

Student debt is an increasingly popular topic of conversation these days. Yet for all its merits, the discussion has tended to focus on those borrowers with the highest debt, and not on those borrowers with the greatest difficulty repaying their debt. It may come as a surprise that those two groups of people are not one and the same. In fact, recent research has demonstrated that default on student loans is highest among those borrowers with the smallest amounts of student debt. Furthermore, these borrowers tend to be students who borrowed money to attend for-profit and community colleges, where they often did not complete a degree and faced weaker job prospects overall than those borrowers earning more advanced degrees.<sup>1</sup>

At Compass Working Capital (“Compass”), our team of financial coaches works with clients every day who are dealing with student debt. For context, the majority of our clients are women of color with dependent children. On average, clients are earning \$19,400 per year when they enroll in our programs.

Over the past few years, we have witnessed a significant increase in the percentage of new clients with student debt, as evidenced by figure 1. Most of those clients with student debt did not end up completing a degree (either a two- or four- year degree), as seen in figure 2. Although these clients tend to have a debt burden that is lower than that of clients who enter our programs with a degree (on average \$13,808 versus \$37,662, respectively), they also lack a credential that could allow them to get a higher paying job and therefore be better able to repay their loans.

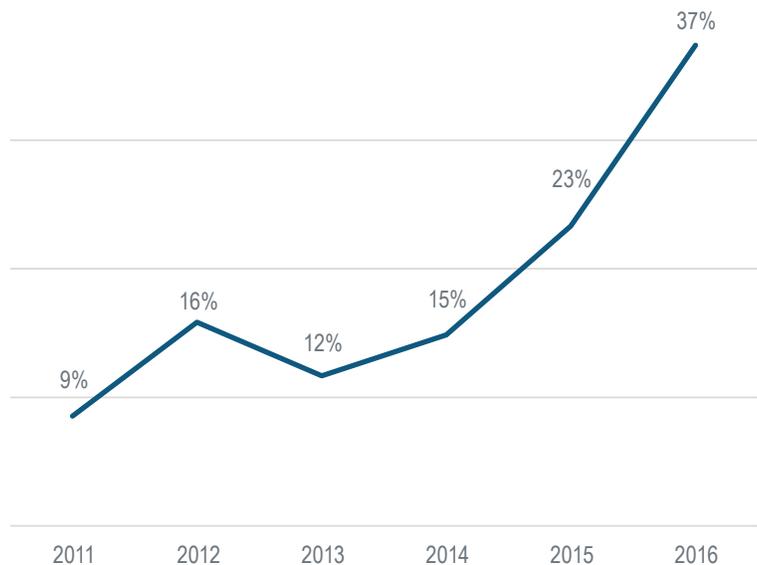


Figure 1: Proportion of clients with student debt at intake (May 2011 - May 2016)

In response to the increasing number of clients with student debt, we have developed our expertise in this area to better assist clients in navigating this type of debt. We have done so through ongoing collaboration with our partners at the Project on Predatory Student Lending at the Legal Services Center of Harvard Law School, who have offered training to Compass financial coaches, accepted referrals of Compass clients with particularly complex student debt issues, and also helped Compass to understand the limits of what guidance we can provide to clients on these issues given that we are not a provider of legal advice.

The purpose of this paper is to equip fellow practitioners with some of the knowledge we have gained and key practices we have put in place for dealing with student debt in the context of a financial coaching program for adults with low incomes. This paper might also be of interest

<sup>1</sup> Dynarski, Susan M. “The trouble with student loans? Low earnings, not high debt.” Series: Evidence Speaks. Number 19 of 33. Brookings, 7 January 2016.

to stakeholders in the field who are interested in learning more about how organizations like Compass assist our clients.

It should be noted that most of the student debt that our clients deal with comes in the form of federal loans, so our guidance here is focused on those types of loans. For information on private student loans, we recommend starting by reviewing a free credit report which will list all loans in the client's name (to access a free credit report, visit [www.annualcreditreport.com](http://www.annualcreditreport.com)).

## Terms to Know

If you are new to student loan issues, there are several important terms to know. The federal student aid website maintains a helpful glossary of terms ([www.studentaid.ed.gov/sa/glossary](http://www.studentaid.ed.gov/sa/glossary)). Here are some we recommend familiarizing yourself with as you get started: consolidation, default, deferment, federal loan, Federal Student Aid ID (FSA ID), forbearance, garnishment, income-driven repayment plan, private loan, and rehabilitation.

