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"Higher Education and the Student Debt Crisis"

February 11, 2020

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MATERIALS INCLUDED IN THIS PACKET

Speaker Biograhpies

Brian Backstrom, "How States Are Protecting Student Loan Borrowers," Rockinst.org (Dec. 13, 2018)

Brian Backstrom, "A Deeper Look at Student Loan Debt in New York State," Rockinst.org (Nov. 30, 2018)

New York City Department of Consumer Affairs*, *Student Loan Debt Distress Across NYC Neighborhoods: Identifying Indicators of Vulnerability* (Nov. 2018)

New York City Department of Consumer Affairs, *Student Loan Borrowing Across NYC Neighborhoods* (Dec. 2017)

New York State Department of Financial Services, "Governor Cuomo Announces Final Student Loan Servicer Regulation" (Oct. 16, 2019)

3 N.Y.C.R.R. § 409 ("Student Loan Servicers"), also available at: https://www.dfs.ny.gov/system/files/documents/2019/10/bf409text.pdf

ADDITIONAL RESOURCES

New York Banking Law § 14-A ("Student Loan Servicers"), available at: https://www.nysenate.gov/legislation/laws/BNK/A14-A

Center for Responsible Lending, *Quicksand: Borrowers of Color & the Student Debt Crisis* (Sept 2019), available at: https://www.responsiblelending.org/sites/default/files/nodes/files/research-publication/crl-quicksand-student-debt-crisis-jul2019.pdf

Student Borrower Protection Center, Educational Redlining (Feb. 2020), available at: https://protectborrowers.org/wp-content/uploads/2020/02/Education-Redlining-Report.pdf.

* The former Department of Consumer Affairs is now the Department of Consumer and Worker Protection.

2020 WARREN M. ANDERSON LEGISLATIVE SERIES

"Higher Education and the Student-Debt Crisis"

February 11, 2020

Biographies

ANDREW AYERS, ESQ., graduated first in his class from Georgetown Law in 2005. He then clerked for the Honorable Sonia Sotomayor, now a U.S. Supreme Court Justice, during her term on the U.S. Court of Appeals for the Second Circuit. He also clerked for the Honorable Gerard Lynch on the U.S. District Court for the Southern District of New York. After clerking, Mr. Ayers worked for nine years in the office of the New York Attorney General, where he was a Senior Assistant Solicitor General. He served both as a supervisor and as lead counsel in various high-profile cases involving immigration law, states' rights, constitutional rights, environmental law, and other issues. Since November 2016, Mr. Ayers has served as Director of the Government Law Center. He is also an Assistant Professor at Albany Law School. Mr. Ayers is the author of *A Student's Guide to Law School*, published by the University of Chicago Press, as well as articles on legal ethics, immigration law, federalism, and other subjects. His undergraduate degree is from Vassar College. He is admitted to practice in New York.

BRIAN BACKSTROM is the Director of Education Policy Studies for the Rockefeller Institute. Mr. Backstrom has researched various aspects of the student-debt crisis, policies regarding failing public schools, early childhood development issues, college access and affordability, high school graduation testing, and more. He also serves as an independent consultant on K-12 education reform issues involving innovation, accountability, and choice through his organization Great Schools for All Children. Mr. Backstrom previously served as president of the Albany-based Foundation for Education Reform & Accountability, a privately funded nonprofit policy research organization that investigated, crafted, and advocated for bold changes in the education landscape. He is an alumnus of the University of Rochester with an undergraduate degree in political science and a Master of Science in public policy analysis.

WINSTON BERKMAN-BREEN, ESQ., joined the Department of Financial Services in 2019 as its first Student Advocate and Director of Consumer Advocacy. In this role, he advocates on behalf of students, serves as a liaison between DFS and New York consumers, and coordinates consumer protection policy and initiatives. Prior to joining DFS, Mr. Berkman-Breen was a Justice Catalyst Fellow and Staff Attorney with the Consumer Protection Unit at the New York Legal Assistance, served as the Co-Chair of the Student Loan Working Group for New Yorkers for Responsible Lending, and was a

Fellow with the Project on Predatory Student Lending at the Legal Services Center of Harvard Law School. He holds a J.D. and a Master of Public Administration from New York University and a B.A. from Tufts University.

LORELEI SALAS, ESQ., was appointed Commissioner of the New York City Department of Consumer Affairs (DCA) in May 2016. She is an accomplished labor law advocate who has been committed to fighting inequality throughout her career. As Commissioner of DCA, she established the agency's new, evolved mission—to protect and enhance the daily economic lives of New Yorkers to create thriving communities. The mission and Commissioner Salas' focused voice are leading DCA's protection, education, and regulation of the marketplace for consumers, businesses, and workers alike. Under her leadership, DCA's efforts are directed towards industries in which predatory practices are prevalent, and the agency regularly utilizes data to inform its strategic enforcement of consumer and worker protection laws. As the Director of Legal Services at Catholic Migration Services, she supervised the immigration, housing, and employment legal services programs designed to help immigrants and refugees increase their access to justice. She also previously worked at Make the Road New York, directing litigation in the areas of immigration, housing, and employment law. In 2009, she was nominated by President Obama as the Wage and Hour Administrator at the United States Department of Labor. Prior to this, Commissioner Salas worked at the New York State Attorney General's Office in the Litigation and Labor Bureaus, investigating businesses for violations of state and federal labor laws and representing the Department of Health in litigation. She also held multiple senior management positions at the New York State Department of Labor, supervising worker protection divisions and leading strategic enforcement efforts. Prior to becoming an attorney, Commissioner Salas worked for several years as a social accountability consultant, assisting businesses in New York City with compliance issues primarily focused around labor law, safety and health, and tax laws. She earned a J.D. from Benjamin N. Cardozo Law School and is admitted to practice law in New York State and in federal courts. Commissioner Salas is also a proud CUNY graduate, obtaining an A.A. degree from La Guardia Community College and a B.A. from Hunter College.

rockinst.org

How States Are Protecting Student Loan Borrowers | Rockefeller Institute of Government

10-12 minutes

A January 2017 lawsuit by the federal Consumer Financial Protection Bureau against Navient, the nation's third-largest student loan company, sparked an audit by the U.S. Department of Education's Student Aid division that reached a disturbing conclusion: the company purposefully steered student borrowers toward higher-cost repayment options, levying an estimated $4 billion in added interest costs on graduates from 2010 to 2015.

Many student loan servicing companies such as Navient offer borrowers an option known as "forbearance," a practice that allows customers facing financial stress the ability to delay payment on their loans for up to three years. The trouble is that interest on the outstanding balance continues to pile up, making the total cost of the loan much more expensive in the long term — and claims are that Navient did not make this clear to its customers. Allegations also include that borrowers were pushed toward higher-cost forbearance plans and steered away from taking advantage of public service loan forgiveness programs. Such practices have serious impacts on student borrowers: a study by the federal Government Accountability Office calculated that the typical student carrying $30,000 in debt who uses a three-year forbearance plan adds more than $6,700 in interest — nearly one-fourth of the entire principal balance and more than 13 percent of the average starting salary of a college graduate — to the cost of the loan.[1]

So what can be done to prevent such predatory lending and student loan repayment practices? The federal Department of Education believes that it has no jurisdiction in this matter or others like it. States, however, are starting to take action.

What can be done to prevent such predatory lending and student loan repayment practices? The federal Department of Education believes that it has no jurisdiction in this matter or others like it. States, however, are starting to take action.

Several states have enacted laws establishing a student borrower's "bill of rights," attempting to ensure that appropriate and comprehensive consumer protections exist for student borrowers (a previous Rockefeller Institute analysis noted several states where legislatures had introduced such bills.) These initiatives often institute regulations on the required content, transparency, and distribution of information regarding student loan repayment terms, and some establish a formal state ombudsman office for student loans to help ensure full and clear information is available to all borrowers. Many of these laws also add some teeth to the measure by establishing punitive actions the state can take in instances of violations by lenders. For example:

Connecticut: Borrower's Bill of Rights**.** Connecticut became the first state to pass a borrower's bill of rights in 2015. The bill established a student loan ombudsman in the Connecticut Department of Banking to review, attempt to resolve, and report on student loan complaints. The new ombudsman also was charged with disseminating information to policymakers and the public about problems being realized with student lending and developing a comprehensive "student loan borrower education course." Licensing requirements for student loan servicers were instituted, too, along with a prohibition on misleading or defrauding borrowers.

Illinois: Student Loan Servicing Rights Act**.** A Student Loan Bill of Rights in Illinois will go into effect on December 31, 2018. The law creates a Student Loan Ombudsman in the Attorney General's Office and requires student loan servicers to obtain a license to operate in the state. Protections for student loan borrowers include that loan servicers are prohibited from making misleading statements and required to properly process payments. Specialists are made available to explain to struggling borrowers all of their repayment options, starting with income-driven plans, and to inform borrowers that they may be eligible to have their loans forgiven due to a disability or a problem with the school they attended.

California: Student Loan Servicing Act**.** California's Student Loan Servicing Act was first enacted in September 2016, and was overhauled three years later in September 2018. Businesses engaged in servicing student loans in California are subject to licensing requirements and must meet various qualifications. The law also allows applications to be completed through the Nationwide Multistate Licensing System & Registry, providing consistency across all servicers.

Michigan: Student Loan Delinquency Counseling Pilot Program. In 2017, Michigan initiated a student loan delinquency counseling pilot program to help borrowers who are delinquent on their federal student loans. The program provides free one-on-one counseling to develop a repayment plan that will return the borrower to good standing and help with continued successful repayment. In addition, borrowers are provided with financial education to assist in the creation of a budget and to better understand their credit score.

Oklahoma: Private Student Loan Transparency and Improvement Act**.** This law established regulations on private loan lenders to student borrowers in the state, requiring that prior to issuing a loan the lender must include estimated balances, estimated repayment time, anticipated changing interest rates, and the method for identifying additional charges, among other transparency requirements.

Washington: Student Loan Bill of Rights**.** Effective June 7, 2018, Washington became the latest state to enact regulatory and statutory protections for student loan borrowers. The law imposed licensure requirements on student loan servicers and created a state Advocate (similar to the ombudsman in other states) to handle student lending complaints, disperse information to stakeholders, and to monitor and analyze student borrowing in the state. The Advocate also must establish a comprehensive borrower education course by October 2020.

New York State has not been sitting still on this issue. In his 2018 State of the State Address, Governor Andrew Cuomo proposed a host of protections for student borrowers. Governor Cuomo's proposal included the creation of an ombudsman at the state Department of Financial Services that would be student borrowers' advocate and "help resolve student complaints, mediate disputes and educate borrowers about student loans." Financial counseling for borrowers in default also would be available. Colleges would be required to provide easy-to-understand information about repayment amounts, terms, and obligations. Much of this agenda was established by the Department of Financial Services through its Student Protection Unit and Student Lending Resource Center.

Additional protections for student borrowers could be enacted in New York. Creating a uniform code of conduct for student debt consultants as well as instituting licensing requirements for student loan servicers, for example, is an area in which New York could take action.

Also, while twenty states suspend an individual's professional license or driver's license for defaulting on student loan repayments, Governor Cuomo sought to protect student borrowers against such actions and included a prohibition on these actions a part of his recommendations.

These accomplishments made notable progress on the issue, building on less-successful earlier attempts. In 2007, for example, New York enacted the Student Lending, Accountability, Transparency and Enforcement (SLATE) Act, calling for regulations to establish a code of conduct for lending institutions and colleges and universities regarding the marketing of student loans. The State Education Department's Office of Higher Education did not enact the proposed regulations, however, citing a lack of funding accompanying the mandate.

Additional protections for student borrowers could be enacted. Creating a uniform code of conduct for student debt consultants as well as instituting licensing requirements for student loan servicers, for example, is an area in which New York could take action. Concerns within the lender community about providing consistency in regulations and licensing from state to state is valid, particularly given that many student borrowers move between states, and could be considered by policymakers when establishing these new requirements. An up-to-date, comprehensive registry of student loan servicers also could be established.

Carrying student loan debt is burden enough. Borrowers should not have to also worry about predatory lending practices and unscrupulous loan repayment policies.

NOTES

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[1] Federal Student Loans: Actions Needed to Improve Oversight of Schools' Default Rates, GAO-18-163 (Washington, DC: U.S. Government Accountability Office, April 2018), https://www.gao.gov/products/GAO-18-163; NACE Staff, "Average Starting Salary for Class of 2016 Held Steady," National Association of Colleges and Employers, July 19, 2017, https://www.naceweb.org/job-market/compensation/average-starting-salary-for-class-of-2016-held-steady/

ABOUT THE AUTHOR

Brian D. Backstrom *is director of Education Policy Studies at the Rockefeller Institute of Government*

READ THE SERIES

A Deeper Look at Student Loan Debt in New York State

Understanding the actual size, scope, and impact of student debt in

New York is critically important if issues are to be properly addressed and solutions appropriately tailored to provide the most effective relief.

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Borrowers would do well to first understand one thing that student loan refinancing companies have in common: they intend to make money off of servicing student loans.

rockinst.org

A Deeper Look at Student Loan Debt in New York State | Rockefeller Institute of Government

12-15 minutes

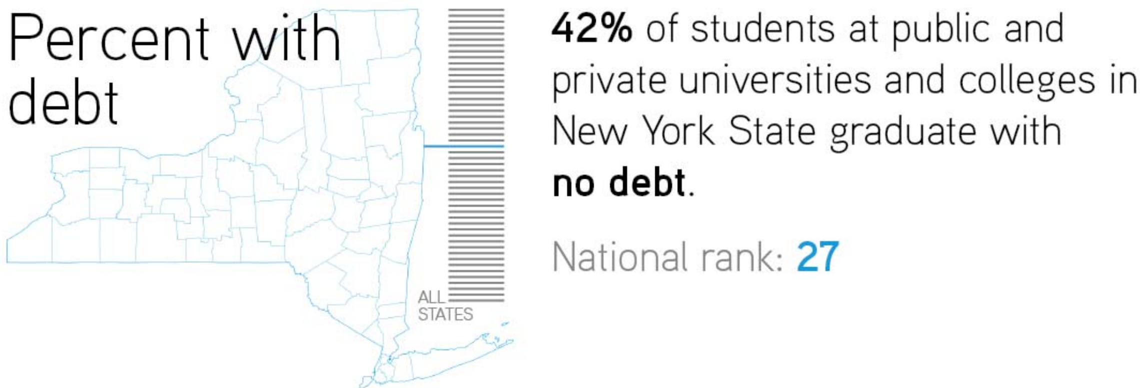
Nearly forty-three million Americans are now grappling with debt from student loans, a burden that has grown 144 percent in just ten years. And the trend isn't slowing down: in the past year alone, student loan debt increased by $75.4 billion nationwide, and individuals with student loan debt now owe on average slightly more than $33,000.

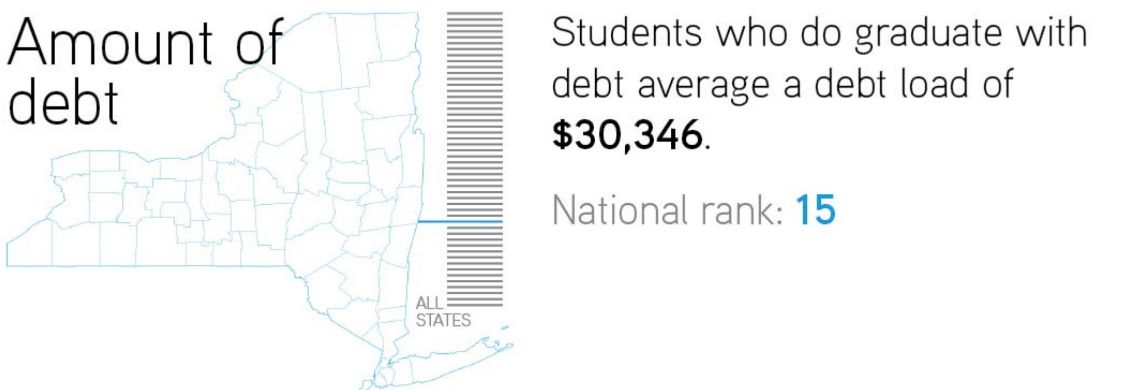
There are more than 300 public and private colleges and universities across New York State (a number surpassed only by California) serving 1.2 million students. With a large number of institutions enrolling so many individuals, it is easy to understand why monitoring and addressing student debt issues in New York has become a high priority of state policymakers.

The burden of debt is very real for student loan borrowers. Better understanding the actual size, scope, and impact of student debt in New York is critically important if issues are to be properly addressed and solutions appropriately tailored to provide the most effective relief.

Forty-two percent of students at public and private colleges and universities in New York State graduate without student loan debt.

While a majority of students (58 percent) graduate with debt, this relatively modest proportion ranks the state in the middle of the pack nationally at twenty-seventh. Students who do graduate with debt, however, borrow far more than average: for graduates from colleges and universities in New York, the average student debt load of $30,346 ranks the state fifteenth highest in the country.





The State University of New York (SUNY) serves nearly 400,000 undergraduate students each year, and spanning sixty-four campuses is the largest comprehensive system of public universities, colleges, and community colleges in the nation. A particular focus on student debt at the state's public institutions is appropriate. Last year alone, more than $637 million in subsidized, unsubsidized, and other federal student loans were disbursed to SUNY undergraduates. In 2017, similar to each of the past several years, slightly more than half (53 percent) of all SUNY undergraduate students, both two-year and four-year degree recipients combined, graduated with college debt.[1] Put another way, nearly half of all graduating SUNY students have no student debt.

SUNY baccalaureate degree students graduating with debt have an average student loan burden of approximately $26,600, and associate degree students graduating with debt have an average student debt load of about half that, or slightly more than $13,300.[2]

A smaller proportion of students graduating from the City University of New York (CUNY) system of eleven senior colleges; seven community colleges; and six graduate, honors, and professional schools do so with student loan debt and, for those who do, the average debt load is far smaller even than for graduates from SUNY schools. About 21 percent of all undergraduates from CUNY's two-year and four-year schools graduated with debt in 2017, a percentage that has remained stable since 2010; combining both bachelor and associate degree recipients, the average debt for a CUNY undergraduate is about $11,700.[3]

New York has a more modest standing regarding student debt burden because the state has been a national leader in keeping the overall cost of college low and providing substantial financial assistance to students. These policies have increased access to college for tens of thousands of students while helping them avoid unmanageable levels of student debt as they graduate and enter the workforce.

SUNY's base annual tuition is approximately $1,000 lower than tuition at any surrounding state university system, and nontuition costs are lower than any other state in the region.[4] New York also ranks in the top-ten states nationally for having the lowest tuition at its four-year public universities, with average annual tuition and mandatory fees more than 20 percent lower than the national average and eleventh lowest in the entire country. With the adoption in 2011 of the SUNY and CUNY Rational Tuition program — a plan that replaces unpredictable and burdensome spikes in tuition with modest and known annual increases — tuition increases have been capped at a maximum of $200 per year since the fall of 2017.

It doesn't stop there. New York offers some of the most robust cost-cutting — and thus debt avoidance — programs in the nation, ranking second-highest in the nation of all states in terms of total grant aid awarded to its college students and ranking first nationally for aid awarded based on students' financial need.

As nearly half of all students graduating from SUNY and nearly 80 percent of students graduating from CUNY do, avoiding student debt in the first place can be the most financially beneficial way to enter the workforce with a college degree in hand. New York State's various initiatives that lower the cost of college have helped achieve these levels, and include the following programs:

Excelsior Scholarship. Started in 2017-18, the Excelsior Scholarship program offers free tuition to any full-time resident undergraduate student from an income-qualifying family who attends a college in the SUNY or CUNY system. For 2018-19, students from families with an annual income less than $125,000 are eligible. In February 2018, SUNY and CUNY reported increased applications to their systems of 9 percent and 11 percent, respectively, a likely indication that the Excelsior Scholarship program is significantly increasing access to college for many students. For the average four-year SUNY student, the Excelsior Scholarship reduces the overall cost of college by approximately $26,600, equivalent to the average amount of student loan debt for those graduating with debt. Not only is the Excelsior Scholarship providing more students the opportunity for higher education, it has also allowed those students a path to complete their degrees on time and to do so debt-free.

Tuition Assistance Program (TAP)*.* New York State awards approximately $1 billion in grant aid to working-class students through the TAP program, constituting 95 percent of the state's total college grant aid. About 336,000 students who meet the program's basic eligibility criteria currently receive some level of TAP award, and the average award is $3,320 per student.

Opportunity Programs. The burden of student debt on at-risk and lower-income students can be particularly onerous, and for many just the prospect of incurring student debt could cause them to decide to avoid college altogether. New York State is actively addressing these concerns, providing an array of programs that supply additional supports to at-risk students to help dramatically lower the cost of college and help them remain in college through completion.[5] Free-tuition programs such as the Excelsior Scholarships are optimized when these "opportunity programs" are made part of the equation.

In 2018-19, the state's Higher Education Opportunity Program (HEOP) will award more than $32 million to students across the SUNY system, an amount that has risen by 65 percent since 2012.[6] CUNY's College Discovery program and the Search for Education, Elevation, and Knowledge (SEEK) program provide students with various academic, financial, and social supports. More than $28 million in SEEK grants were awarded in 2016-17, an increase of 62 percent from six years prior. CUNY also offers tuition waivers and advisory support services at nine of its schools through an initiative called the Accelerated Study in Associate Programs (ASAP). Students participating in ASAP have seen their time to graduation decrease greatly, spending less time in school and thus having less need to accrue student debt to pay for extended stays.

New York offers other grant, scholarship, and award programs that help college students avoid the need to incur debt. These include several designed for part-time students (Part-time TAP, Aid for Part-time Study, Part-time Scholarship Award); general grant and scholarship programs (NYS Scholarships for Academic Excellence, Enhanced Tuition Awards, Veterans Tuition Awards); and grants for specialized study (NYS Child Welfare Worker Incentive Scholarship Program, NYS STEM Incentive Program).

For those students who do graduate with debt, New York provides an array of debt forgiveness and relief programs. One particularly significant program is the Get on Your Feet Loan Forgiveness Program, the only statewide program to pay the full student loan for eligible students, and one of the few state-level student debt-relief programs in the nation.[7] Under this program, the state will pay twenty-four monthly installments of a federal loan for a graduate if the individual is employed in New York State, has a gross adjusted income of under $50,000, and is participating in one of the available federal income-based student loan repayment plans. This program offers substantial direct debt relief to qualifying lower-income students, most of them newly entering the job market after graduation when such assistance can be particularly impactful.

Other student loan forgiveness programs include the Regents Physician, District Attorney and Indigent Legal Services Attorney, Young Farmers, Licensed Social Worker, and Nursing Faculty loan forgiveness program. Combined, the state spent more than $5.3 million on student loan forgiveness in 2016-17.

For many individuals graduating from New York colleges and universities with student loan debt, the financial burden is real and significant. New York's approach to keeping tuition low at its public institutions combined with its array of generous scholarship, financial aid, and loan forgiveness programs is working to keep the number of these debt-burdened college graduates as small as possible.

