run due to interest, and consolidating loans causes borrowers to lose progress for any payments made toward public service loan forgiveness and some other repayment forgiveness plans.

**Rehabilitation** is a lengthy process, requiring nine on-time payments over the course of a consecutive 10-month period. Loan rehabilitation is also an option only once; borrowers who rehabilitate a defaulted loan and then subsequently default again, rehabilitation is no longer an available option for that loan. Each year, over 100,000 students default on a loan for the second time. Until a student has completed the minimum 10-month rehabilitation process, they are not eligible for additional Title IV federal financial aid.

## Recommended Changes

Reforming the student debt system and removing unnecessarily punitive state laws will alleviate the financial burden and additional unnecessary hardships currently placed on student borrowers. These changes are needed to help student borrowers regain their financial standing and get back into the classroom or back to work more quickly. To this end, ACCT proposes the following changes:

1. The ongoing pandemic and ensuing economic crisis have made the situation for student borrowers far more urgent and dire. To prevent an increase in the number of defaulters during this period, ACCT recommends extending mandatory forbearance until at least Sept 30<sup>th</sup>, 2021.
2. Automatically enter students into a mandatory income-driven repayment plan after a period of delinquency. Simplify and improve other repayment options, as detailed in ACCT's 2017 report *Lost in the Trillion: A Three State Comparison of Community College Borrowing and Default*.
3. Forgive at least \$10,000 in student loans targeted to students most in need, tax free.
4. Remove prior default from borrowers' credit histories if the loan has been repaid in full or forgiven.
5. Pass the Protecting JOBS Act, introduced in the Senate in February 2019. This bill would prevent default-related license suspensions. In February of 2020, Florida passed a bill allowing graduated students with a record of default to maintain their professional licensures, but license-revocation laws remain on the books in a number of states. Rather than waiting for federal action, state legislatures can follow Florida's example and repeal laws that allow license revocation based on loan default.
6. Streamline the student loan rehabilitation process to make it more accessible. Loan rehabilitation yields significant benefits for defaulters by restoring their access to financial aid and improving their credit scores, and it is associated with better academic outcomes.
7. For institutions interested in campus-based solutions, refer to ACCT and TICAS's report released earlier this year, *What Works: College Strategies for Reducing Student Loan Default*

## Methodology & Definitions

This report analyzes averages of Valencia College student outcome data over three academic years, 2014 – 15, 15 – 16, and 16 – 17, except the graduation rates which are based only on 2014– 15 data, as not enough time has elapsed to conduct meaningful analysis around graduation data for subsequent academic years.

**Default**– A federal student loan that has not been paid in 270 or more days is considered “in default.” These loans are typically transferred to Debt Management and Collection Services (DMCS) by the time they are 360 days overdue.

**Defaulter**– A student with one or more Title IV loans in default

**Credit completion ratio (CCR)**– The number of credits completed divided by credits attempted and averaged across the cohort

**Delayed enrollment**– Defined as students who in previous semesters were fall starters, meaning that their term of entry was in the fall for one or more previous years, and in the year of analysis enrolled only in spring or summer

**Enrollment/no attendance**– Students who enrolled in a semester and subsequently attempted zero course credits during that semester

**Income-Driven Repayment (IDR)**– Any federal repayment plan in which borrowers' monthly payments are capped at a specified percentage of discretionary income. These plans require an application, and approved borrowers must recertify their incomes each year.



## MORE INFORMATION

For information about community college student loan defaults, please visit [www.acct.org](http://www.acct.org) or contact [publicpolicy@acct.org](mailto:publicpolicy@acct.org) or call (202) 775-4667.