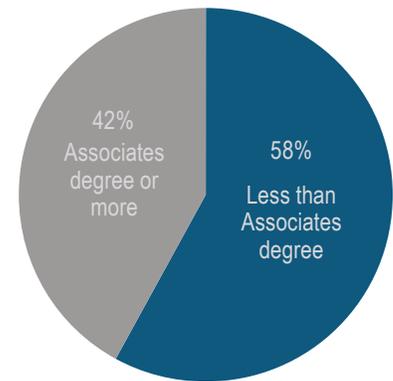


Figure 2: Education levels of clients with student debt at intake (May 2011 - May 2016)

## Key Practices When Providing Financial Counseling and Coaching to Low-Income Clients with Student Debt

On a high level, Compass emphasizes the importance of remediating student loan issues as part of a comprehensive financial coaching program. The right course of action on student debt is different for each borrower; it depends on the client's individual financial circumstance and his or her personal financial goals, as different courses of action will impact the client in different ways. In making decisions to deal with student debt, clients should be able to weigh how their decisions will affect things like their credit and tax burden, and therefore their overall level of financial well-being. The following are some practices that we have identified when coaching clients with student debt.

**1. Gathering basic information about loans.** In order to determine if a student loan is a federal or private loan, and get more details about a federal loan, begin by accessing the National Student Loan Data System (NSLDS): [https://www.nsls.ed.gov/nsls\\_SA](https://www.nsls.ed.gov/nsls_SA). Only federal loans are listed on the system – if a loan is not listed, it is not federal. The website will provide a summary and details of the loan burden. An FSA ID is required for access and can be retrieved or created at <http://fsaid.ed.gov>.

**2. If a client has one or more federal student loans in deferment or forbearance, or is struggling to pay his or her debt under a standard repayment plan.** In some cases, it may be advantageous for a client to apply for an income-driven repayment plan. An income-driven repayment plan can be especially powerful for clients who work in public service (see point 5). Income-driven repayment plans can offer a more flexible timeline for repayment than deferment or forbearance. However, clients considering an income-driven repayment plan should recognize that they may pay more in interest over time compared to the standard repayment plan. Visit [www.studentloans.gov](http://www.studentloans.gov) and use your FSA ID to access the Repayment Estimator tool to see how different scenarios will affect payments. The estimator will make assumptions about the client's income over time that may not be relevant, so it is best to focus on the repayment estimates for the client's current financial situation.

**3. When a client is in default.** If a scheduled payment for an active federal student loan is not made within 270 days (9 months) then that loan is considered to be in default. Borrowers that have a federal student loan in default are not eligible for federal financial aid until the default is resolved. In order to get out of default, the client may have to enter a rehabilitation plan with the collection agency where the loans are held or consolidate his or her loans into a Direct Consolidation Loan. Once the loan is out of default, the borrower can change his or her repayment plan.

**4. If a client is thinking about consolidating his or her loans.** Note that consolidation does not affect the overall interest rate or lower monthly payments: the new interest rate will be the weighted average of the original interest rates of the loans. Clients should be discouraged from using a private consolidator or from consolidating federal loans with private loans, as the client will lose all the protections that come with federal student loans. Federal loans should only be consolidated with other federal loans using a federal Direct Consolidation Loan. Clients should also be discouraged from consolidating a Perkins loan with other federal loans. Most borrowers can apply online at [studentloans.gov](https://studentloans.gov). In addition, clients should never pay a third party to consolidate their loans, since it can be done for free.

**5. For clients who are teachers, or work in government or for a nonprofit organization.** The client may be eligible for forgiveness programs such as the Public Service Loan Forgiveness (PSLF) program, Perkins loan cancellation, or teacher loan forgiveness. More information about these programs can be found here: <https://studentaid.ed.gov/sa/repay-loans/forgiveness-cancellation>. The site includes information on what types of work are eligible for PSLF. If participating in PSLF, the client should complete and mail an Employer Certification Form (ECF) at least once a year to ensure that his or her employment is counted.