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[1] SUNY Office of Institutional Research & Data Analytics, June 2018. For four-year degree graduates alone, approximately 65 percent of students graduated from SUNY with loan debt.

[2] Ibid.

[3] CUNY Office of Institutional Research, June 2018. At four-year CUNY institutions alone, about 26 percent of students graduate with debt. Average debt has risen approximately 16 percent since 2010.

[4] SUNY Office of Institutional Research & Data Analytics, June 2018.

[5] For a more in-depth discussion, see Jim Malatras, *For Many, Is College Out of Reach? Exploring Scalable Innovative State Programs to Close the College Access (and Success) Gap* (Albany: Rockefeller Institute of Government, June 13, 2018), https://rockinst.org/issue-area/for-many-is-college-out-of-reach/

[6] Data provided by the New York State Division of the Budget.

[7] More than 1,800 individuals participate in the program. See *Empowering New York State Students for College Access and Success: 2016-17 Annual Report* (Albany: NYS Higher Education Services Corporation, 2017), https://www.hesc.ny.gov/hesc-news.html

ABOUT THE AUTHOR

Brian D. Backstrom *is director of Education Policy Studies at the Rockefeller Institute of Government*

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Student Loan Debt Distress Across NYC Neighborhoods

Identifying Indicators of Vulnerability

November 2018

Consumer Affairs

Bill de Blasio
Mayor

Lorelei Salas
Commissioner

Student Loan Debt Distress Across NYC Neighborhoods:
Identifying Indicators of Vulnerability

Bill de Blasio
Mayor

Lorelei Salas
Commissioner

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Executive Summary

Student loan debt is currently the second largest source of consumer debt in the United States, climbing to $1.5 trillion in 2018. Increases in tuition resulting from cuts in public spending on higher education have driven up the average amount borrowed for a bachelor's degree to $30,000, nearly double what it was 20 years ago. Increased borrowing, stagnating wages, and the expansion of higher education to more financially vulnerable communities without bolstering the requisite support systems have all led to the present-day student loan debt crisis. For example, cumulative default rates for borrowers 12 years after entry are on the rise (Scott-Clayton, 2018), and we are witnessing altered life trajectories as debt-burdened young adults are forced to delay major milestones in life, such as homeownership and starting a family (Alvaro, Ringo, Sherlund & Sommer, 2016; Herron, 2015).

As the Agency charged with protecting and enhancing the economic lives of New Yorkers, the NYC Department of Consumer Affairs (DCA) is interested in the effect that student loan debt has on a borrower's individual financial situation—what we regularly refer to as financial health. When a student loan goes into default, it directly impacts the financial health of a borrower by lowering the borrower's credit score. A low credit score can leave a borrower with higher insurance premiums, less access to affordable housing, and will increase the cost of borrowing for other needs. In addition, the financial burden of student loan payments constrains borrowers' ability to accumulate assets.

In our previous research on student loan debt, a partnership with the Federal Reserve Bank of New York on the report *Student Loan Borrowing Across NYC Neighborhoods*, we found that the distress caused by the student loan debt crisis is not shared evenly across New York City. Delinquency rates varied significantly across boroughs, from a low of 11 percent in Staten Island to a high of 19 percent in the Bronx. Further, the highest median student loan balances are in Manhattan, yet in the Bronx and Brooklyn median balances comprise a far higher share of median income. In this follow-up report, we aim to gain a better understanding of why some New York City neighborhoods have higher rates of student loan distress.

To develop this understanding, we relied on established research and identified the best available data at the New York City level. In the end, we investigated seven factors known to be predictive of student loan default:

1. non-completion;
2. part-time attendance;
3. attendance at a for-profit institution;
4. independent student status;
5. low income;
6. black race/ethnicity; and
7. Hispanic race/ethnicity.

We also focused on non-completion and attendance at a for-profit institution and the relationship between these two indicators and the other five indicators to develop a more nuanced understanding of postsecondary enrollment patterns and struggles with student loan debt in New York City. From this research, we identified four main findings.

Key Findings

1. **All seven of our indicators of vulnerability to default provide us with useful context about student loan distress in New York City and can be used to target services.** We found that for each of the indicators of vulnerability to student loan default, areas with high levels of debt in collections also tended to have high levels of our indicators. Thus, our maps provide a useful means to identify and understand student loan borrowers already struggling and in need of interventions and services.

2. **Student loan debt distress is particularly acute in the Bronx.** The Bronx has the highest rate of student loan debt holders in collections. Further, fewer than half of students who began their studies in the 2010 school year had completed a degree in 2017, seven years later. The Bronx also had a higher rate of students attending for-profit institutions.

3. **Non-completion is one of the strongest drivers of debt in collections in New York City and is found at higher rates among the other six predictors of default.** Research has shown that non-completion is one of the strongest drivers of student loan default (Gross, Cekic, Hossler, & Hillman, 2010). Student loans are a good investment in the future if students realize an earnings premium for their educational pursuits. However, individuals with some college receive only slightly more in median wages than high school degree holders who never took a college course and, thus, may struggle to pay back their student loans. In addition to finding a strong relationship between student loan holders with debt in collections and non-completion, we found strong relationships between non-completion and the other six indicators known to be predictive of student loan default.

4. **Older students, students from neighborhoods with low incomes, and students from neighborhoods with a higher prevalence of black and Hispanic residents attend for-profit schools at a higher rate.** Because of the history of predatory recruitment, high cost of tuition, low graduation rates, and the low amount of money spent on program administration (Cao, 2018), we also investigated the relationship between for-profit school attendance and some of our other indicators. We found the highest rates of attendance at for-profit schools in the Bronx, among older students, among students from neighborhood areas with high rates of black and Hispanic residents, and among students from neighborhoods with low incomes. We also found that for-profit institutions are underserving students over the age of 24 based on the dramatically lower graduation rates for these students at these institutions compared to similarly aged students attending two-year and four-year public institutions.

In this report we gained a preliminary understanding of some of the predictors of student loan debt distress. Our analysis establishes support for using the seven indicators of vulnerability to default in targeting New York City services. However, more research is needed to fully understand what is driving the student loan debt crisis in New York City. Nevertheless, our research does illuminate three key areas in need of policy focus.

Key Areas for Policy Focus

1. There is a strong need to promote community colleges in the Bronx and other parts of New York City as an alternative to for-profit schools.

2. Colleges need to make more of an effort to be accommodating and accountable to the needs of the growing body of independent ("non-traditional") students in New York City who often have competing work and family obligations.

3. Innovative solutions are needed to help more vulnerable students—older students, students of color, and students from low-income backgrounds—complete their degrees, and in fewer years, to reduce debt accumulation and ensure these students receive a positive return on their investment in higher education.

Introduction

Student loan debt is currently the second largest source of consumer debt in the United States, climbing to $1.5 trillion in 2018—two and a half times the total a decade earlier (Board of Governors of the Federal Reserve System (US)). The average amount borrowed at graduation for a bachelor's degree is estimated at $30,000, a twofold increase over the last 20 years (Kantrowitz, 2018). This colossus of debt has grown steadily over the last decade as state and federal funding cuts put upward pressure on the cost of tuition, and student loans slowly replaced grants as the new bridge to achieving the "American Dream" (Mitchell, Leachman & Masterson, 2017). Unfortunately, as the cost of tuition kept rising, wages—even for those with a college degree—have stagnated,[1] turning up the financial pressure on borrowers. At the same time, access to higher education has expanded to include more individuals from traditionally underserved and vulnerable groups without necessarily adapting to the needs of this growing student demographic. Thus, these vulnerable students—including older students, students from families with low incomes, first-generation college students—have come to feel the student loan debt crisis most acutely.

Together, three factors—increased borrowing, increasingly vulnerable students borrowing, and stagnating wages—created a perfect storm. While the full effect of these phenomena is not yet fully known, we are starting to see early indications that a crisis is underway.

First, the 9-percentage point increase in the default rate 12 years after initial enrollment for the cohort of students who began in 2004 compared to the 1996 cohort provides direct evidence of the increase in student loan debt distress (Scott-Clayton, 2018).

Second, we are witnessing the impact of the student loan debt crisis on borrowers' life decisions, with recent research finding a relationship between the financial stress of increased student loan debt holdings and decreases in small business creation (Ambrose, Cordell & Ma, 2015) and delayed homeownership (Alvaro et al., 2016). There is also anecdotal evidence suggesting stress caused by student loan debt can be a contributing factor to divorce (Luthi, 2018) and delayed decisions to marry or have children (Herron, 2015).

1 Increasing less than 1 percent between 2010-2017; see Donovan & Bradley, 2018.

As the Agency charged with protecting and enhancing the economic lives of New Yorkers, the NYC Department of Consumer Affairs (DCA) is interested in the effect that student loan debt has on a borrower's individual financial situation—what we regularly refer to as financial health.

The primary way student loan debt can impact the financial health of borrowers is by negatively impacting their credit score. This can happen if a borrower goes into delinquency and/or collections, a situation 13 percent of New York City borrowers found themselves in 2016 (FRBNY, 2017). Low credit scores matter because an unfavorable score makes it harder and/or costlier to borrow in the future, makes it harder to qualify for rental housing and, in some cases, increases car insurance premiums (The Motley Fool, 2016).

The long-term struggle to repay may also translate into lower asset accumulation. As one research report found, black and Hispanic student loan borrowers who are still paying their debt at age 30 are also found to have a lower net worth on average and lower total value of accumulated non-financial assets, such as a car or equity in real estate, than non-borrowers (Zhan & Xiang, 2018).

To gain a better understanding of who is suffering from student loan debt-induced financial distress in New York City, DCA copublished a first-of-its-kind report with the Federal Reserve Bank of New York examining student loan debt at the city level titled, *Student Loan Borrowing Across NYC Neighborhoods*. Our findings confirmed that the student loan debt struggle is not shared evenly across borrowers. For instance, the highest median student loan balances are in Manhattan, yet in the Bronx and Brooklyn median balances comprise a far higher share of median income (FRBNY, 2017).

In this follow-up report, we aim to gain a better understanding of the factors contributing to student loan debt and default in New York City and to better identify and understand geographies with higher rates of student loan distress. To do so, we employed established research to identify factors indicative of a greater vulnerability to student loan debt distress. Unsurprisingly, we found distinctive trends based on geography indicating a disparity in completion rates and school selectiveness, among our other indicators of vulnerability to loan default, across New York City neighborhood areas. Neighborhood areas ranking highest in student loan debt in collections also tended to rank high on at least one of our indicators of vulnerability, with 11 neighborhoods ranking highly on five or more of the seven indicators. Due to concerns with the predatory behavior of for-profit institutions and the disastrous impact of non-completion, we also look into the relationship between these two indicators and the other five indicators.

The sections of this report will cover:

- Data and Methodology
- Who Owns Student Loan Debt
- Who is Struggling with Student Loan Debt
- Predictors of Student Loan Debt Distress
    - In our analysis, we investigate seven factors, referred to as indicators of vulnerability to default, known to be related to higher levels of student loan debt default—non-completion; part-time attendance; attendance at a for-profit institution; independent student status; low income; black race/ethnicity; and Hispanic race/ethnicity—and explore some relationships between these predictors.
- Conclusion
    - We provide a summary of key findings, as well as key takeaways for future consideration.

Data and Methodology

We compiled our data on enrollment patterns, credit behavior, neighborhood area level education, race/ethnicity, and income characteristics from three different sources.

I. For enrollment patterns, we relied on data from the National Student Clearinghouse (NSC).

The NSC is a nonprofit organization with the mission of relieving the administrative burden of higher education reporting requirements. The NSC research team makes use of submitted enrollment records to provide analytics to their research clients. For our analysis, the NSC provided postsecondary attendance and completion patterns, across key demographics, for students originating from New York City at the time of initial enrollment. For the purposes of anonymity, we received this data aggregated at the ZIP code level. To determine the sample, the NSC limited the data to records with a permanent (initial) address ZIP code matching one of the provided NYC ZIP codes.

According to our specifications, the NSC further limited the analysis to include two cohorts of interest:

1. first-time students entering associate's or bachelor's degree programs in 2010 for a seven-year cohort view of completion; and
2. all students enrolled in a degree program between August 15, 2016 and April 30, 2017 to get a one-year snapshot of higher education enrollment patterns.

The seven-year cohort sample included aggregated data from 57,676 individuals, and the snapshot data included the same for 504,694 individuals.

A major limitation of both cohorts is that they do not include students in certificate and career programs for any of the institutions included in the data set. Also, we are unable to verify whether the students included in the snapshot or seven-year cohort attended or are attending school in New York City or whether they returned or will return after graduation, and we cannot account for the educational patterns of current residents who began their higher education as residents of locations outside of New York City.

II. For data on student loan debt holdings and student loan debt in collections, we received tabulations from the Urban Institute (UI) of data from a major credit bureau.

UI provided us with a snapshot of credit outcomes for New York City residents on December 31, 2016. The data came from a random sample of 2 percent of U.S. consumers with a credit file—in our case, limited to observations collected on New York City residents—and was sourced from one of the three credit bureaus operating in the United States. For the purposes of anonymity, UI provided us with ZIP code and Public Use Microdata Area (PUMA) level—a census designation closely related to the Community District boundaries used in New York City government—aggregations.

III. The third data source was the American Community Survey (ACS), from which we pulled data on median household income and racial and ethnic composition at the PUMA level.

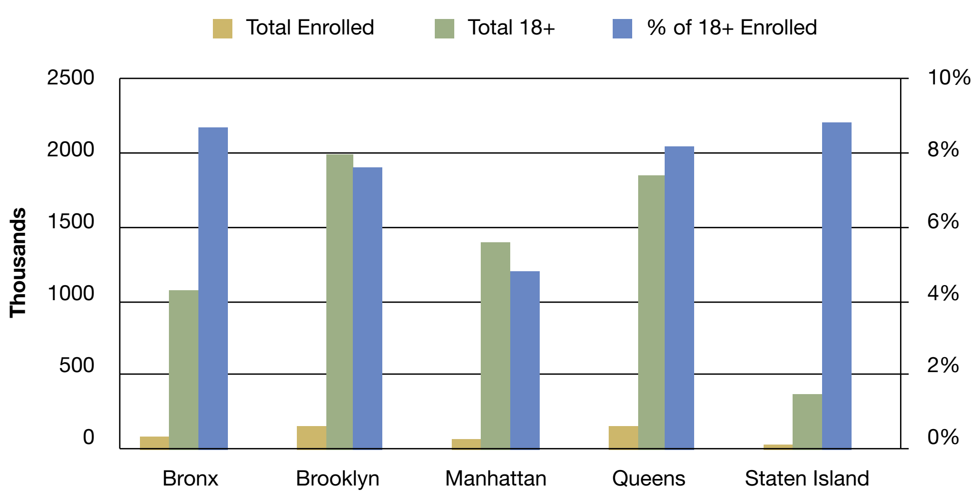
All ACS data comes from the U.S. Census Bureau's 2012-2016 American Community Survey 5-Year Estimates. We received this data at the PUMA level.

Throughout the report we refer to geographic entities that we call "neighborhood areas," which are the 55 PUMAs that comprise New York City. For ease of identification, all of the maps in the report are labeled with the Community Districts that best match the geographic coverage of the neighborhood area.

It should be noted that most of our results were received at the ZIP code level and aggregated to the PUMA level using an assignment strategy compiled from public sources by Baruch College's Geospatial Librarian.[2] Because ZIP codes are not a census designation, the assignment strategy matches ZIP codes to U.S. Census Bureau geographies using ZIP code tabulation areas (ZCTAs)—geographies created by aggregating census blocks to mirror ZIP codes. More importantly, while in our data set ZIP codes are assigned to ZCTAs and then combined to form PUMAs that coincide with Community Districts, in reality ZIP codes do not perfectly nest into ZCTAs, ZCTAs do not perfectly nest into PUMAs, and PUMAs do not necessarily share the exact same boundaries as Community Districts. We do, however, feel that in the absence of a perfect assignation to Community District boundaries, this method provides a reasonable proxy for Community Districts—or what we refer to throughout the report as neighborhood areas. See Appendix A for how each variable is defined and Appendix C for a map and key of the neighborhood areas (PUMAs) and Community District and neighborhoods that comprise them.

To provide context to the higher education landscape, we compared enrollment totals to population totals in Figure 1. Even though we find smaller populations of residents aged 18 and older in both the Bronx and Staten Island, we find a higher than average percentage of the adult population enrolled in higher education.

Figure 1: Enrollment in Higher Education and Population 18+



Source: Enrollment data: National Student Clearinghouse, fall 2016; Population: U.S. Census Bureau, 2012-2016 American Community Survey 5-Year Estimates

Our analysis takes advantage of the copious amount of research focused on predicting and explaining student loan default. We primarily drew from the findings of a literature review published in the *Journal of Student Financial Aid* written by Gross, et al. in 2009. The authors reviewed and summarized 41 different research studies on student loan default, focusing most of their attention on studies that employed more rigorous statistical techniques using multivariate methods.

2 For details, see: https://www.baruch.cuny.edu/confluence/display/geoportal/NYC+Geographies

One limitation of the review is that it focuses on research conducted between 1978 and 2007. Much has changed since this time: the dischargeability of debt has become more difficult; postsecondary education has become costlier, and student loans have played a larger factor in college access; postsecondary education has become a necessity for achieving a middle-class income status; the student population has become more diverse; among other changes. Thus, the circumstances under which the research was conducted were different from what we are experiencing presently. However, we have not encountered research to convince us that the directionality and significance of the relationships discussed in the 2009 paper—and used to support our methodology—have changed. In fact, a 2018 Brookings report by Judith Scott-Clayton found similar patterns using more recent data (Scott-Clayton, 2018b).

From this literature review and with consideration for the data we were able to access, we decided on seven different indicators of vulnerability to default:

1. non-completion;
2. part-time attendance;
3. attendance at a for-profit institution;
4. independent student status;
5. low income;
6. black race/ethnicity; and
7. Hispanic race/ethnicity.

The research we draw from measures the individual effect of these predictors of default. Due to data limitations, we were only able to access this information aggregated at the neighborhood area level in New York City. However, research has shown neighborhood area level spatial differentiation among key behaviors; we also know neighborhoods cluster along socioeconomic and racial lines (Sampson, Morenoff & Gannon-Rowley, 2002). Thus, even though our indicators are not necessarily measuring the same people as those with debt in collections, the research supports the assumption that there are connections between the two aggregates, as residents of the same neighborhood face similar social and economic forces.

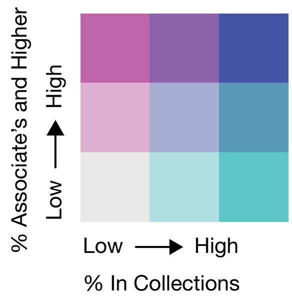
This assumption is strengthened by the strong correlations between neighborhood area levels of student loan debt in collections and indicators of vulnerability to default, as shown in scatterplots and fitted linear regression lines reported for each relationship discussed in the report.

To identify which neighborhood areas were struggling with student loan debt, we assigned the 55 New York City neighborhood areas into three terciles based on the prevalence of student loan holders with debt in collections. We did the same type of assignment for each of the seven indicators of vulnerability. We then combined the collections rankings with the rankings of each of the seven indicators and created bivariate choropleth maps to represent the combinations.[3]

The maps are shaded increasingly darker blue where the collections ranking increases and a given indicator does not; increasingly darker pink where the indicator ranking increases but the rate of debt in collections does not, with one exception being median household income which is darker as the ranking decreases; and increasingly darker purple where both the collections and indicator ranking increase. See Figure 2 for an example of a map key.

3 Map technique based on http://www.joshuastevens.net/cartography/make-a-bivariate-choropleth-map/

Figure 2: Example Bivariate Map Key

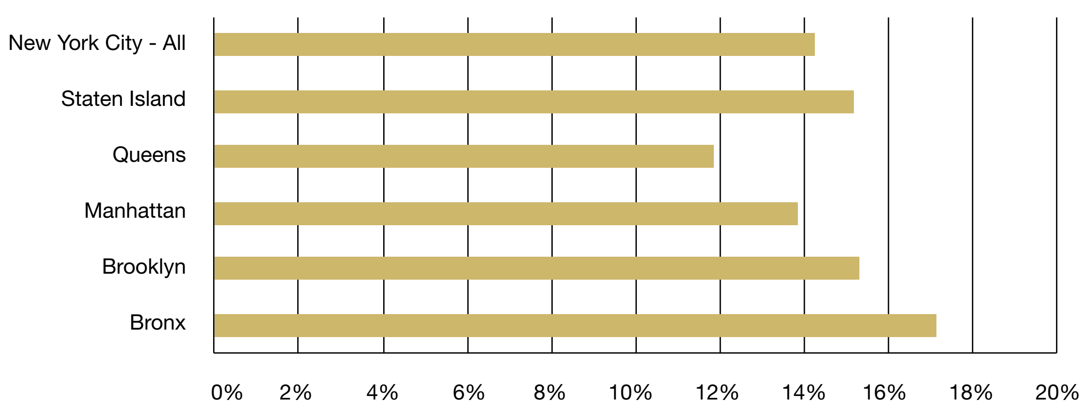


There were 18 neighborhood areas classified into the top tercile based on their collections rates. For each of these neighborhood areas, we tallied whether they were in the most vulnerable tercile, either the highest or lowest depending on the indicator, for each of the seven indicators of vulnerability. This strategy provides us with a blunt, yet indicative, method for identifying the potential drivers of student loan debt distress in New York City neighborhood areas.

Who Owns Student Loan Debt

To understand where in New York City student loan debt is causing the highest rates of financial distress (as measured in this report by debt in collections), we must first understand who holds student loan debt. Figure 3 shows that the student loan debt burden is shared unevenly across New York City, with the lowest student loan borrowing rate found in Queens, around 12 percent of the population, and the highest found in the Bronx, more than 17 percent of the population. A lower borrowing rate does not necessarily indicate lower enrollment rates. Rather, it could indicate a greater ability to finance higher education without student loans.

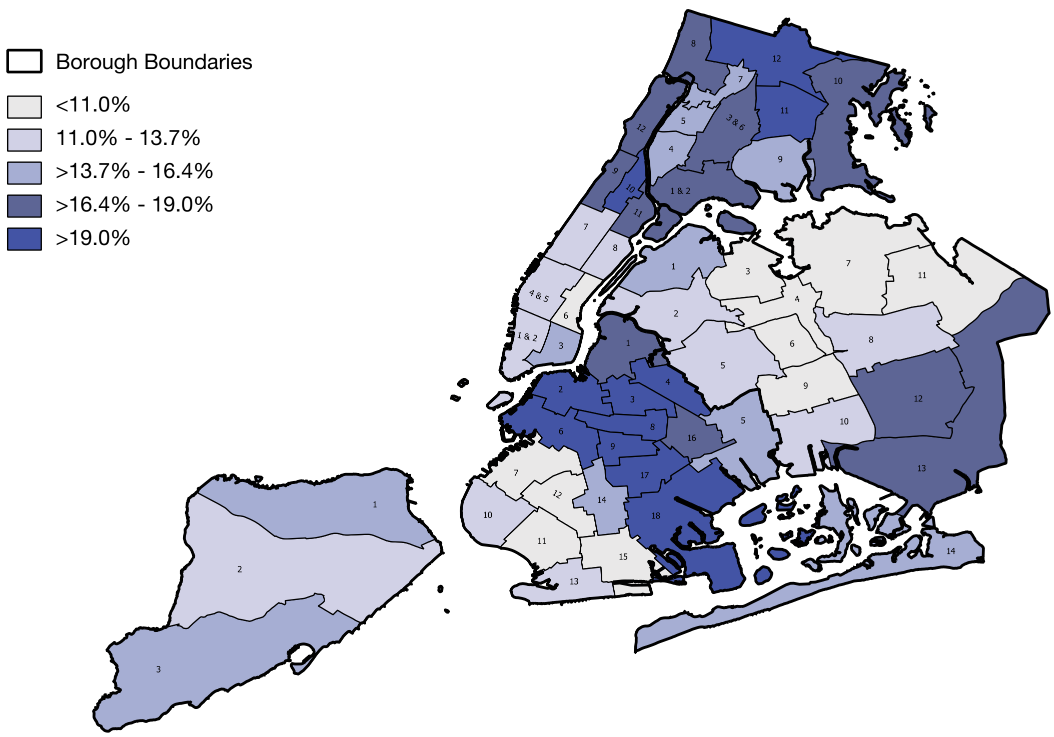
Figure 3: Has Student Loan, by Borough



Source: DCA analysis of Urban Institute Credit Panel Data

Further variations in the borrowing rate are uncovered when we focus on the neighborhood area level. Figure 4 shows a map with neighborhood areas shaded darker where we find higher rates of student loan borrowing. The highest rates of borrowing are found in clusters of neighborhood areas in northern Manhattan, throughout the Bronx, but particularly in the northern section, and in another cluster spanning from northwest to southeast Brooklyn.

Figure 4: Percent of Credit File Holders with Student Loan Debt



Source: DCA analysis of Urban Institute Credit Panel Data

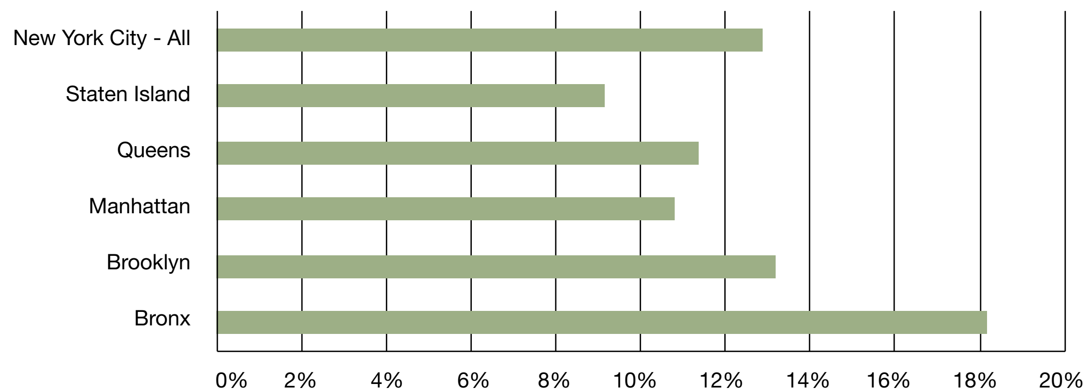
Who is Struggling with Student Loan Debt

High rates of borrowing and large loan size do not immediately equate to student loan distress. For example, a New Yorker who goes to medical school might incur a high loan balance but would likely not have trouble managing loan repayment. To begin to identify those New Yorkers whose student loans are a source of financial distress, we focus on a subset of student loan debt holders—namely, those with student loan debt in collections. To simplify the terminology, throughout the rest of the report we will refer to this group as student loan borrowers with debt in collections, though we are solely focused on student loan debt in collections and not on other forms of debt, such as credit card or auto loan debt.[4]

4 Thus, a student loan borrower with non-student loan debt in collections would not be classified as a student loan debt holder in collection.

For a federal student loan to enter collections, borrowers must be 270 or more days overdue on their loan,[5] which also aligns with how default is typically classified. In Figure 5, we show the percentage of student loan holders with debt in collections. Approximately 13 percent of New York City residents holding student loans are in collections for some of that debt. These percentages range from a low of 9 percent in Staten Island to a high of 18 percent in the Bronx. Surprisingly, while Staten Island has an above-city-average rate of student loan borrowing, the borough has a below-average rate of student loan holders with debt in collections.

Figure 5: Student Loan in Collections, Student Loan Holders Only



Source: DCA analysis of Urban Institute Credit Panel Data

In Figure 6, we present a map of New York City in which neighborhood areas with higher rates of student loan debt in collections are shaded darker. From this map it is clear that neighborhood areas with higher levels of student loan debt in distress tend to cluster.

In the South Bronx, we find six contiguous neighborhood areas with high rates of student loan debt in collections, with the rest of the borough faring not much better. The six neighborhood areas include:

- Belmont, Crotona Park East, and East Tremont
- Bedford Park, Fordham North, and Norwood
- Morris Heights, Fordham South, and Mount Hope
- Concourse, Highbridge, and Mount Eden
- Castle Hill, Clason Point, and Parkchester
- Hunts Point, Longwood, and Melrose

Across Bronx neighborhood areas, rates of student loan borrowers with debt in collections range from slightly below the citywide average at 12 percent to the highest rate of student loan holders with debt in collections of any New York City neighborhood area, at 23 percent.

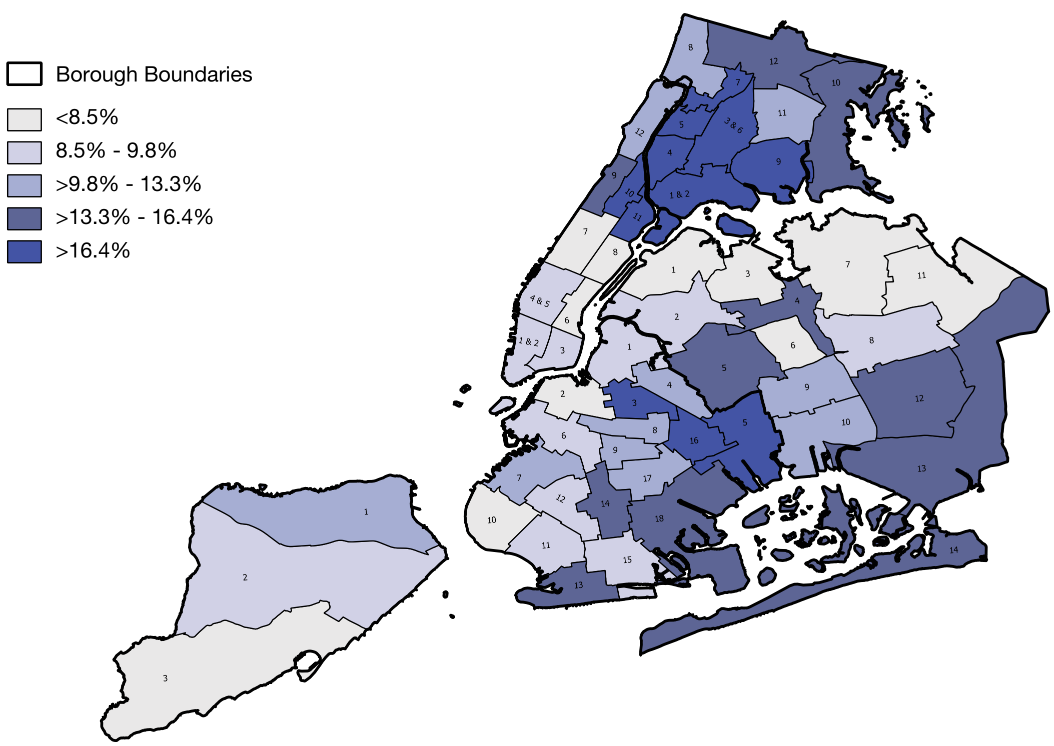
5 Private student loans operate differently and can go into default status after 120 days of nonpayment and can be sent to collections after that (Kirkham, 2017). However, private student loans make up less than 8 percent of outstanding student loan debt (McGurran, B., 2018).

In Brooklyn, we find higher rates of distress in the east, particularly in the three neighborhood areas that include:

- Bedford-Stuyvesant
- East New York and Starrett City
- Brownsville and Ocean Hill

Other notable neighborhood clusters above the citywide average are found in the two neighborhood areas that encompass East and Central Harlem in Manhattan.

Figure 6: Percent of Student Loan Borrowers in Collections, by Community District



Source: DCA analysis of Urban Institute Credit Panel Data

Predictors of Student Loan Debt Distress

To complement our research into the New York City neighborhood areas with high rates of student loan debt in collections, we needed to understand the reasons for student loan default. We mainly relied on a 2010 literature review published in the *Journal of Student Financial Aid* to develop our understanding of the key characteristics and behaviors indicating a higher likelihood of defaulting on student loan debt. The review found that characteristics of students and institution, for example non-completion and attendance at a less selective institution, are strongly related to default (Gross et al., 2010). Informed by these findings, and given the data available, we focused our analysis in this report on the following predictors of student loan default, what we call indicators of vulnerability to default:

1. non-completion;
2. part-time attendance;
3. attendance at a for-profit institution;
4. independent student status;
5. low income;
6. black race/ethnicity; and
7. Hispanic race/ethnicity.

These predictors and our review of patterns of student enrollment and their relationship to troubling repayment outcomes across New York City boroughs and neighborhood areas are covered in the following sections:

- Non-Completion
- Average Time to Completion and Enrollment Intensity
- Institution Type
- Independent Status – Age as a Proxy
- Income
- Race and Ethnicity

Non-Completion

The main justification for taking out a student loan is that the wage premium realized from attaining a higher education level will more than compensate for the debt incurred. In Figure 7, we present national median usual weekly earnings by degree using Bureau of Labor Statistics data.

Using the median weekly earnings for a person with a high school diploma only as the benchmark, the wage premium[6] for a person who has attended some college—but has not earned a degree—is $62, which doubles to $124 for those who receive an associate's degree, and reaches $461 for a bachelor's degree, nearly 7.5 times higher than those who start college but do not complete their degree.

The benefit of degree attainment does not stop at higher earnings. Having a postsecondary degree also provides some protection against unemployment. Figure 8 shows the national unemployment rates by highest degree attained. In 2017, working age adults experienced a low unemployment rate, approximately 3.6 percent. Much like the earnings data presented in Figure 7, those with some college but no degree experienced a small advantage over high school diploma holders. Associate's degree holders fared slightly better, while bachelor's, graduate, and professional degree earners were unemployed at the lowest rates. With the benefit of higher earnings and lower unemployment rates, it comes as no surprise that higher levels of degree attainment are associated with a decreased likelihood of student loan default (Gross et al., 2010).

6 The wage premium is defined as the difference in median usual weekly earnings received by workers with a high school diploma only and the median usual weekly earnings of workers with a higher level of postsecondary education. For example, the median earnings for a bachelor's degree holder is $461 more dollars than the median earnings for someone with a high school diploma only. Thus, the wage premium for a worker with a bachelor's degree is $461.

Figure 7: Median Usual Weekly Earnings, by Educational Attainment (2017)

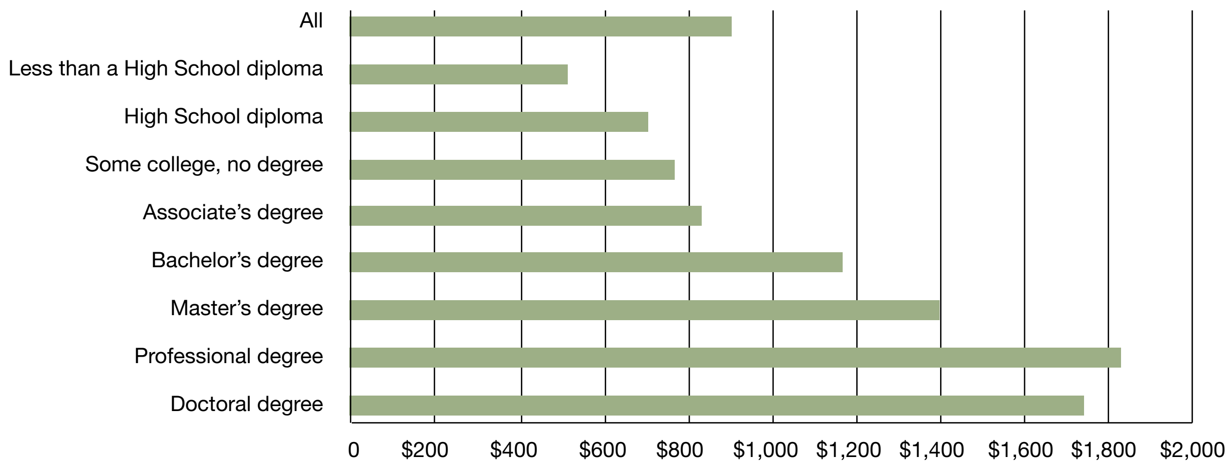
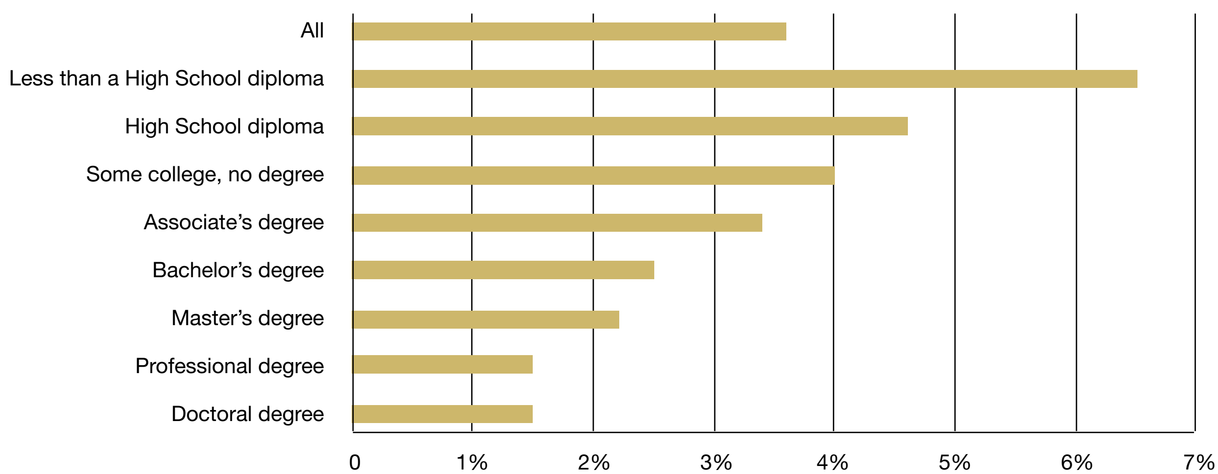


Figure 8: Unemployment Rates, by Educational Attainment (2017)

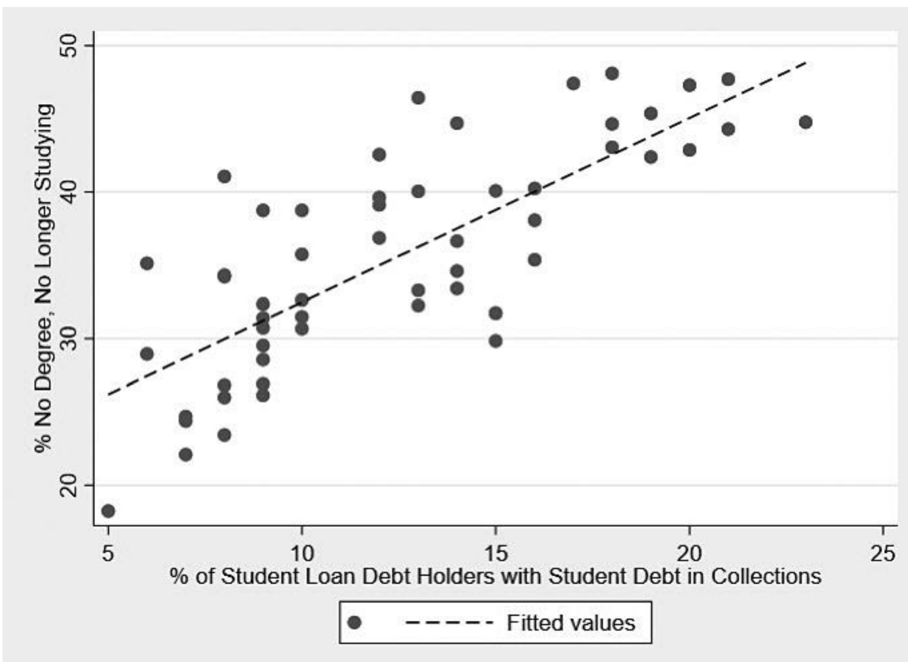


Note: Data are for persons aged 25 and older. Earnings are for full-time wage and salary workers.
Source: Current Population Survey, U.S. Department of Labor, U.S. Bureau of Labor Statistics, see:
https://www.bls.gov/emp/tables/unemployment-earnings-education.htm

While non-completers who borrow may owe less than completers, they also earn less and are more likely to suffer bouts of unemployment, all while still obligated to repay their student loans (Gladieux & Perna, 2005). The ramifications of not graduating are becoming more severe as the cost of tuition rises. Exacerbating the situation is the fact that well-paying jobs increasingly require postsecondary education and training.[7]

For these reasons, the research shows that degree non-completion is one of the strongest predictors of student loan default (Gross et al., 2010). The scatterplot of New York City neighborhood areas in Figure 9 shows this phenomena at work, indicating a positive linear relationship between New York City neighborhood areas' student loan collections rate in 2016 and neighborhood area residents' non-completion rates after seven years for a cohort of students who entered college in the 2010 school year. The steep upward slope implies a strong positive correlation: neighborhood areas with high rates of non-completion also have high rates of collections.

Figure 9: Non-completion vs. Debt in Collections, at the Neighborhood Area Level

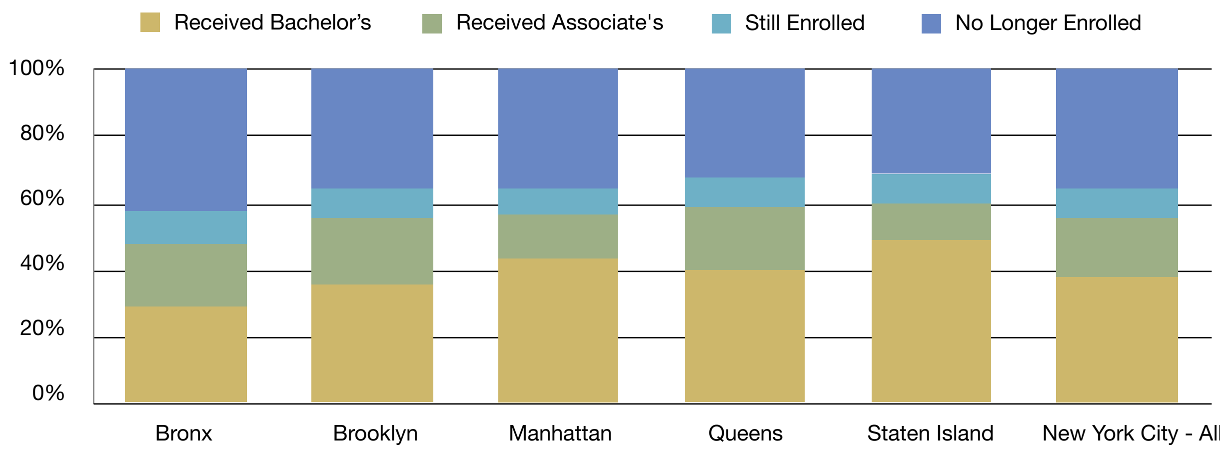


Source: DCA analysis of National Student Clearinghouse Enrollment Data and Urban Institute Credit Panel Data

7 Up to 65 percent of jobs by 2020 will require some level of postsecondary education or training; see Carnevale, Smith & Strohl, 2013.

Using the NSC data, in Figure 10, we present the degree completion statistics for first-time New York City college students after seven years who first entered college during the fall 2010 semester. Citywide, after seven years, 44 percent of students had not completed a degree; 35 percent stopped attending college completely; and 9 percent were still enrolled. The Bronx persists in having the worst outcomes, with more students still studying or having stopped attending after seven years than those who had received a degree.

Figure 10: Highest Degree Attained 7 Years after First Semester, by Borough



Source: DCA analysis of National Student Clearinghouse Enrollment Data

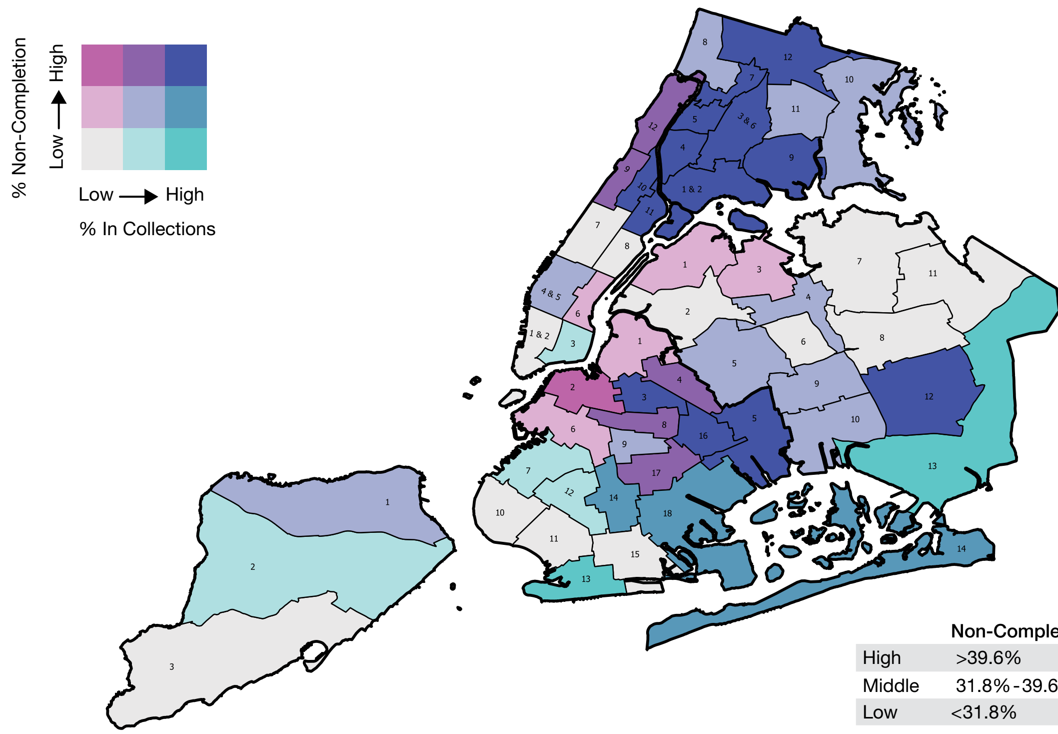
Through bivariate mapping, Figure 11 shows the relationship between non-completion and student loan debt in collections.[8] In this map, we are interested in identifying neighborhood areas with the highest rate of debt in collections and the highest rate of non-completion, indicated by the dark purple color located in the top right of the map key.