#### **Client Story: what student debt can look like for a family with low income**

Meaza<sup>†</sup> is a client in Compass's Family Self-Sufficiency (FSS) Program operated in partnership with Cambridge Housing Authority in Cambridge, Massachusetts. Meaza is a single parent and has two children. She works full-time at a local hospital, where she earns about \$40,000 each year (for context, her salary is about 45% of the area median income for a household of her size). Meaza's major goal in the FSS program is to eventually own her own home.

When first meeting with her Compass financial coach, it came to light that Meaza was having 12% of her weekly wages garnished as a result of a default on two federal student loans. The loans had been solicited by Meaza's daughter, without Meaza's consent, and totaled nearly \$40,000. The garnishment had been taking place for over a year before Meaza realized what was happening.

With support from her coach, Meaza made phone calls to the private collection agency of each of the loans. One of the servicers agreed to stop the garnishment in exchange for a small one-time payment and the completion of an application form. However the other servicer required Meaza to make five on-time payments in addition to the monthly garnishment amount, before sending a form to her employer to have the garnishment stopped. She was required to continue making a total of 9-10 on-time payments to be able to get her loan out of default. Then Meaza was able to consolidate her loans into Direct Consolidation Loans so she could enter an income-driven repayment plan.

After making several additional phone calls and filling out many forms, Meaza managed to stop both of her garnishments after completing the loan rehabilitation and consolidation process. She was able to reduce her monthly costs to repay the loans from a garnishment of \$276 per month to a payment of \$197<sup>‡</sup>, allowing her to deal with the debt while not jeopardizing her overall financial security.

<sup>†</sup> Name changed

<sup>‡</sup> This is her income-based repayment amount – it may not seem like a significant difference from the garnishment, but with the garnishment the fees on Meaza's defaulted loans were growing and her payments under the garnishment did not count toward Public Service Loan Forgiveness

**6. When a client should seek additional assistance.** Many student loan issues can be effectively navigated by a client in partnership with a trained financial coach. Other free resources for clients and coaches include:

- The U.S. Department of Education provides various hotlines, an email support center, and live chat, for general inquiries and specific questions regarding an individual's student loans. The list can be found here: <https://studentloans.gov/myDirectLoan/contactUs.action>.
- The Department of Education Federal Student Aid Ombudsman provides support in resolving disputes regarding one's federal student loan issues. The Ombudsman can be reached at (877) 557-2575 and more information can be found here: <https://studentaid.ed.gov/sa/repay-loans/disputes/prepare/contact-ombudsman>.
- The Consumer Financial Protection Bureau provides toolkits and general information on their website: <http://www.consumerfinance.gov/paying-for-college/repay-student-debt/>.
- American Student Assistance provides counseling services by phone and email for those seeking more information on their repayment options, strategies for repayment during financial difficulty, and how to resolve default. More information can be found on their website: <http://www.asa.org/about-us/contact/>.

In some instances, it is best for the client and the coach to seek outside help from someone with expertise in the laws surrounding student loans. We often refer clients for additional assistance in cases where the school that the client attended when he or she initiated the student loans closed while they were attending; when the client was mistreated by a for-profit college, such as being subjected to aggressive or deceptive marketing tactics, or false promises about the program or employment prospects for graduates; or if the client is being sued to collect on his or her loans. Clients should inquire with their local legal aid office for help, especially if the office has a consumer law program. Federally-funded legal aid programs can be located through a search function available at [www.lsc.gov](http://www.lsc.gov). In cases of unfair or abusive debt collection practices, clients should consider seeking legal help as well as reporting complaints and concerns to the state attorney general or the Consumer Financial Protection Bureau via their hotline or website: <http://www.consumerfinance.gov/complaint/#student-loan>.

## **Final Thoughts**

We hope that this brief will serve as a valuable resource to fellow practitioners who work with clients who have low incomes and student debt. Compass envisions a day when all families are able to pursue educational opportunities in ways that enhance, rather than jeopardize, their financial security. While we know that financial coaching plays an important role in reaching that vision, we also recognize that there are larger economic and policy issues at play that make it hard for our clients to resolve student debt issues, and also to avoid problems with student debt in the first place. We look forward to exploring those issues in more depth in the future and collaborating with others in the field to see that they are addressed.

## Acknowledgements

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