Across New York City neighborhood areas, we see some patterns emerge. Thirteen out of 18 of the neighborhood areas with the highest percent of student debt in collections were also among the neighborhood areas with the highest rates of non-completion:

- In the Bronx, we find the strongest associations between rates of non-completion and rates of student loan debt in collections, without any Bronx neighborhood area in the low non-completion or low debt in collections group. Neighborhood areas include:
    - Wakefield, Williamsbridge, and Woodlawn
    - Belmont, Crotona Park East, and East Tremont
    - Bedford Park, Fordham North, and Norwood
    - Morris Heights, Fordham South, and Mount Hope
    - Concourse, Highbridge, and Mount Eden
    - Castle Hill, Clason Point, and Parkchester
    - Hunts Point, Longwood, and Melrose

8 See Data and Methodology section for a full explanation of bivariate mapping.

Figure 11: Non-Completion and Student Loan Debt Holders in Collections, by Community District



	Non-Completion	In Collections
High	>39.6%	>14.5%
Middle	31.8% - 39.6%	9.2% - 14.5%
Low	<31.8%	<9.2%

Source: DCA analysis of National Student Clearinghouse Enrollment Data and Urban Institute Credit Panel Data

- In Brooklyn, we find high rates of both collections and non-completion in the three neighborhood areas that include:
  - Bedford-Stuyvesant
  - Brownsville and Ocean Hill
  - East New York and Starrett City
- In Manhattan, we see this same pattern in the two neighborhood areas that include East Harlem and Central Harlem.
- In Queens, only one neighborhood area matches this pattern—the neighborhood area that includes Jamaica, Hollis, and St. Albans.

While our data will not allow us to explain what is causing non-completion, we know from other research that students who are of color, attend school part time, attend for-profit institutions, work full time while studying, take time off after high school before pursuing higher education goals, have lower levels of academic preparedness, come from a low-income background, have parents with lower levels of education, are older, and/or have children of their own have higher rates of non-completion (Gladieux & Perna, 2005; Itzkowitz, 2018).

The Brooklyn Heights and Fort Greene neighborhood area has an opposite relationship than we would expect, with a high rate of non-completion and a low level of debt in collections. While we are unable to explain this phenomena with certainty, we do know that the neighborhood area falls into the second highest quintile for household median income.[9] It is possible that neighborhood areas with higher income are more insulated against the negative financial consequences of non-completion.

Average Time to Completion and Enrollment Intensity

The average time to completion of a college degree has increased in recent years. College was once thought to be a two-year endeavor for an associate's degree and four years for a bachelor's degree. This assumption no longer holds as college access expands to students with a greater need for remedial education and those with diverse work and family responsibilities that lead to part-time studies or gaps in attendance, among other factors (Shapiro, Dundar & Wakhungu, 2016). In fact, it is now an industry standard across higher education to measure college completion at 150 percent of time. Therefore, completing an associate's degree is now measured at three years and a bachelor's degree at six years (ibid).

This extra time to graduate translates into higher student costs and, if the student is covering the extra tuition and room and board expenses with student loans, this translates into increasing levels of debt. Thus, as students exceed the standard two-year and four-year time frame, the likelihood of default has been shown to increase (Gross et al., 2010). In addition, the longer time to completion may also be related to academic challenges or non-continuous enrollments, both of which are also associated with higher rates of student loan default (ibid).

For New York City residents, the problem is exacerbated by the fact that the most generous New York State tuition assistance programs are geared toward full-time attendance and four-year degree completion (Higher Education Services Corporation). The Tuition Assistance Program (TAP) and the Excelsior Scholarship require full-time enrollment (with the exception of students with disabilities, who can use the Excelsior Scholarship for part-time attendance), and the part-time state-level tuition assistance options either offer lower tuition benefits or, as in the case of part-time TAP, require the student to have previously been a full-time student. Moreover, TAP grant funds are available for six semesters for those pursuing an associate's degree and eight semesters for those pursuing a bachelor's degree. This means that New Yorkers who take longer to complete their degrees are in danger of running out of needed funds (TAP Questions).

Figure 12 shows the average time it takes to earn a degree, by borough. The range is from 3.5 to 3.75 years across the boroughs for an associate's degree and 4.25 to 4.67 years for a bachelor's degree. If we translate this difference into semesters, that means that students in the borough with the longest average time to completion, the Bronx, are taking over half a semester longer to graduate with an associate's degree than the borough with the fastest time to completion, Brooklyn. The Bronx also has the longest time to completion for bachelor's degree earners, with residents taking slightly more than one semester longer than completers in Manhattan, the borough with the shortest time to completion for bachelor's degrees.

9 See section on median household income.

Figure 12: Average Time to Degree Completion, by Borough

Source: DCA analysis of National Student Clearinghouse Enrollment Data

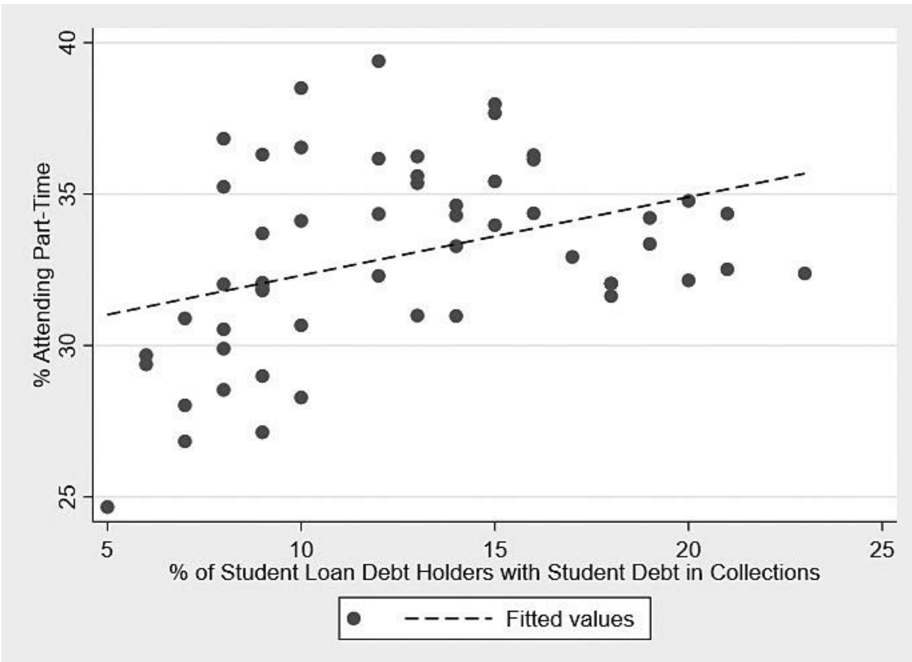
Perhaps more troubling is the difference in experience between those pursuing an associate's degree and those seeking a bachelor's degree. In New York City, students pursuing a bachelor's degree take, on average, nearly a year longer to complete their degree than their counterparts pursuing an associate's degree, even though an associate's degree can be completed in two years of full-time enrollment and bachelor's degrees typically require four years of full-time enrollment. The difference in credit hours required, typically 60 for an associate's degree versus 120 for a bachelor's degree, indicates this discrepancy should be closer to two years, when in reality it is taking almost as long to earn an associate's degree, on average, than it is to earn a bachelor's degree.

While identifying what is driving associate's degree students' disproportionately long completion times is beyond the scope of this paper, we wanted to draw notice to the results in Figure 12. The extended time taken by associate's degree earners for a less lucrative degree is troubling and indicates that the group of people who pursue associate's degrees have more obstacles than those who pursue bachelor's degrees.

Enrollment intensity (whether a student attends school full time or part time) is a factor that is highly related to longer completion times and increased risk of default, with students who attend part time taking more semesters to graduate and accumulating more debt in the process (Gross et al., 2010).

In Figure 13, we provide support for this relationship at the neighborhood area level. The scatterplot shows a positive relationship between the rate of students attending part time in the 2016/2017 school year against the rate of student loan debt in collections in 2016, which provides support for our including part-time attendance as an indicator of vulnerability to default.

Figure 13: Part-Time Status and Student Loan Debt in Collections



Source: DCA analysis of National Student Clearinghouse Enrollment Data and Urban Institute Credit Panel Data

Figure 14 shows the composition of enrollment intensity for postsecondary students at the borough level. The data shows that a majority of students, 67 percent, in the 2016/2017 school year were registered full time, with a third registered as part-time students. The variation across boroughs was not dramatic. The Bronx, Brooklyn, and Queens had a slightly higher rate of students attending part time than did Manhattan and Staten Island.

However, in Figure 15, we see a dramatic difference across boroughs when we consider how enrollment intensity relates to non-completion for our seven-year undergraduate cohort. Citywide, only one-third of first-time undergraduate students in 2010 who enrolled in a full-time course load for the majority of the semesters attended had not finished and were no longer enrolled seven years later compared to 43 percent for students who attended as part-time students the majority of the time.

In the Bronx, 50 percent of the majority part-time students had not completed their degree and were no longer enrolled compared to 39 percent for students who spent most semesters enrolled in a full-time course load. Thus, not only are part-time students taking longer to finish, they are also completing their degrees at a lower rate than their full-time counterparts.

Figure 14: Enrollment Intensity, by Borough – 2016/2017 Snapshot (All Enrolled)

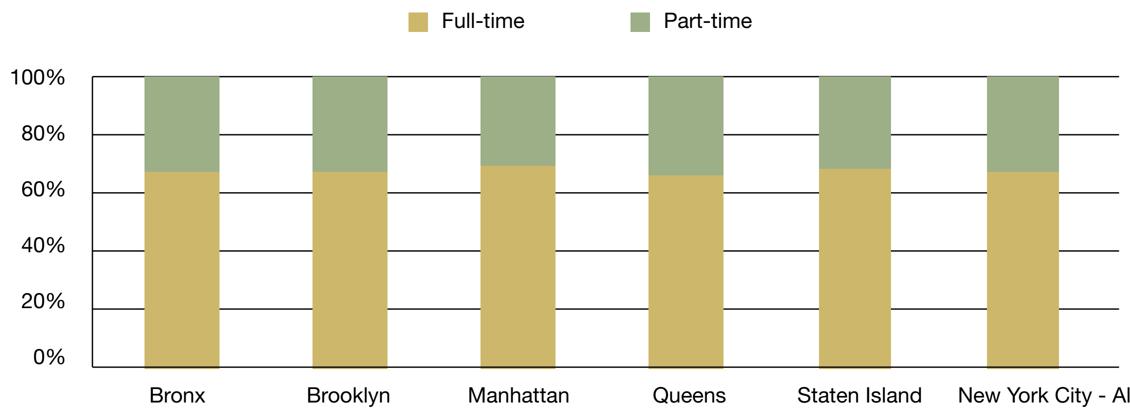
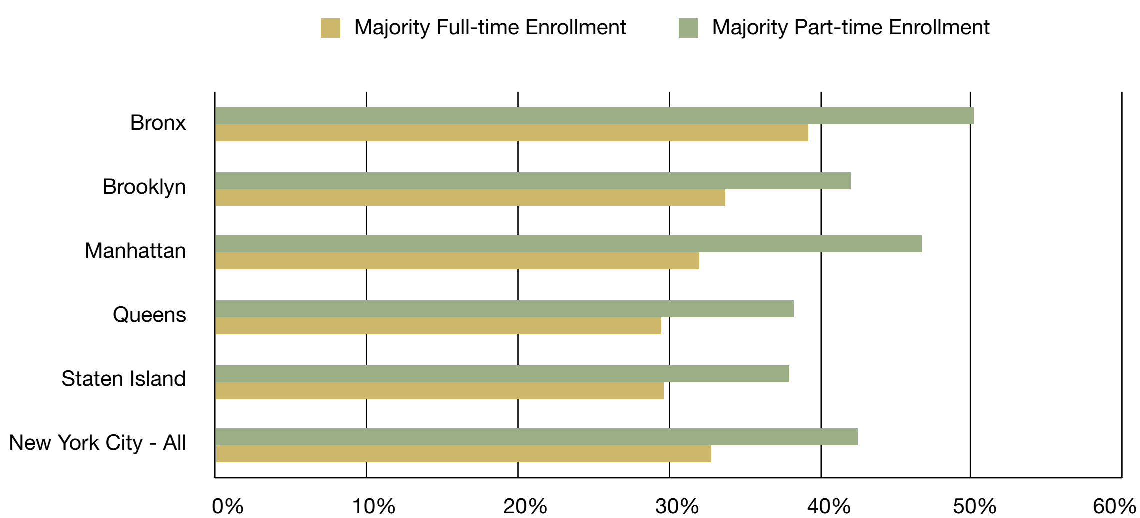


Figure 15: No Degree, No Longer Enrolled 7 Years after Initial Entry, by Majority Enrollment Intensity (First-time Undergraduates Only)



Source: DCA analysis of National Student Clearinghouse Enrollment Data

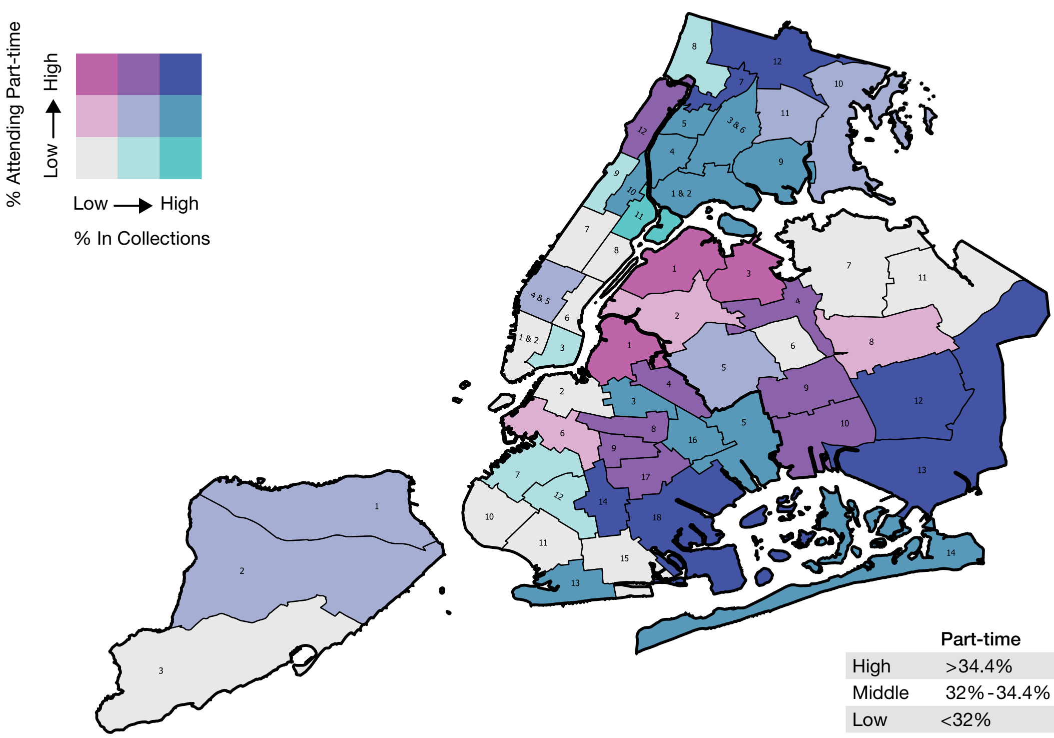
We found more variation once we drilled down to the neighborhood area level and matched collections rates with enrollment intensity. Figure 16 maps the relationship between the share of students attending part time and the rate of student loan debt in collections. In this map, we are interested in whether neighborhood areas with high rates of debt in collections also have a high rate of students attending part time, indicated by the dark purple color.

Our results show that six out of the 18 neighborhood areas with high rates of student loan debt in collections also had high rates of students attending part time during the 2016/2017 school year:

- Wakefield, Williamsbridge, and Woodlawn in the Bronx
- Bedford Park, Fordham North, and Norwood in the Bronx
- Flatbush and Midwood in Brooklyn
- Canarsie and Flatlands in Brooklyn
- Jamaica, Hollis, and St. Albans in Queens
- Queens Village, Cambria Heights, and Rosedale in Queens

We do find one neighborhood area in Brooklyn and two in Queens with both high rates of part-time attendance and a low rate of debt in collections, but these are neighborhood areas with high rates of higher educational attainment, thus the higher rate of part-time students may be driven up by a higher rate of graduate students studying part time.

Figure 16: Part-time Students and Debt in Collections, at the Neighborhood Area Level



	Part-time	In Collections
High	>34.4%	>14.5%
Middle	32%-34.4%	9.2%-14.5%
Low	<32%	<9.2%

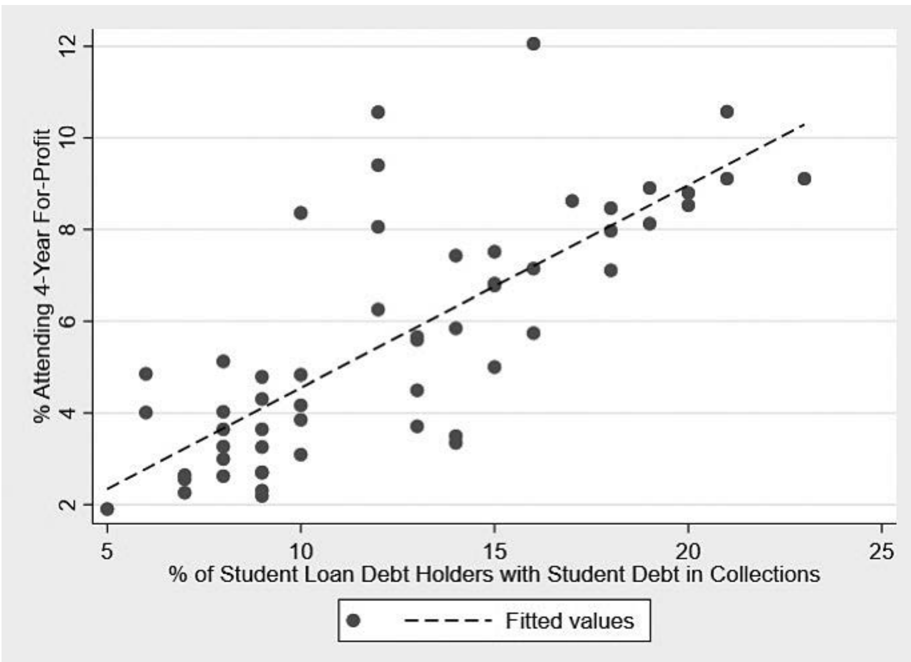
Source: DCA analysis of National Student Clearinghouse Enrollment Data and Urban Institute Credit Panel Data

Institution Type

The institution type attended—defined in this report as Nonprofit, Four-year Public, Two-year Public, and For-profit[10]—has been shown to be related to student loan default rates, with for-profit and two-year public institutions showing higher rates of default among borrowers than four-year public and nonprofit institutions.

Figure 17 shows that as the percentage of postsecondary students in the neighborhood area attending for-profit school types in 2016/2017 school year increases, so does the neighborhood area rate of student loan borrowers with debt in collections in 2016.

Figure 17: For-Profit Attendance by Student Loan Holders in Collections, at the Neighborhood Area Level

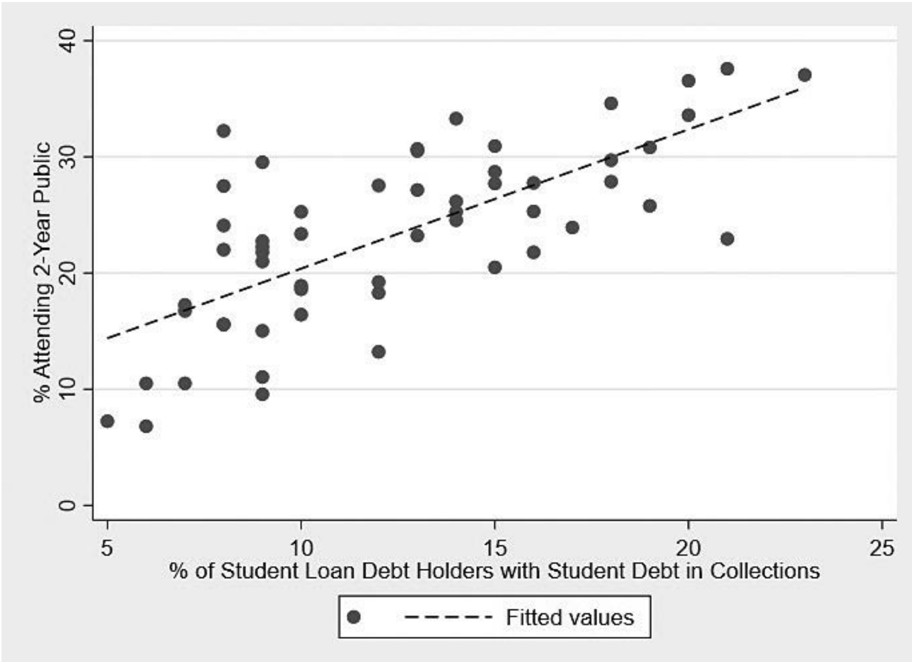


Source: DCA analysis of National Student Clearinghouse Enrollment Data and Urban Institute Credit Panel Data

Figure 18 shows a similar, yet weaker relationship between the neighborhood area rate of students who attended a two-year public institution in the 2016/2017 school year and the rate of student loan debt holders in collections. It should be noted that two-year public institutions tend to be among the most affordable higher education options available. For this reason, borrowing rates among students of two-year public institutions tend to be lower than at other school types (Fain, 2015), implying that students who do borrow to support their studies at a two-year public institution are likely among the most financially disadvantaged.

10 See data descriptions in Appendix A.

Figure 18: 2-Year Public Attendance by Student Loan Holders in Collections, at the Neighborhood Area Level



Source: DCA analysis of National Student Clearinghouse Enrollment Data and Urban Institute Credit Panel Data

While this pattern is persistent in descriptive studies, the relationship between institution type and default weakens once more sophisticated statistical methods that control for student characteristics, borrowing patterns, and the resources of the institutions are used (Gross et al., 2010). These school types (For-profit and Two-year Public Institutions) are less selective and accept students who are less academically prepared—both factors related to a higher likelihood of default.

For students attending two-year public schools, non-selectivity provides an affordable means of narrowing the education gap of students who stumbled during their primary and secondary education experience or for those who seek to save money on their first two years of college. Access to affordable two-year public institutions is a necessary ingredient for social mobility.

For students who attend costlier for-profit institutions, the same cannot be said.

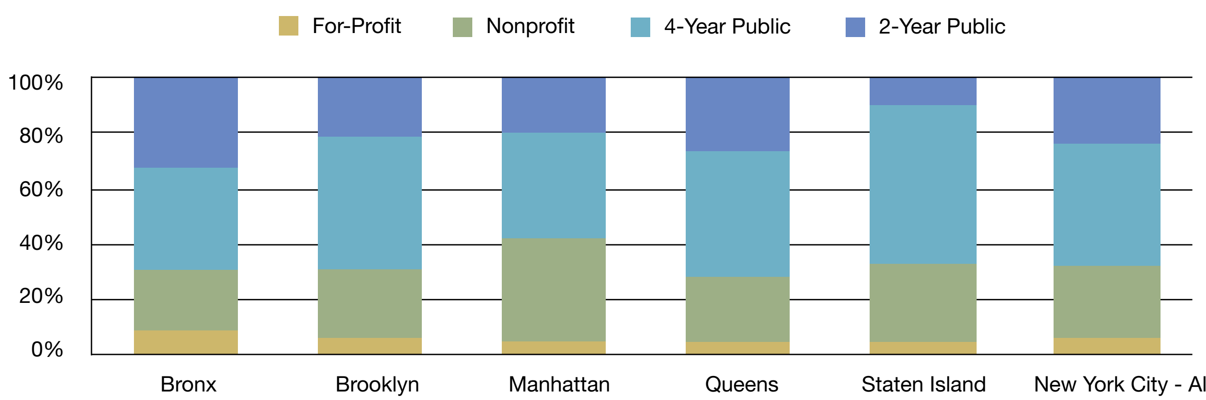
For-profit institutions are profit-making entities; thus, tuition dollars are diverted to shareholders, marketing and recruitment efforts, among other non-instruction-related costs. For-profit institutions have drawn considerable negative attention recently, with reports highlighting their high tuition costs (Mattes, 2017) and low levels of spending on instruction.[11] High-profile losses of accreditation and subsequent closures have also left many students holding debt for a degree that they are no longer able to complete or that is not recognized by employers or other higher education institutions (CFPB, 2014; Lewin, 2015; Brickley, 2018). For these reasons, we have included attendance at a for-profit institution as one of our indicators of vulnerability to default.

11 A 2018 Century Foundation report found that in 2015 for-profit schools in New York State were only spending $0.41 on instruction for every $1 they were collecting in tuition. For comparison, nonprofit schools spend more than double that amount on instruction costs. (See Cao, 2018)

Across New York City boroughs, we saw divergent enrollment patterns among postsecondary students. In the 2016-2017 school year, approximately 43 percent of New York City residents enrolled in postsecondary education attended a four-year public institution, followed by 26 percent at a nonprofit, 24 percent at a two-year public institution, and 7 percent at a for-profit institution, as shown in Figure 19.

We found higher rates of postsecondary students enrolled in for-profit and two-year institutions in the Bronx and the lowest rates of both enrollment patterns in Staten Island. In fact, Staten Island has the highest rate of postsecondary students enrolled in public four-year institutions, and Manhattan has the highest rate of nonprofit institution attendance, both enrollment types indicative of lower default rates. Indeed, these two boroughs have the lowest rates of collections among student loan borrowers.

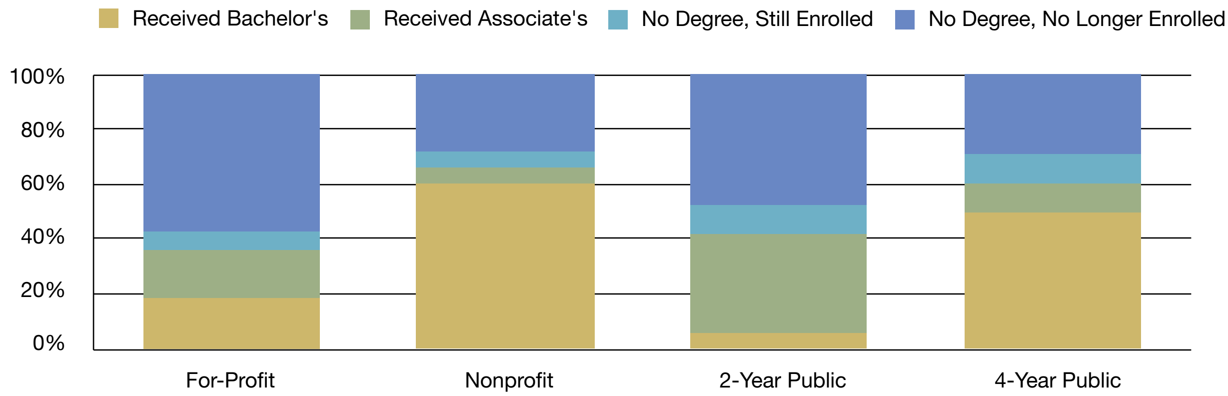
Figure 19: Enrollment Institution Type, by Borough



Source: DCA analysis of National Student Clearinghouse Enrollment Data

One of the greatest causes for concern regarding schools with less selective admissions standards is that these schools have lower graduation rates than their more selective counterparts. For New York City students starting in the 2010 school year, of those who started at a nonprofit or four-year public institution, 61 and 66 percent, respectively, had received a degree within seven years. See Figure 20. Of those who started at a two-year public institution, 42 percent had earned at least a bachelor's or associate's degree within seven years' time. However, for those who started at a for-profit institution in 2010, only 36 percent attained a degree after seven years. That is to say, not only are for-profit schools more expensive, students who attend them have significantly lower completion rates.

Figure 20: Highest Degree Attained 7 Years after First Semester, by Institution Type Attended



Source: DCA analysis of National Student Clearinghouse Enrollment Data

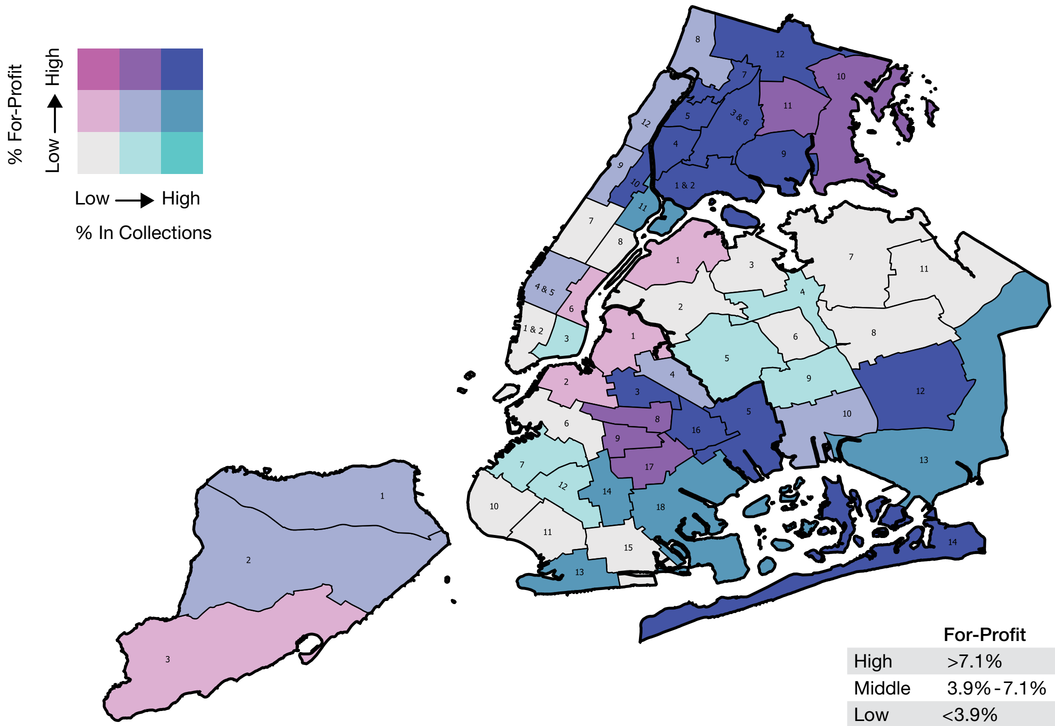
In Figure 21, we show a bivariate map relating the concentration of students attending for-profit institutions and the percentage of student loan borrowers with debt in collections.[12] For this map, the darkest shade of purple indicates a neighborhood area that is both in the highest tercile for debt in collections and the highest tercile for attendance at for-profit institutions.

Thirteen out of the 18 New York City neighborhood areas with high rates of collections also had high rates of students attending for-profit institutions.

- In the Bronx, seven out of 10 neighborhood areas had both high rates of postsecondary students attending a for-profit institution, as well as the highest levels of student loan borrowers with debt in collections; they include:
    - Belmont, Crotona Park East, and East Tremont
    - Bedford Park, Fordham North, and Norwood
    - Morris Heights, Fordham South, and Mount Hope
    - Concourse, Highbridge, and Mount Eden
    - Castle Hill, Clason Point, and Parkchester
    - Hunts Point, Longwood, and Melrose
    - Wakefield, Williamsbridge, and Woodlawn
- In Brooklyn, we find three neighborhood areas with both high levels of for-profit attendance and high levels of student loan debt in collections; they include:
    - Bedford-Stuyvesant
    - Brownsville and Ocean Hill
    - East New York and Starrett City
- In Queens, we find two neighborhood areas with high levels of both for-profit attendance and student loan debt in collections; they include:
    - Jamaica, Hollis, and St. Albans
    - Far Rockaway, Breezy Point, and Broad Channel

12 Refer to Data and Methodology section for full description of maps.

Figure 21: Percent of Postsecondary Students Attending 4-year For-Profit Institution, by Neighborhood Area



	For-Profit	In Collections
High	>7.1%	>14.5%
Middle	3.9%-7.1%	9.2%-14.5%
Low	<3.9%	<9.2%

Source: DCA analysis of National Student Clearinghouse Enrollment Data and Urban Institute Credit Panel Data

- In Manhattan, Central Harlem was the only neighborhood area exhibiting both high student loan debt in collections and high for-profit attendance.

A 2018 report by the research institute Third Way showed that even students who completed a degree at a for-profit degree-granting institution had a lower five-year repayment rate than students who started but did not complete a degree at a public or nonprofit institution (Itzkowitz, 2018). While the authors noted that this may be attributable to the difference in typical degree granted from these institutions—for-profit institutions primarily focus on certificate programs versus nonprofit and public institutions which award more bachelor's degrees—it is nevertheless alarming that even five years after their loans went into repayment, more than half, 58 percent, of students who completed a program at a for-profit institution in 2008-2009 were unable to reduce their student loan (ibid).

Independent Students – Age as a Proxy

The composition of postsecondary students has changed over time, with over half of college students now considered to be independent students. Formerly called "non-traditional" students, independent students are defined in the Free Application for Federal Student Aid (FAFSA) as satisfying one or more of the following criteria (IWPR 2018):

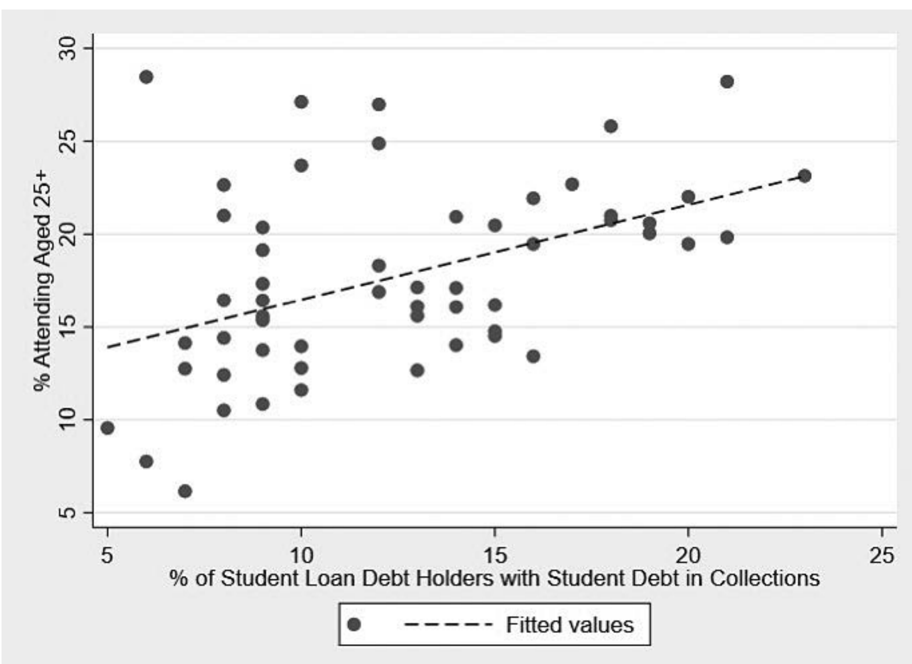
- graduate or professional student;
- have legal dependents;
- married;

- aged 24 or older;
- veteran;
- active duty military;
- foster child or ward of the court;
- emancipated, homeless, or at risk of homelessness.

Research has indicated the increase in “non-traditional” students, referred to in this report as independent students, along with the change in quality of the institutions they attend, and the relative lack of wage growth in the labor market are three factors that have combined to contribute to the overall rise in student loan default (Looney & Yannelis, 2015). Approximately 86 percent of independent students are over the age of 23 (IWPR 2018), so in this section we will use age as a proxy for independent students.[13]

Adding to the body of evidence around the vulnerability to student loan distress of independent students, in Figure 22, we show the relationship between the share of undergraduate students 25 years old and older in New York City at the neighborhood area level and the rate of student loan holders in collections. We found that as the share of students aged 25 and older increased, so did the neighborhood area rate of student loan borrowers with debt in collections. We included age, as a proxy for independent student status, as one of our indicators of vulnerability to default.

Figure 22: Students Aged 25 Years and Older by Student Loan Debt in Collections, at the Neighborhood Area Level



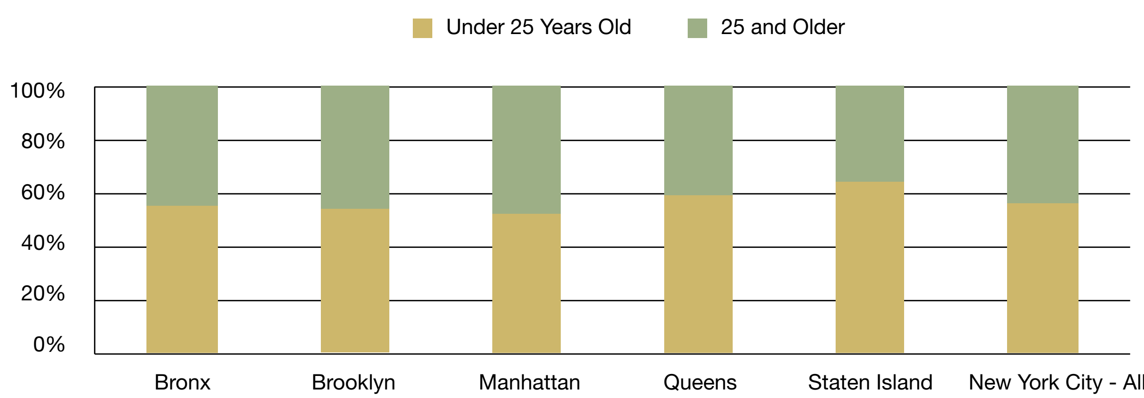
Source: DCA analysis of National Student Clearinghouse Enrollment Data and Urban Institute Credit Panel Data

13 Due to data limitations, we will use postsecondary students who start college aged 25 or older as a proxy for independent status.

What separates independent students from dependent students is that they are older on average, are more likely to be female, more likely to be persons of color, and live in poverty at higher rates (IWPR 2018). Independent students are also 70 percent less likely to have finished a degree or certificate program six years after initial enrollment (ibid). Some of the potential reasons independent students have a harder time achieving on-time completion are that they often have family or work obligations competing with their studies, and they are less likely to have the financial resources to support them on their path to graduation (ibid). Older independent students may also have experienced a significant gap between graduating high school and pursuing higher education, potentially leaving them less prepared than their dependent counterparts.

While the majority of New York City college and graduate students in the 2016/2017 school year were under 25 years old, about 43 percent of higher education students were aged 25 and older. As seen in Figure 23, some divergent patterns exist across the boroughs, with a higher rate of students below the age of 25 in Staten Island (about 64 percent) and a higher-than-average rate of students aged 25 and older in Manhattan (about 48 percent).

Figure 23: Age Composition of Postsecondary Students – 2016/2017 Snapshot (All Enrolled)



Source: DCA analysis of National Student Clearinghouse Enrollment Data

When considering the cohort of first-time undergraduate students beginning in the 2010/2011 academic year, referred to as the seven-year cohort throughout the report, we see that older students make up a smaller share of the student body. See Figure 24. In New York City, 17 percent of the seven-year cohort was over the age of 25 in 2010 when they began their studies. The composition ranged quite a bit across boroughs, with a low of 11 percent in Staten Island and a high of 20 percent in the Bronx.

Figure 24: Age Composition of Postsecondary Students – Seven-Year Cohort (First-time Undergraduates Only)

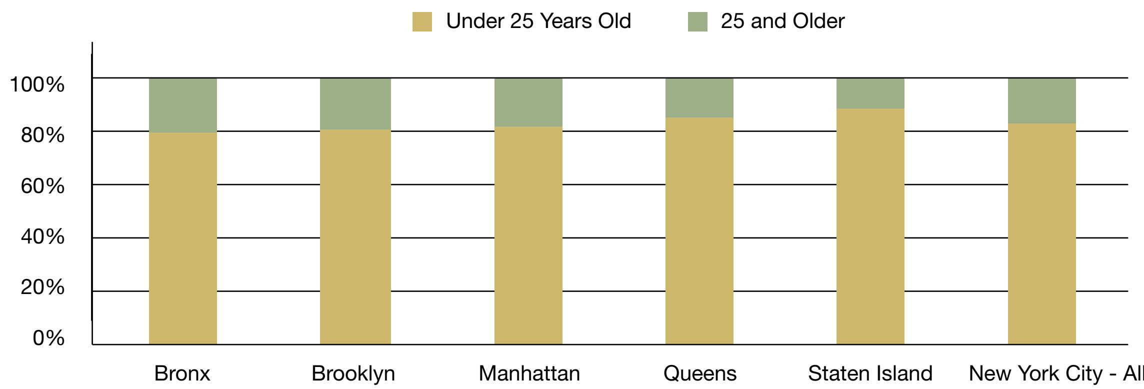


Figure 25: Degree Non-Completion, by Borough and Age – Seven-Year Cohort (First-time Undergraduates Only)

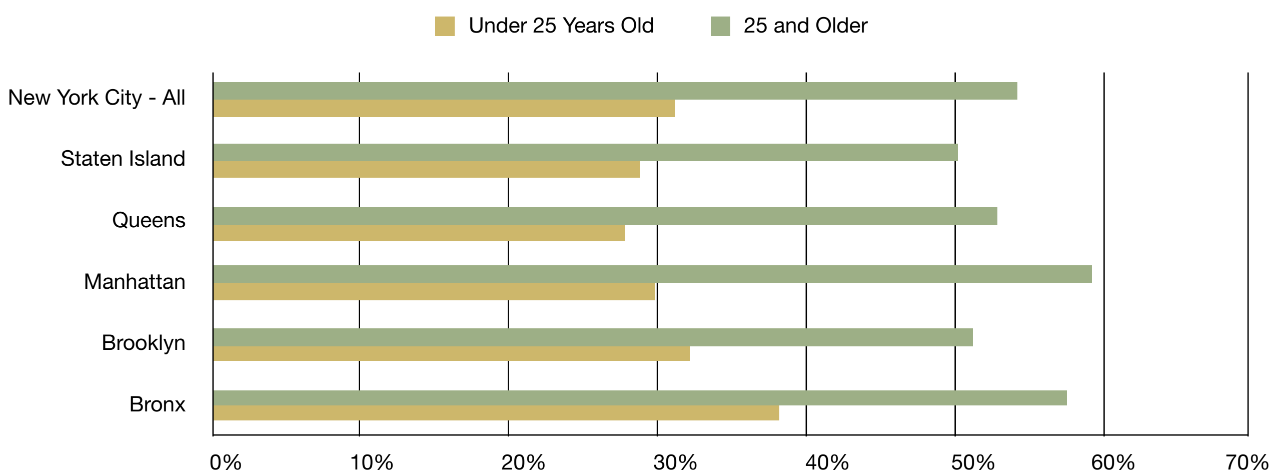
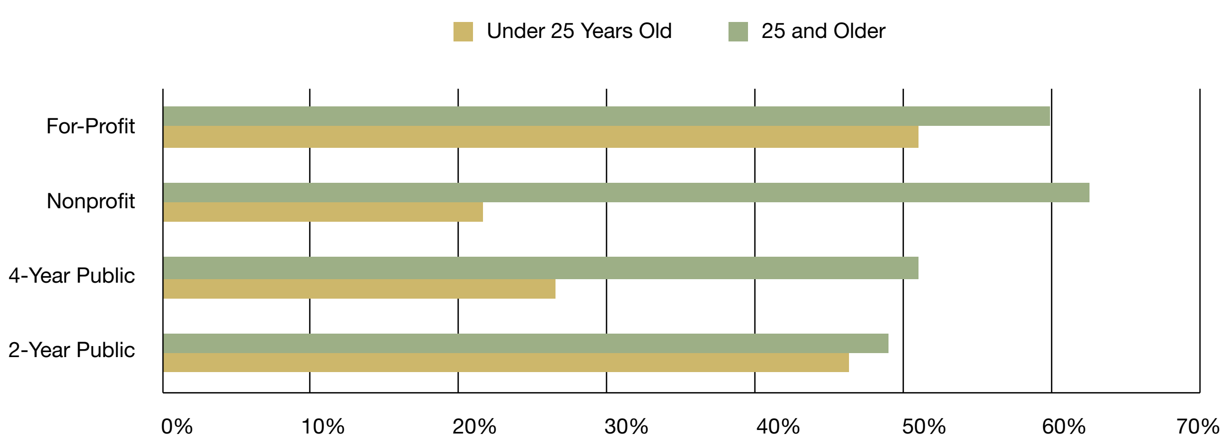


Figure 26: Degree Non-Completion, by Sector and Age – Seven-Year Cohort (First-time Undergraduates Only)



Source: DCA analysis of National Student Clearinghouse Enrollment Data

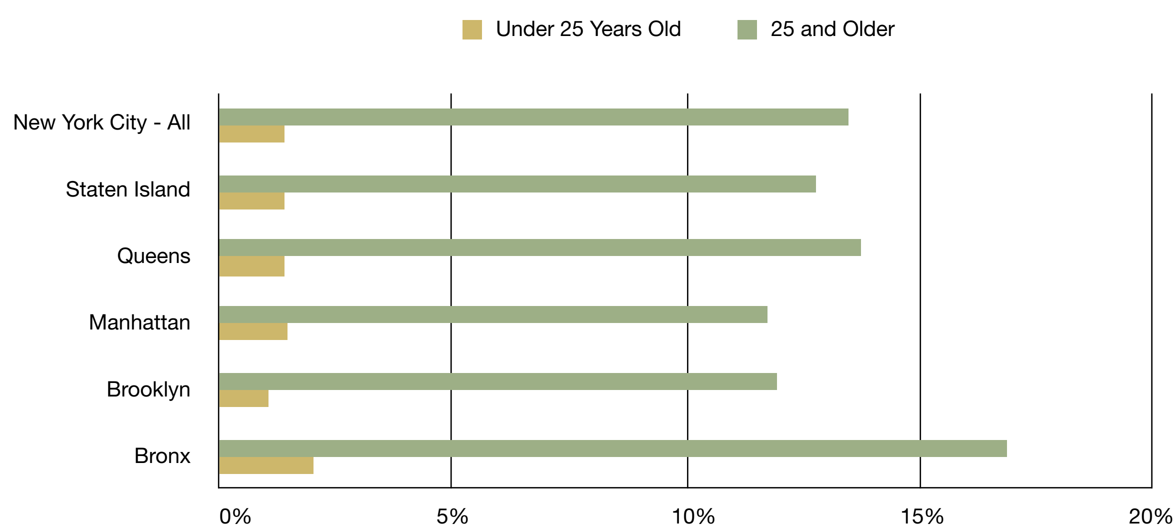
As previously mentioned, non-completion is one of the strongest predictors of student loan default. Research has shown that independent students have a harder time completing their degrees (IWPR 2018). To delve further into the problem of non-completion, in Figure 25, we present the non-completion rates for the boroughs, by age group. The gap between non-completion rates for dependent versus independent students is dramatic. Just over 31 percent of students under the age of 25 when they began coursework in 2010 had no degree and were no longer enrolled seven years later compared to 54 percent for students 25 and older. The Bronx and Manhattan had higher-than-average non-completion rates for the older age group, 58 and 59 percent, respectively.

In Figure 26, we compared the non-completion rates by institution for our two age groups. Unsurprisingly, we found students at four-year public and nonprofit institutions had lower levels of non-completion for the under 25 age group (26 and 22 percent, respectively) compared to 51 and 46 percent, respectively, for for-profit and two-year public institutions. Surprisingly, for the oldest age group, we found the highest non-completion rates at nonprofit institutions (63 percent), followed, less surprisingly, by for-profit institutions (60 percent). For both two-year and four-year public institutions, non-completion rates were 49 and 51 percent, respectively.

Our results provide some indication that four-year nonprofit schools are less adapted to the needs of the older independent student and that for-profit institutions are underserving the demographic they target: older and independent students.

For-profit schools are an option for students in need of a more flexible alternative to traditional four-year programs. However, these schools come at a higher price and with lower average completion rates, as shown in Figure 26 for older students. Figure 27 shows the percentage of students attending a for-profit school by age group. While citywide only 6 percent of students attend a for-profit institution, 13 percent of first-time undergraduate students aged 25 and older attended a for-profit school in 2010, compared to only 1 percent for students under 25 years old. In the Bronx, the rate of students 25 and older attending a for-profit school jumps to 17 percent.

Figure 27: Students Enrolled in 4-Year For-Profit, by Age Group – Seven-Year Cohort (First-time Undergraduates Only)



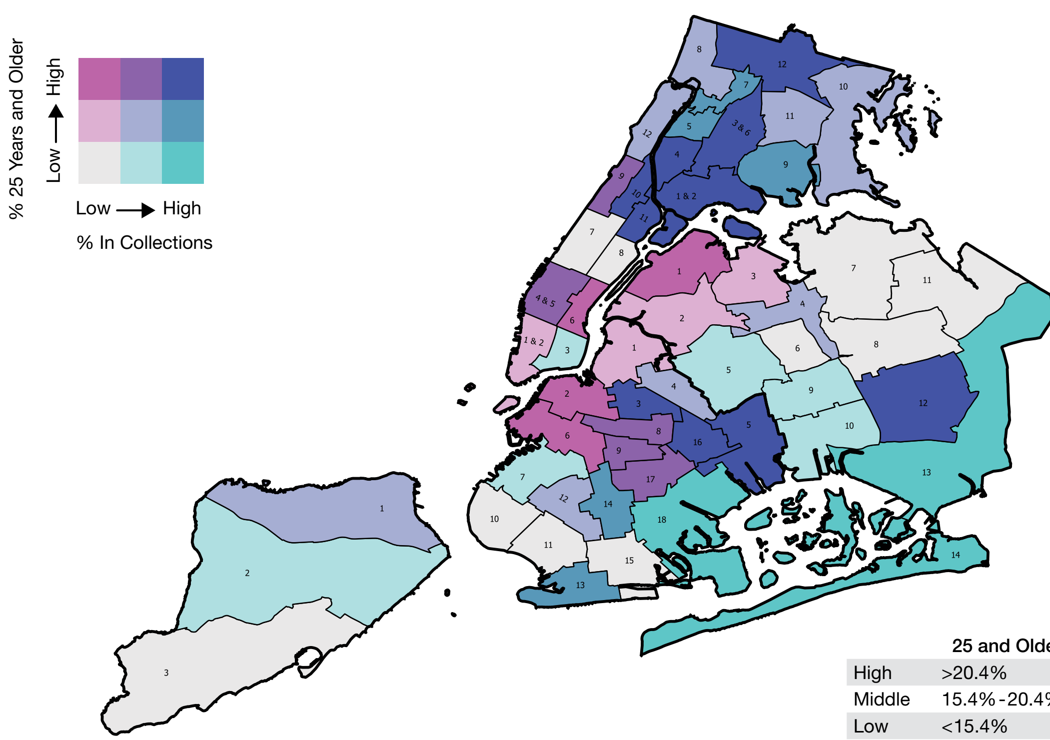
Source: DCA analysis of National Student Clearinghouse Enrollment Data

The pattern may prove even more complicated if we were able to dig deeper and disaggregate the independent student category. A recent report by the Institute for Women's Policy Research found that, nationally, students with child dependents are more likely than their independent counterparts without children to attend a for-profit institution, about 25 percent compared to 15 percent (IWPR 2018).

To show the relationship between independent students and debt in collections at the neighborhood area level, we created a bivariate map of New York City neighborhood areas, shown in Figure 28. Neighborhood areas with both high rates of student loan debt holders in collections and high rates of independent students are indicated by the dark purple color; 10 out of the 18 high collections neighborhoods met this condition:

- The Bronx showed the strongest relationship between share of older students and student loan debt in collections, in particular the four neighborhood areas that include:
    - Wakefield, Williamsbridge, and Woodlawn
    - Belmont, Crotona Park East, and East Tremont
    - Concourse, Highbridge, and Mount Eden
    - Hunts Point, Longwood, and Melrose
- We also found high rates of older students and high rates of student loan debt holders in collections in the two Manhattan neighborhood areas that comprise East Harlem and Central Harlem.

Figure 28: Independent Students and Debt in Collections, by Neighborhood Area



	25 and Older	In Collections
High	>20.4%	>14.5%
Middle	15.4% - 20.4%	9.2% - 14.5%
Low	<15.4%	<9.2%

Source: DCA analysis of National Student Clearinghouse Enrollment Data and Urban Institute Credit Panel Data

- The same three neighborhood areas in Brooklyn are experiencing high rates of independent students and high rates of student loan debt in collections; they include:
    - Bedford-Stuyvesant
    - Brownsville and Ocean Hill
    - East New York and Starrett City
- The Queens neighborhood area consisting of the Jamaica, Hollis, and St. Albans neighborhoods once again appeared to exhibit a problematic pattern.

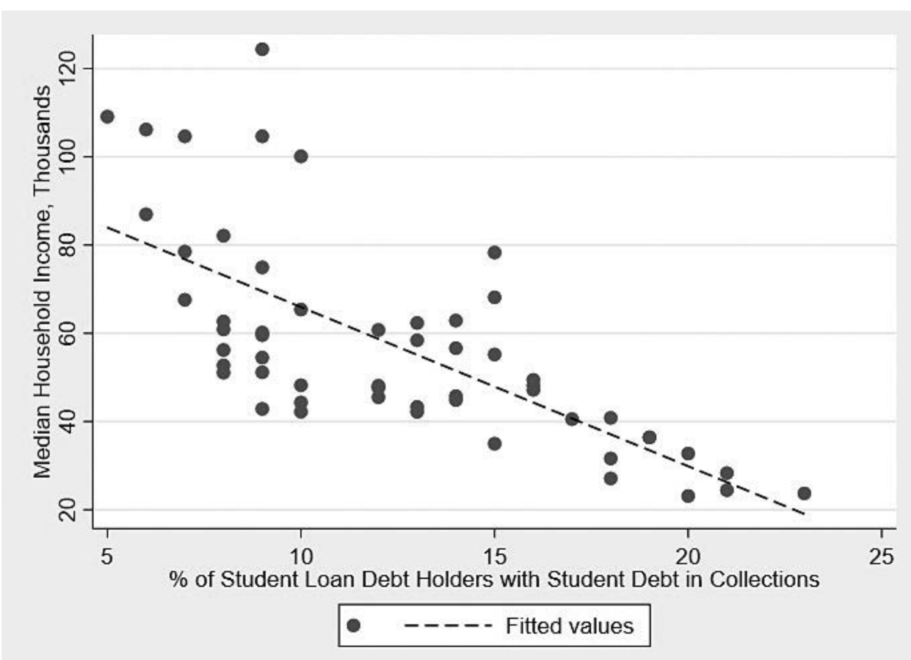
Four neighborhood areas—one in Manhattan, two in Brooklyn, and one in Queens—had high rates of independent students and low rates of student loan debt in collections. All these neighborhood areas fall in the middle- to high-income range perhaps indicating how higher income can protect against the vulnerabilities of being an independent student.

Income

Parental income is also a predictor of student loan default (Gross et al., 2010). Students who come from families with low incomes borrow more (ibid) and do not receive as much of a wage premium for higher education as their peers from high-income families (Hershbein, 2016).

At the New York City neighborhood area level, we find support for this relationship, as seen in Figure 29. Plotting median neighborhood area income—our proxy for family income—against the rate of student loan borrowers with debt in collections, we find a negative relationship. As neighborhood area median income increases, the rate of student loan borrowers with debt in collections decreases. Thus, we added low income as one of our predictors of vulnerability to student loan default.

Figure 29: Median Income by Student Loan Debt in Collections, at Neighborhood Area Level



Source: DCA analysis of American Community Survey 5-Year Estimates and Urban Institute Credit Panel Data

As described, non-completion is one of the biggest drivers of student loan default, and research has shown that students with lower incomes have a harder time completing their degrees (Pell Institute for the Study of Opportunity in Higher Education of the Council for Opportunity in Education (COE) and the Alliance for Higher Education and Democracy at the University of Pennsylvania (PennAHEAD), 2018). Thus, we decided to look at our data to see if this pattern persists in New York City.

The data shows that students who live in neighborhood areas with lower incomes have lower rates of completion than students who live in neighborhood areas with higher incomes. In fact, Figure 30 shows a higher percentage of students living in neighborhood areas in the highest median income quintile in the seven-year cohort had received a bachelor's degree within seven years of initial attendance than students in the lowest quintile had received bachelor's and associate's degrees combined, 58 percent compared to 48 percent. This pattern indicates an inequality in student loan debt distress along class lines, as non-completion is one of the strongest predictors of default.

Figure 30: Highest Degree Attained 7 Years after First Semester, by Income Quintile

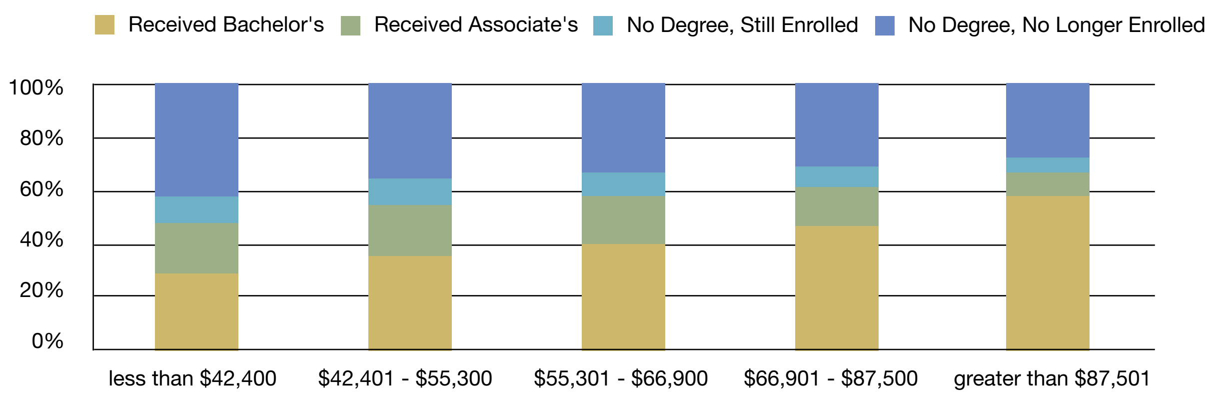
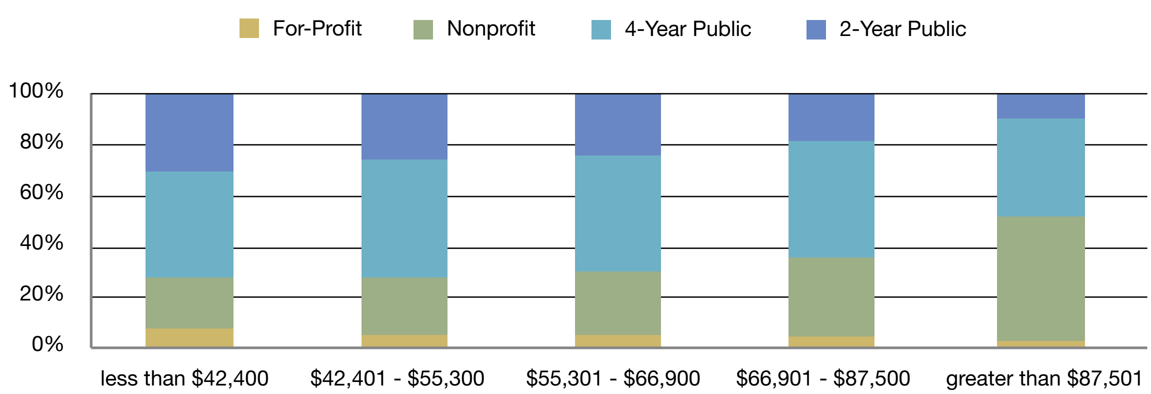


Figure 31: Sector Composition, by Income Quintiles



Source: DCA analysis of National Student Clearinghouse Enrollment Data and American Community Survey 5-Year Estimates

We were also interested in equality of access to institution types. As we showed when we discussed less selective schools, students who attend both for-profit and two-year public schools have a harder time when it comes to paying back their loans. We were not surprised to learn that the pattern of institutions attended varied by income level, as well. Figure 31 shows that students in neighborhood areas with lower incomes were more likely to attend less selective schools than their upper quintile counterparts. Approximately 38 percent of students in the lowest-income quintile neighborhood areas attended a two-year public school or for-profit institution, compared to just 13 percent of students living in the highest-income quintile neighborhood area—a threefold difference. Our results speak to an inequality in school access along class lines, as less selective schools are associated with lower completion rates and higher rates of default.

To show the relationship between median neighborhood area income and debt in collections at the neighborhood area level, we created a bivariate map of New York City neighborhood areas, as shown in Figure 32. The problematic combination in Figure 32 of low neighborhood area median income and high debt in collections is shaded dark purple with 12 out of the 18 high collections neighborhood areas meeting these criteria. Once again, the map repeats patterns seen previously.

- In the Bronx, we find six out of 10 neighborhood areas matching this pattern; they include:
    - Belmont, Crotona Park East, and East Tremont
    - Bedford Park, Fordham North, and Norwood
    - Morris Heights, Fordham South, and Mount Hope
    - Concourse, Highbridge, and Mount Eden
    - Castle Hill, Clason Point, and Parkchester
    - Hunts Point, Longwood, and Melrose

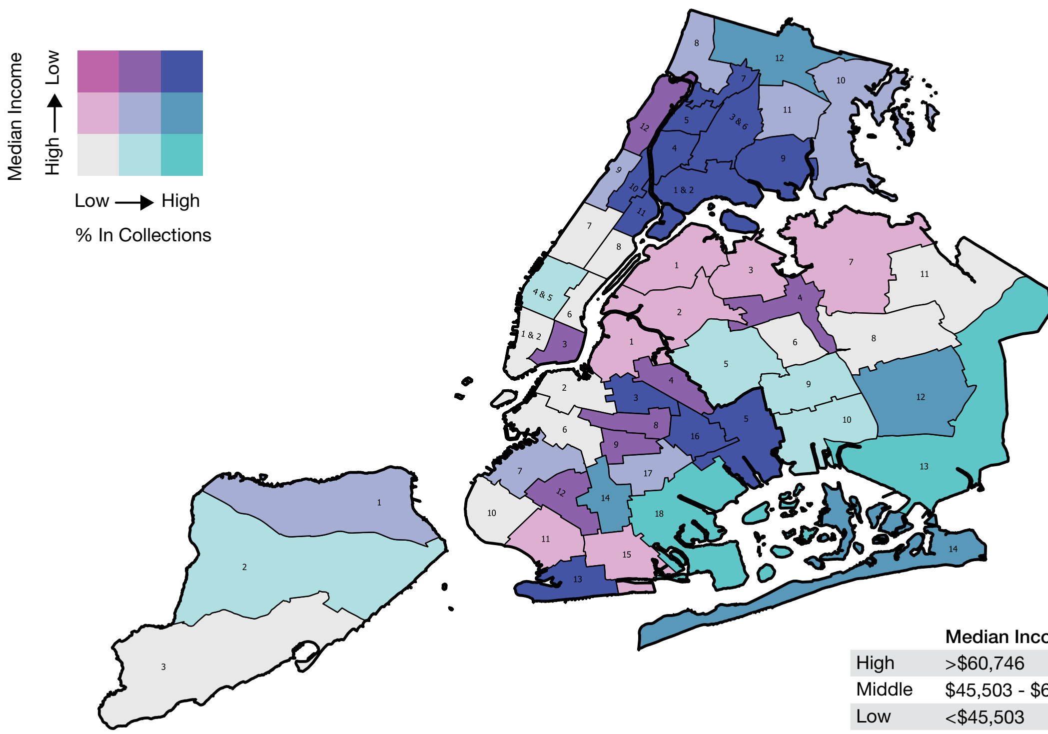
- In Manhattan, we find problems with student loan debt in collections in the neighborhood areas of East and Central Harlem.

- In the same three neighborhood areas in Brooklyn, we find both low incomes and high debt in collections; they include:
    - Bedford-Stuyvesant
    - Brownsville and Ocean Hill
    - East New York and Starrett City

- We also found the issue of low median income and high debt in collections in the neighborhood area that includes Brighton Beach and Coney Island.

Surprisingly, we found two neighborhood areas in the top tercile of income also in the top tercile of debt in collections: Canarsie and Flatlands in Brooklyn; and Queens Village, Cambria Heights, and Rosedale in Queens. These two neighborhood areas only scored in the top tercile for two other indicators discussed in this report—they were both in the top tercile for black residents’ composition of the neighborhood area and for rate of students attending school part time. See Appendix B.

Figure 32: Median Income, by Debt in Collections



	Median Income	In Collections
High	>$60,746	>14.5%
Middle	$45,503 - $60,746	9.2% - 14.5%
Low	<$45,503	<9.2%

Source: DCA analysis of American Community Survey 5-Year Estimates and Urban Institute Credit Panel Data

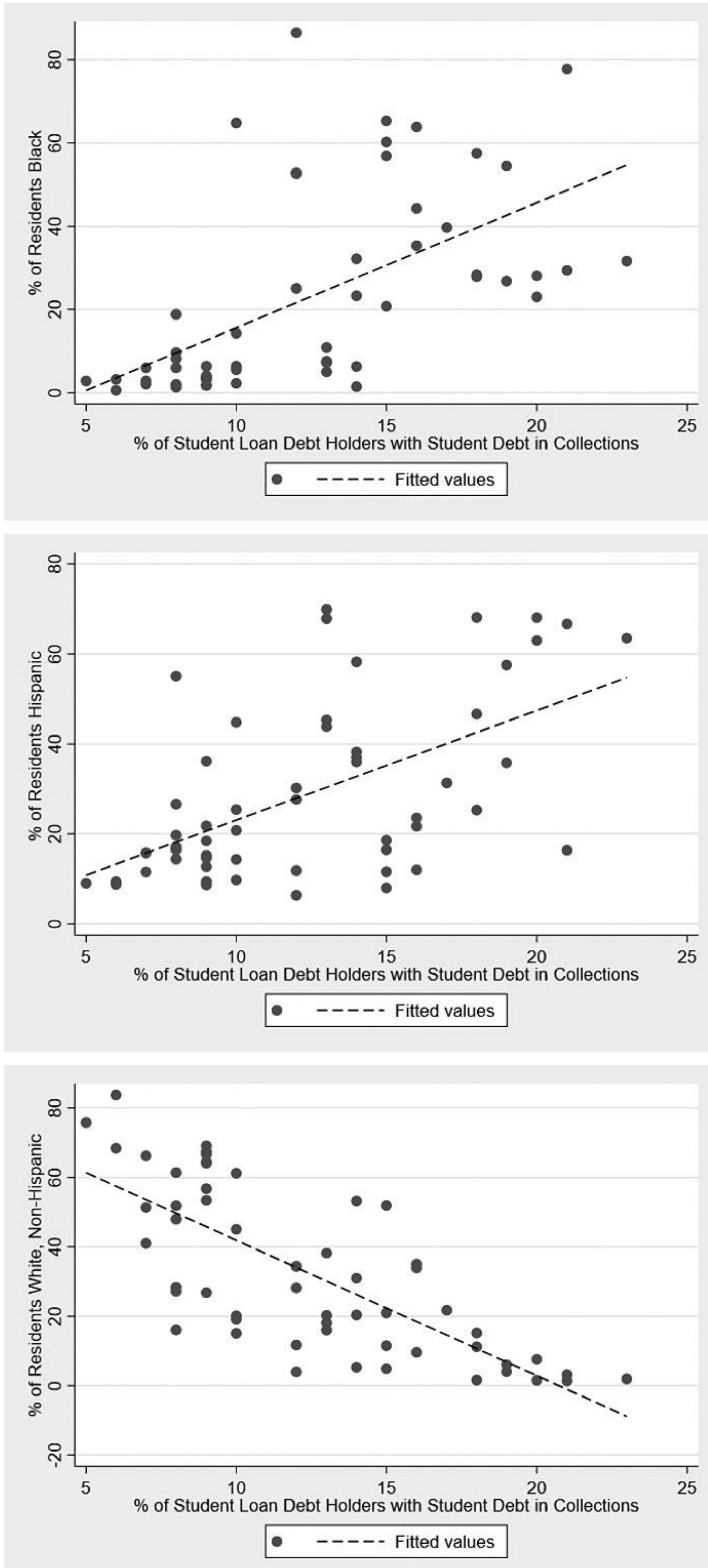
Race and Ethnicity

Distress among student loan borrowers is particularly acute among black and Hispanic borrowers. Hispanic borrowers have a four-year default rate that is twice as high as white borrowers, and for black borrowers the default rate is over three times as high as for white borrowers (Scott-Clayton and Li, 2016). Even controlling for student background and institutional characteristics, black students default on their student loans at a higher rate than their white counterparts (Gross et al., 2010), and borrow at a higher rate (Addo, Houle & Simon, 2016).

Using the percent of the neighborhood area that is black, white, or Hispanic as a proxy for race of students, we see some disturbing patterns when we plot it against student loan debt in collections, as shown in Figure 33. As a neighborhood area's composition of black residents increases, so does the percent of student loan holders in collections. The same can be said of Hispanic residents. The opposite pattern emerges when we plot percent of white residents against percent of student loan debt holders in collections, suggesting a negative relationship. Thus, we included having high rates of black and Hispanic residents in students' neighborhood area of residence—a proxy for students' black or Hispanic race/ethnicity—as an indicator of vulnerability to student loan default.

A recent Brookings report focusing on national data found that the default rate after 12 years of initial enrollment was an astonishing 48 percent for black, non-Hispanic borrowers, compared to 20 percent for their white, non-Hispanic counterparts (Scott-Clayton, 2018a).

Figure 33: Race and Ethnicity and Student Loan Debt in Collections, at the Neighborhood Area Level



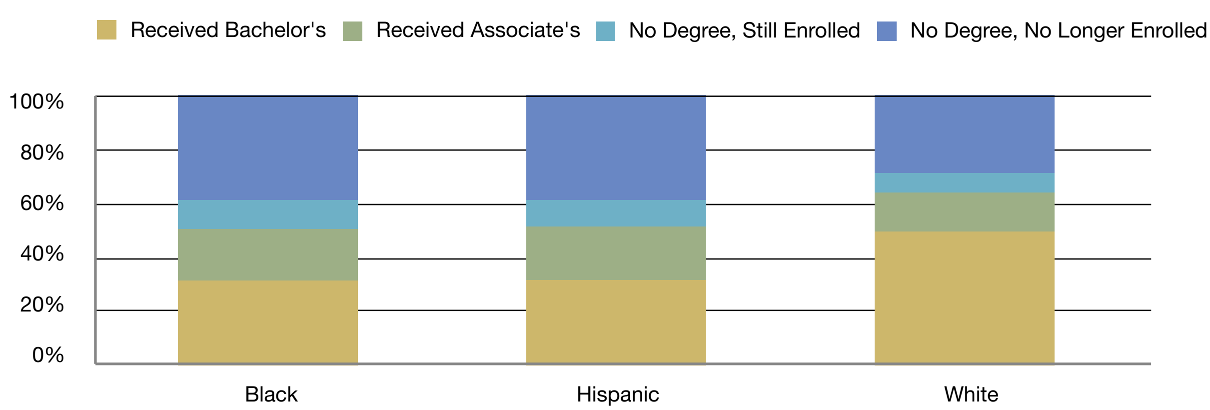
Source: DCA analysis of American Community Survey 5-Year Estimates and Urban Institute Credit Panel Data

The outcomes for black borrowers stand out as particularly severe. Black students take out more in loans than white and Hispanic students, default at a higher rate, and are more likely to owe more than they borrowed four years after graduation (Scott-Clayton & Li, 2016). Black college students are not only more likely to be independent students, have child dependents (IWPR 2018), come from families with lower levels of wealth accumulation and receive lower financial contributions from family for school, but they are also more likely to be from families with lower levels of educational attainment (Addo et al, 2016). So, not only do black students' parents have less wealth to draw from to provide monetary assistance, they may also have less experience to draw from when providing academic and financial aid guidance.

In addition to disparities in student loan debt burden, there are disparities in educational patterns among black, Hispanic, and white students. Black and Hispanic students are less likely to complete their degrees than white students (Dundar, Huie, Wakhugu, Yuan, Nathan, Hwang, 2017), potentially leaving these students worse off, as they become indebted without realizing the gains from enrolling in postsecondary education programs.

Figure 34 shows the composition of degree completion outcomes for neighborhood areas that are dominant Hispanic, black, and white. Completion is about the same for both the black and Hispanic neighborhood areas, with around half completing an associate's or bachelor's degree within seven years of initial attendance. For neighborhood areas with majority white residents, this number jumps nearly 13 percentage points, indicating a troubling disparity in educational outcomes between predominantly white neighborhood areas and black and Hispanic neighborhood areas in New York City.

Figure 34: Degree Completion, by Dominant Racial/Ethnic Group

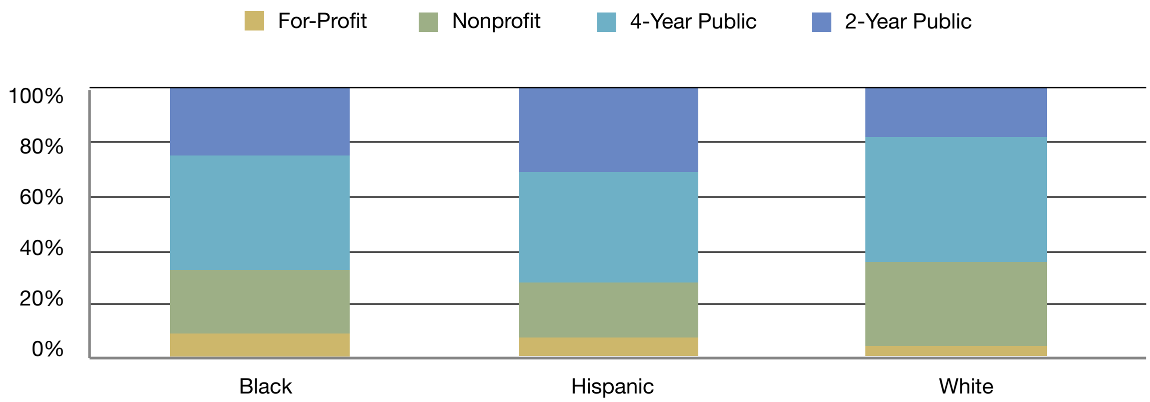


Source: DCA analysis of National Student Clearinghouse Enrollment Data and American Community Survey 5-Year Estimates

In Figure 35, we look at the racial and ethnic disparities in institution type attended. As discussed, less selective schools—two-year public and for-profit institutions—lead to worse outcomes as they have lower graduation rates and, in the case of for-profit schools, cost more.

The data in Figure 35 also shows that students from majority black and Hispanic neighborhood areas attend less selective schools at a higher rate. Students from both black and Hispanic neighborhood areas attend for-profit institutions at twice the rate as their white peers. Less selective school attendance rates range from 34 and 39 percent, respectively, for black and Hispanic neighborhood areas, compared to 22 percent for majority white neighborhood areas. Thus, we see some indication of an inequality in access to more selective schools for students of color.

Figure 35: Sector, by Dominant Racial/Ethnic Group

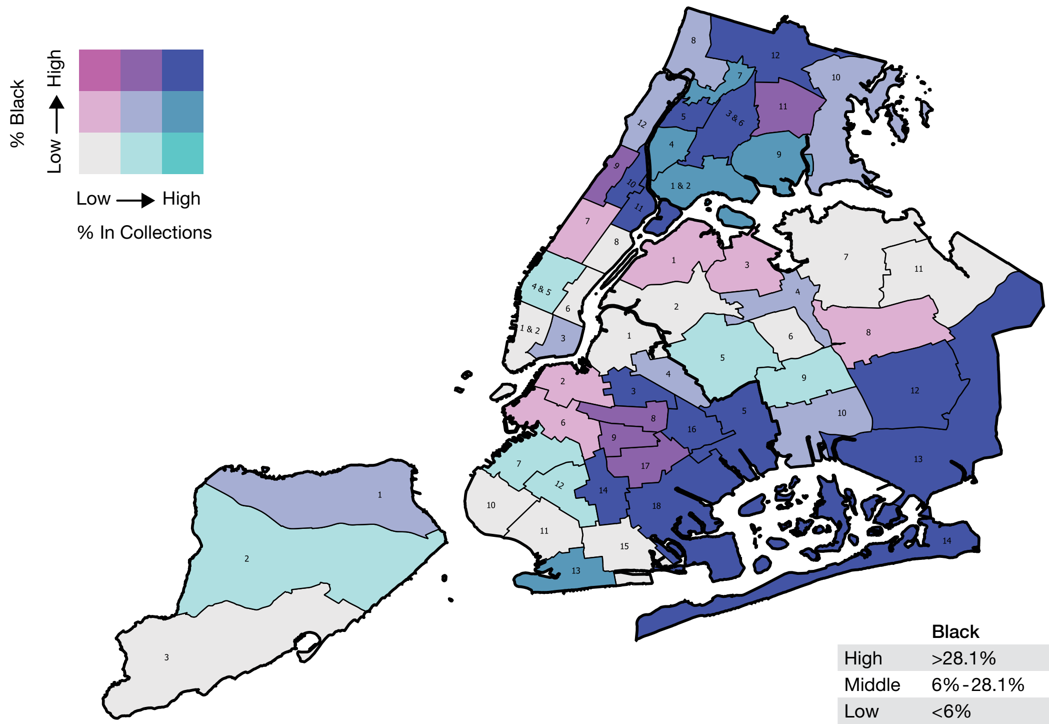


Source: DCA analysis of National Student Clearinghouse Enrollment Data and American Community Survey 5-Year Estimates

To further illustrate the spatial patterns between race/ethnicity and student loan debt distress, we created the maps in Figure 36 and Figure 37. Neighborhood areas with both a high rate of student loan debt holders in collections and high rates of residents who are black or Hispanic are respectively indicated by the dark purple color. The map in Figure 36 shows the relationship between the share of black residents in the neighborhood area and the rate of student loan debt holders in collections. Where we find a high concentration of black residents, we also find a high percentage of student loan debt holders in collections, with 13 out of 18 of the neighborhood areas ranked highest for student loan debt in collections also ranking highest for their percentage of black residents. Neighborhood areas with the strongest relationship between these two variables include:

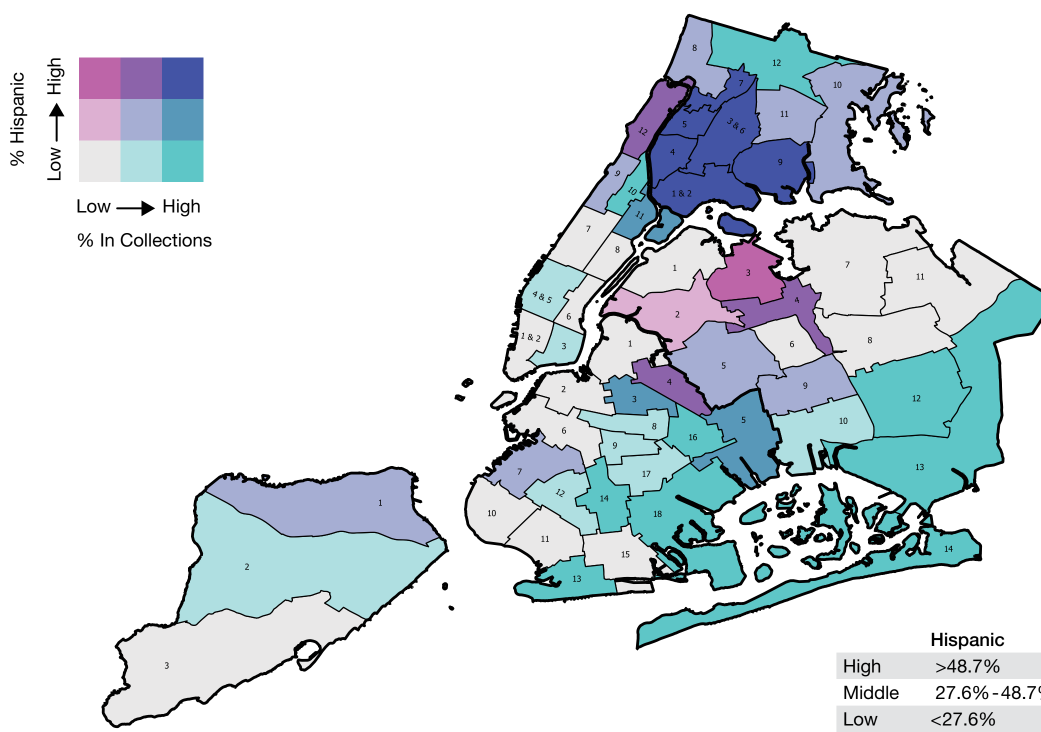
- Two northern Manhattan neighborhood areas, including East and Central Harlem
- Three north and north central Bronx neighborhood areas, including:
    - Wakefield, Williamsbridge, and Woodlawn
    - Belmont, Crotona Park East, and East Tremont
    - Morris Heights, Fordham South, and Mount Hope
- Five eastern Brooklyn neighborhood areas, including:
    - Bedford-Stuyvesant
    - Brownsville and Ocean Hill
    - East New York and Starrett City
    - Canarsie and Flatlands
    - Flatbush and Midwood
- Three eastern Queens neighborhood areas, including:
    - Queens Village, Cambria Heights, and Rosedale
    - Jamaica, Hollis, and St. Albans
    - Far Rockaway, Breezy Point, and Broad Channel

Figure 36: Share of Black Residents by Debt in Collections



	Black	In Collections
High	>28.1%	>14.5%
Middle	6%-28.1%	9.2%-14.5%
Low	<6%	<9.2%

Figure 37: Share of Hispanic Residents by Debt in Collections



	Hispanic	In Collections
High	>48.7%	>14.5%
Middle	27.6%-48.7%	9.2%-14.5%
Low	<27.6%	<9.2%

Source: DCA analysis of American Community Survey 5-Year Estimates and Urban Institute Credit Panel Data

The map in Figure 37 shows the relationship between the share of Hispanic residents in the neighborhood area and the rate of student loan borrowers with debt in collections. The relationship between the concentration of Hispanic residents and student loan debt in collections does not hold as strongly for Hispanic neighborhood areas. This is not surprising, as research has indicated that Hispanic students take out student loans at a lower rate than their black counterparts, and they default at a lower rate (Scott-Clayton, 2018a). However, we do find a problem in six out of 18 of the neighborhood areas ranked highest for student loan debt in collections also ranking highest for the percentage of Hispanic residents. All six of these neighborhood areas are in the Bronx and include the following neighborhoods:

- Belmont, Crotona Park East, and East Tremont
- Bedford Park, Fordham North, and Norwood
- Morris Heights, Fordham South, and Mount Hope
- Concourse, Highbridge, and Mount Eden
- Castle Hill, Clason Point, and Parkchester
- Hunts Point, Longwood, and Melrose

Conclusion

Research has shown that students' backgrounds and institutional factors contribute to a borrower's vulnerability to default. From this research and using the available data for New York City neighborhood areas, we were able to focus on seven of these factors for this report:

- non-completion;
- part-time attendance;
- attendance at a for-profit institution;
- independent student status;
- low income;
- black race/ethnicity; and
- Hispanic race/ethnicity.

To get a better understanding of the student loan debt crisis in New York City, we employed this blunt method to identify which of the predictors, which we termed indicators of vulnerability to default, were most prevalent in the 18 neighborhood areas with the highest rate of debt in collections. In exploring the indicators of vulnerability, we learned more about the state of student loan borrowers in New York City.

Key Findings

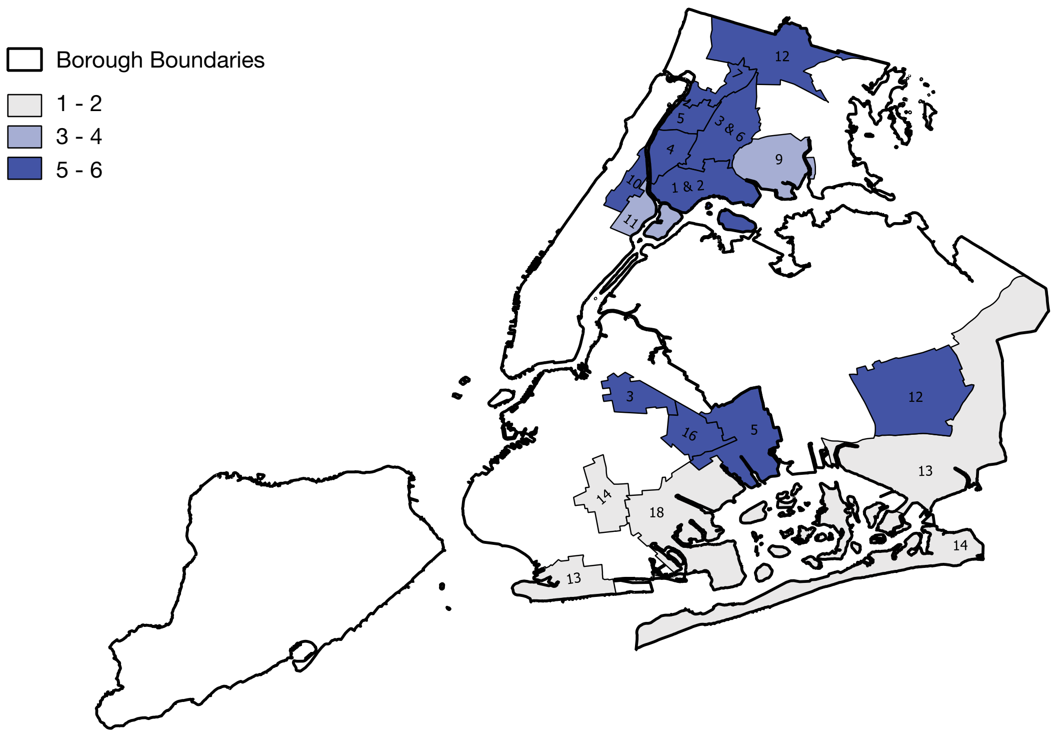
1. All seven of our indicators of vulnerability to default provide us with useful context about student loan distress in New York City and can be used to target services.[14]

For all of the indicators, we found that at least six high collections neighborhood areas also ranked high (or low in the case of median income) for the indicator. For four of the indicators—non-completion; for-profit school attendance; prevalence of black residents (black race/ethnicity); and

14 See Appendix B for a full list of the 18 high collections neighborhood areas and their outcomes for each indicator.

lowest median income (low income)—two-thirds or more of the high collections neighborhood areas ranked in the top tercile (or bottom in the case of median income). Further, we found that 11 out of 18 neighborhood areas with debt in collections were also neighborhood areas with high levels of five or more of the indicators. See Figure 38.

Figure 38: Neighborhood Areas with Highest Debt in Collections and Number of Indicators of Vulnerability with High Values



Source: DCA analysis using results from Appendix B.

2. Student loan debt distress is particularly acute in the Bronx.

The Bronx has the highest rate of student loan debt in collections, and fewer than half of students who began their studies in the 2010 school year had completed a degree seven years later. The Bronx also had a higher rate of students attending for-profit institutions, likely indicating the need for more flexible and accommodating higher education options.

3. Non-completion is one of the strongest drivers of debt in collections in New York City and is found at higher rates among the other six predictors of default.

Research has shown that non-completion is one of the strongest drivers of student loan default. Student loan debt is a good investment in the future if students realize an earnings premium for their educational pursuits. However, non-completers receive only slightly more in median wages than high school degree holders who never took a college course. Thus, those who borrowed to fund their higher education and did not finish may struggle to pay back their loans.

Our research shows that independent students and students of color in New York are abandoning their higher education pursuits at higher rates than students aged 24 or younger and white students, and they are attending less selective institutions, known to have lower completion rates, at a higher rate.

We found high rates of non-completion in East and Central Harlem in Manhattan, most of the Bronx, eastern Brooklyn, and Jamaica, Hollis, and St. Albans in Queens.

4. Older students, students from neighborhoods with low incomes, and students from neighborhoods with a prevalence of black and Hispanic residents attend for-profit schools at a higher rate.

We investigated the outcomes of for-profit school attendees, a particularly vulnerable group given the history of predatory practices of these schools and the low amount of money spent on program administration. We found the most problematic patterns of higher attendance at for-profit schools in the Bronx, among older students, among students from neighborhood areas with a plurality of residents of color, and among students from neighborhood areas with low incomes.

We also found some indication that for-profit and nonprofit institutions are underserving students aged 25 and older based on the lower graduation rates for students at these institutions compared to students who attended two-year public and four-year public institutions.

Taken in sum, these results indicate that current models of higher education and higher education funding, designed for younger students with higher-income households, are not serving the needs of the majority of students today. Today's student is much more like the growing group of independent students and persons of color who may come from lower-income backgrounds, have work and family obligations, have taken time off after high school, among other mitigating factors. In the end, vulnerable students are not receiving the benefit of their higher education pursuits, resulting in higher rates of student loan distress and default.

Key Areas for Policy Focus

Given our findings, it seems clear that:

- There is a strong need to promote community colleges in the Bronx and other parts of New York City as an alternative to for-profit schools.
- Colleges need to make more of an effort to be accommodating and accountable to the needs of the growing body of independent students in New York City who often have competing work and family obligations.
- Innovative solutions are needed to help vulnerable groups—older students, students of color, students from low-income backgrounds—complete their degrees, and in fewer years, to reduce debt accumulation and ensure these students receive a positive return on their investment in higher education.

By using the seven indicators of vulnerability to default, we believe we can target New York City services to begin to make a difference for those in student loan debt distress. However, more research is needed to fully understand what is driving the student loan debt crisis in New York City to reverse the high cost for so many of simply trying to build a better life.

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Appendix A
How Each Variable is Defined

Note: Source is in parentheses.

Average Time to Completion – An average, by degree type, of the number of years it took to complete a degree. *(National Student Clearinghouse, NSC)*

Black, non-Hispanic – Residents in Public Use Microdata Area identifying as black, non-Hispanic. *(American Community Survey, ACS)*

For-profit Institution – A private institution in which the individual(s) or agency in control receives compensation other than wages, rent, or other expenses for the assumption of risk (IPEDS definition). DCA limited to four-year degree granting schools because two-year for-profit degree granting schools comprised less than 1 percent of the sample and had outcomes and patterns very different from the four-year institutions. *(NSC)*

Four-Year Public Institution – An educational institution whose programs and activities are operated by publicly elected or appointed school officials and which is supported primarily by public funds (IPEDS definition). Degree requirements for full-time students take at least four years. *(NSC)*

Full-time status (seven-year cohort) – Students in any undergraduate degree program enrolled in 12 or more credit hours or equivalent for the majority of academic terms attended during the 2010-2017 academic years. *(NSC)*

Full-time status (snapshot) – Students in an undergraduate degree program enrolled in 12 or more credit hours or the equivalent for each term attended during the 2016-2017 academic year. *(NSC)*

Hispanic – Residents in Public Use Microdata Area identifying as Hispanic. *(ACS)*

Independent Students – Rate of students aged 25 and older for a cohort of students entering college for the first time and indicating New York City residence in 2010 used as a proxy for independent students. *(NSC)*

Median Income – Estimated median income of households in Public Use Microdata Area. *(ACS)*

Non-completion – First-time associate's or bachelor's degree students entering in fall 2010 who had not completed a degree and were no longer enrolled at any institution seven years later. *(NSC)*

Nonprofit Institution – A private institution in which the individual(s) or agency in control receives no compensation, other than wages, rent, or other expenses for the assumption of risk. These include both independent not-for-profit schools and those affiliated with a religious organization (IPEDS definition). DCA limited to four-year degree granting schools because two-year nonprofit degree granting schools comprised less than 1 percent of the sample and had outcomes and patterns very different from the four-year institutions. *(NSC)*

Part-time status (seven-year cohort) – Students in any undergraduate degree program enrolled in fewer than 12 credit hours or the equivalent for the majority of academic terms attended during the 2010-2017 academic years. *(NSC)*

Part-time status (snapshot) – Rate of students in any degree program enrolled in fewer than 12 credit hours or the equivalent for each term attended during the 2016-2017 academic year. *(NSC)*

Student Loan Debt in Collections – Student loan holders with student loan debt in collections. For federal student loans, debt goes into collections after 270 days of nonpayment. For private student loans, the debt can go into collections after as early as 120 days of nonpayment (Kirkham, 2017). *(Urban Institute, UI)*

Student Loan Holders – Rate of people in credit file with student loan debt on December 31, 2016. *(UI)*

Student Loan Holders in Collections – Rate of student loan holders with one or more student loan in collections on December 31, 2016. To be in collections, a student loan payment must be overdue by 270 days or more. *(UI)*

Two-Year Public – An educational institution whose programs and activities are operated by publicly elected or appointed school officials and which is supported primarily by public funds (Integrated Postsecondary Education Data System, IPEDS, definition). Degree requirements for full-time students take at least two but less than four years. *(NSC)*

White – Residents in Public Use Microdata Area identifying as white, non-Hispanic. *(ACS)*

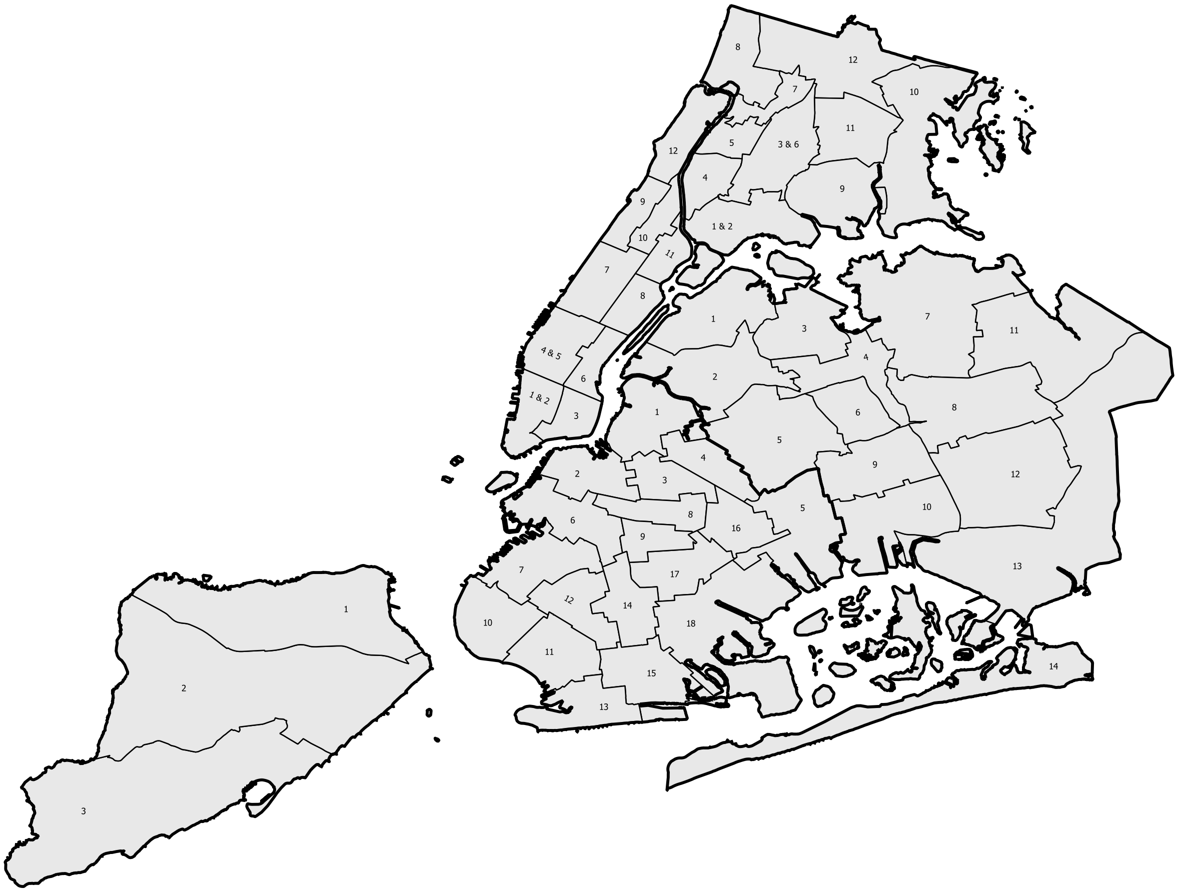
Appendix B

Indicators of Vulnerability for 18 Neighborhood Areas with Highest Rate of Student Loan Debt in Collections

Borough	Community District (CD)	Public Use Microdata Area (PUMA)	Neighborhood Name	Indicators of Vulnerability to Default*							
				Non-completion	**Part-time Attendance**	**For-Profit School**	**Independent Student**	**Low Income**	**Black**	**Hispanic**	**Count**
BRONX	12	3702	Wakefield, Williamsbridge, and Woodlawn	x	x	x	x		x		5
	3 & 6	3705	Belmont, Crotona Park East, and East Tremont	x		x	x	x	x	x	6
	7	3706	Bedford Park, Fordham North, and Norwood	x	x	x		x		x	5
	5	3707	Morris Heights, Fordham South, and Mount Hope	x		x		x	x	x	5
	4	3708	Concourse, Highbridge, and Mount Eden	x		x	x	x		x	5
	9	3709	Castle Hill, Clason Point, and Parkchester	x		x		x		x	4
	1 & 2	3710	Hunts Point, Longwood, and Melrose	x		x	x	x		x	5
BROOKLYN	3	4003	Bedford-Stuyvesant	x		x	x	x	x		5
	16	4007	Brownsville and Ocean Hill	x		x	x	x	x		5
	5	4008	East New York and Starrett City	x		x	x	x	x		5
	18	4009	Canarsie and Flatlands		x				x		2
	14	4015	Flatbush and Midwood		x				x		2
	13	4018	Brighton Beach and Coney Island					x			1
MANHATTAN	10	3803	Central Harlem	x		x	x	x	x		5
	11	3804	East Harlem	x			x	x	x		4
QUEENS	13	4105	Queens Village, Cambria Heights, and Rosedale		x				x		2
	12	4112	Jamaica, Hollis, and St. Albans	x	x	x	x		x		5
	14	4114	Far Rockaway, Breezy Point, and Broad Channel			x			x		2
Count				**13**	**6**	**13**	**10**	**12**	**13**	**6**	

"x" indicates neighborhood ranked in the top tercile (bottom for low income) for that indicator.
Highlighted rows indicate high collections neighborhoods with high levels (or low as in the case of median income) of the indicators of vulnerability to default.

Appendix C
Neighborhood Area Map Key



Borough	Public Use Microdata Area (PUMA)	Community District	Neighborhoods Included
BRONX	3701	8	Riverdale, Fieldston, and Kingsbridge
	3702	12	Wakefield, Williamsbridge, and Woodlawn
	3703	10	Co-op City, Pelham Bay, and Schuylerville
	3704	11	Pelham Parkway, Morris Park, and Laconia
	3705	3 & 6	Belmont, Crotona Park East, and East Tremont
	3706	7	Bedford Park, Fordham North, and Norwood
	3707	5	Morris Heights, Fordham South, and Mount Hope
	3708	4	Concourse, Highbridge, and Mount Eden
	3709	9	Castle Hill, Clason Point, and Parkchester
	3710	1 & 2	Hunts Point, Longwood, and Melrose

Borough	Public Use Microdata Area (PUMA)	Community District	Neighborhoods Included
BROOKLYN	4001	1	Greenpoint and Williamsburg
	4002	4	Bushwick
	4003	3	Bedford-Stuyvesant
	4004	2	Brooklyn Heights and Fort Greene
	4005	6	Park Slope, Carroll Gardens, and Red Hook
	4006	8	Crown Heights North and Prospect Heights
	4007	16	Brownsville and Ocean Hill
	4008	5	East New York and Starrett City
	4009	18	Canarsie and Flatlands
	4010	17	East Flatbush, Farragut, and Rugby
	4011	9	Crown Heights South, Prospect Lefferts, and Wingate
	4012	7	Sunset Park and Windsor Terrace
	4013	10	Bay Ridge and Dyker Heights
	4014	12	Borough Park, Kensington, and Ocean Parkway
	4015	14	Flatbush and Midwood
	4016	15	Sheepshead Bay, Gerritsen Beach, and Homecrest
	4017	11	Bensonhurst and Bath Beach
	4018	13	Brighton Beach and Coney Island
MANHATTAN	3801	12	Washington Heights, Inwood, and Marble Hill
	3802	9	Hamilton Heights, Manhattanville, and West Harlem
	3803	10	Central Harlem
	3804	11	East Harlem
	3805	8	Upper East Side
	3806	7	Upper West Side and West Side
	3807	4 & 5	Chelsea, Clinton, and Midtown Business District
	3808	6	Murray Hill, Gramercy, and Stuyvesant Town
	3809	3	Chinatown and Lower East Side
	3810	1 & 2	Battery Park City, Greenwich Village, and Soho

Borough	Public Use Microdata Area (PUMA)	Community District	Neighborhoods Included
QUEENS	4101	1	Astoria and Long Island City
	4102	3	Jackson Heights and North Corona
	4103	7	Flushing, Murray Hill, and Whitestone
	4104	11	Bayside, Douglaston, and Little Neck
	4105	13	Queens Village, Cambria Heights, and Rosedale
	4106	8	Briarwood, Fresh Meadows, and Hillcrest
	4107	4	Elmhurst and South Corona
	4108	6	Forest Hills and Rego Park
	4109	2	Sunnyside and Woodside
	4110	5	Ridgewood, Glendale, and Middle Village
	4111	9	Richmond Hill and Woodhaven
	4112	12	Jamaica, Hollis, and St. Albans
	4113	10	Howard Beach and Ozone Park
	4114	14	Far Rockaway, Breezy Point, and Broad Channel
STATEN ISLAND	3901	3	Tottenville, Great Kills, and Annadale
	3902	2	New Springville and South Beach
	3903	1	Port Richmond, Stapleton, and Mariners Harbor

Notes

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Student Loan Borrowing Across NYC Neighborhoods

December 2017

FEDERAL RESERVE BANK OF NEW YORK
RESEARCH AND STATISTICS GROUP ● MICROECONOMIC STUDIES
COMMUNICATIONS & OUTREACH ● OUTREACH AND EDUCATION

In Partnership with NYC Department of Consumer Affairs Office of Financial Empowerment

Abstract

U.S. student loan debt now totals over $1.3 trillion. However, this number obscures a diversity of consumer experiences with student debt regionally and demographically. This New York City report highlights the high rates of delinquency and default and slow repayment rates, especially among borrowers with lower student loan balances who live in lower-income areas.

Key words: student debt, financial health

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About the Organizations

Part of the mission of the New York Fed's community outreach team is to provide information at the local level for decision makers and policymakers, particularly for issues that affect low- and middle-income residents of Federal Reserve System's Second District, comprising New York, northern New Jersey, Fairfield County in Connecticut, Puerto Rico, and the Virgin Islands. To that end, The New York Fed partnered with OFE to produce this report on student loan borrowing in New York City using our Consumer Credit Panel, which is based on Equifax credit report data.

OFE's mission is to educate, empower, and protect residents and neighborhoods so they can improve their financial health and build assets, which furthers DCA's mission to protect and enhance the daily economic lives of New Yorkers to create thriving communities. OFE uses data, research, policy, partnerships, and convenings to advance its mission. This report provides a strong foundation for OFE to better understand how New Yorkers are managing their student loan debt and determine which neighborhoods might benefit most from targeted assistance.

Introduction

This report is the first city-level examination of student loan debt, and provides an in-depth look at student loans across neighborhoods in New York City's five boroughs. In a city of about 6.5 million adults, approximately one million (15 percent) have a student loan, owing a collective student loan balance of $34.8 billion. In the United States as a whole, approximately 44 million adults (18 percent of the adult population) have a student loan. The national collective loan balance totaled roughly $1.3 trillion dollars at the end of 2016.[1]

In New York City, borrowers' repayment success on their student debt varies considerably by borough and neighborhood. We find that the borough with the highest rates of student loan distress, as measured by delinquency and default, is the Bronx.[2] Of the five neighborhoods with the highest percentage of borrowers whose student loans are delinquent, three are in the Bronx, while the other two are in Brooklyn. Four of the five neighborhoods with the highest student loan default rates are in the Bronx, with the fifth in Brooklyn.

Perhaps not surprisingly, higher delinquency and default rates are found among New Yorkers from lower-income areas. Delinquency rates among borrowers in the lowest income neighborhoods were 20 percent, with over half of those delinquent borrowers in default. In the highest income neighborhoods, the delinquency rate is less than half that, under 10 percent. Further, we find over half of borrowers residing in higher income areas are making payments and successfully reducing the balances on their student loans, while only about one fourth of borrowers in the lowest income neighborhoods are successfully reducing their balances, consistent with the general trends found at the national level.[3] Also consistent with earlier, national-level analysis, we find higher rates of delinquency and default among borrowers with low balances and those located in lower income neighborhoods.

Finally, older borrowers (those 45 years old and older) have higher delinquency rates than younger borrowers. Younger borrowers are more likely to be enrolled in school or eligible for tailored repayment plans, such as income-driven repayment, to ease debt burden.

[1] https://www.newyorkfed.org/microeconomics/hhdc.html

[2] Delinquency is defined as being 90 or more days past due, while default is defined as being 270 or more days late, and a subset of delinquency.

[3] https://www.newyorkfed.org/medialibrary/media/newsevents/mediaadvisory/2015/Student-Loan-Press-Briefing-Presentation.pdf

Context

Student loans are a key part of how higher education is financed in the United States, and access to higher education and investment in knowledge and skills are crucial for social and economic mobility. Although student loans can provide critical access to higher education, student loans are not a risk-free way of financing it. Indeed, loans taken for higher education that do not provide sufficient returns can have significant, negative impacts on individuals' financial health. Borrowers may find themselves with high debt burdens even when they lack the kinds of degrees that enhance earning power. Moreover, delinquent borrowers and those in default may see a spillover effect as their repayment status restricts their access to other types of credit and asset-building tools. Because defaulted student loans cannot be easily discharged in bankruptcy, the defaulted debt remains as a blemish on credit reports indefinitely. For these reasons, New York Fed and OFE's joint report pays special attention to delinquency and default rates among New Yorkers with student debt.

Our analysis finds key similarities and differences between student debt patterns in New York City and the United States. Borrowers in New York City have higher median balances than Americans overall. New Yorkers' delinquency and default rates are slightly lower than the national average. In general, these results are consistent with a concentration of individuals with advanced degrees who are managing their debts more successfully than the average student borrower. However, these balance-weighted aggregates mask underlying diversity, with high-balance borrowers in Manhattan faring better than low-balance borrowers in the Bronx, potentially reflecting variation in the quality and completion of their degrees.

While this joint report provides critical insight into the state of student debt in New York City's neighborhoods, it does not purport to provide a complete picture of borrower characteristics. Further research on this topic is needed to understand how payment status and median balance vary by key variables such as race, gender, school type, employment status, degree completion, and participation in a repayment plan.

About the Data

This report is based on the New York Fed Consumer Credit Panel (CCP), a five percent representative sample of anonymized, individual-level credit reports from the credit bureau Equifax. The CCP is the key source for the New York Fed's Quarterly Report on Household Debt and Credit, which provides national estimates for household borrowing, including student loan debt balances and delinquency on a quarterly basis. The student loan component of the data, used in this analysis, provides loan-level information on each student loan borrower, with detailed information on the balance, payment, delinquency rate, and origination date. All outstanding student debts are accounted for, including both private and federal loans, although we are not able to distinguish between the two categories. All of the figures are based on data that appeared on credit reports as of December 31, 2016.

The CCP does not contain any individual-level information on income. To supplement the data on debt, we have used data on income from the Census Bureau's American Community Survey (ACS) for neighborhood-level median income, and the Statistics of Income (SOI) Individual Income Tax Statistics from the Internal Revenue Service (IRS) for Zip Code-level income data. We have also used the ACS for Educational Attainment data and Public Use Microdata Area (PUMA) population figures.

Because the CCP does not contain any individual-level information on income, we calculate average income per tax filing at the Zip Code level using the IRS data. We have sorted the New York City Zip Codes into income quintiles, each with equal populations, with the first quintile being the lowest income and representing the 20 percent of New York City living in the lowest income Zip Codes, and the fifth quintile being the highest income representing the 20 percent who live in the wealthiest New York City Zip Codes. We match borrowers into an income-quintile based on the Zip Code on their credit report.

Borrowers

As of the end of 2016, there were approximately one million student loan borrowers in New York City. About 15 percent of adults in New York City have student loans, with an average balance of $34,900, notably higher than the U.S. average of $29,500. The median age of New York borrowers is 33, with little variation across boroughs.

Prevalence

Prevalence–the percentage of residents with student loans– varies by borough, as seen in Figure 1, a snapshot as of December 31, 2016. Much of this variation reflects underlying differences in the educational attainment in each borough; an absence of student loans can indicate either an ability to finance higher education without loans or non-pursuit of higher education. For context, we also provide the percentage of residents in each borough that is college educated.[4]

Student Loan Prevalence and Educational Attainment

(2016Q4)

Figure 1

	Highest Degree Attained		
County	Bachelor's	Graduate or professional	Percent of residents with a student loan
Bronx	12.3%	6.6%	16.9%
Brooklyn	20.1%	12.8%	15.3%
Manhattan	31.6%	28.4%	14.6%
Queens	19.3%	11.1%	12.9%
Staten Island	18.4%	12.4%	17.5%
NYC Overall	21.0%	14.6%	13.1%
United States	18.5%	11.2%	16.7%

Source: New York Fed Consumer Credit Panel / Equifax; Census Bureau

We see that rates of indebtedness do not perfectly correspond to rates of completion of higher education. Manhattan boasts high levels of post-secondary education while maintaining a relatively low percentage of adults with student loan debt. On the other end of the scale, Staten Island has the highest percentage of population with student debt, yet the borough has relatively fewer degrees to show for the debt.

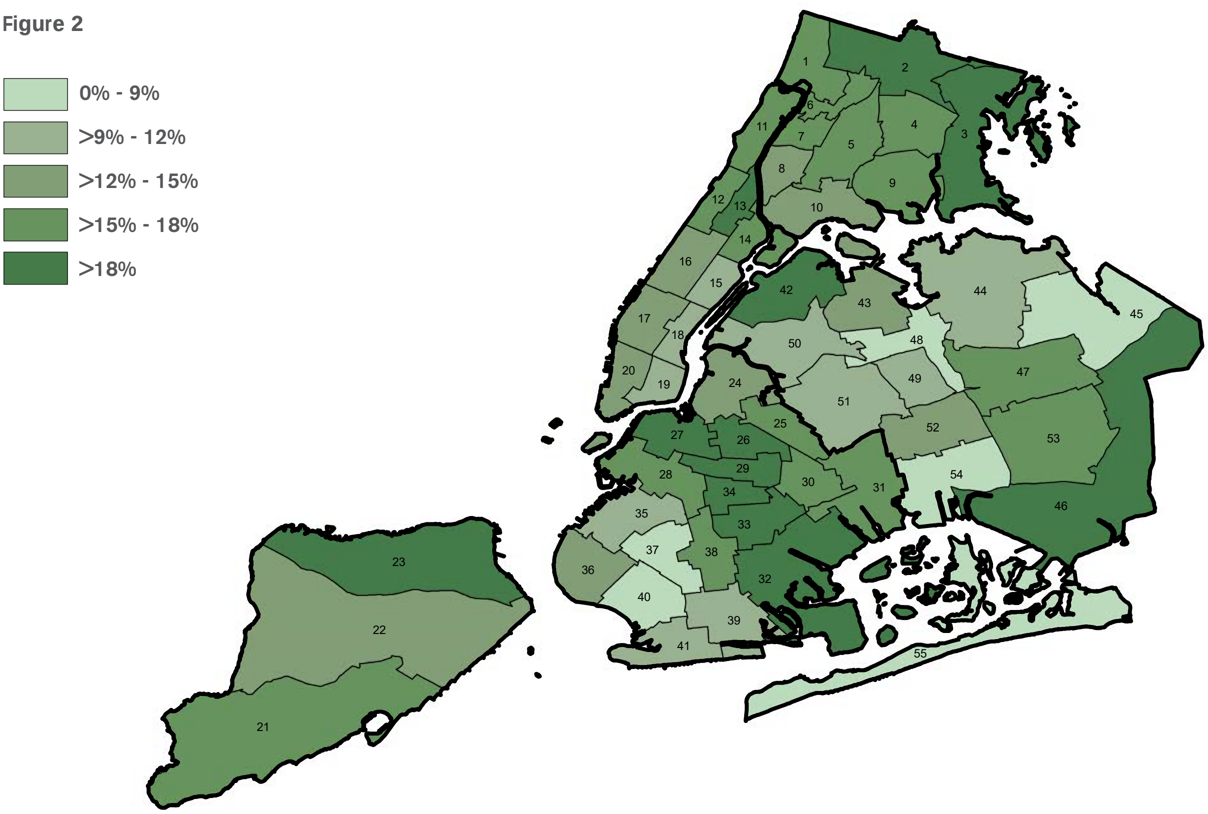
[4] As indicated by a bachelor's degree or higher. Source: Bureau of the Census American Community Survey (2011-2015)

The map in Figure 2 below shows the prevalence of student loan borrowers by PUMAs, which are aligned to Community Districts (and thus New York City neighborhoods), calculated as the number of individuals with a student loan divided by the Census population. As stated, although borrowing can provide critical access to higher education, student loans are not a risk-free way of financing higher education. As the map indicates, some lower-income neighborhoods have high rates of borrowing. For example, Brooklyn Community District (CD) 17 (East Flatbush, Farragut and Rugby), Staten Island CD 1 (Port Richmond, Stapleton and Mariner's Harbor), and Bronx CD 12 (Wakefield, Williamsbridge and Woodlawn) each have over 18 percent of residents with student loans. In these neighborhoods, where unemployment and underemployment are higher than the city average, student loans were taken with the intention of improving income and employment prospects. However, as we discuss in the next sections, higher balances and delinquency rates in these areas suggest that the loans may not yield the intended payoffs for all borrowers.

Percent of Population with a Student Loan by Community District

(2016Q4)

Figure 2



Source: New York Fed Consumer Credit Panel / Equifax

See Index of Community Districts

Balances

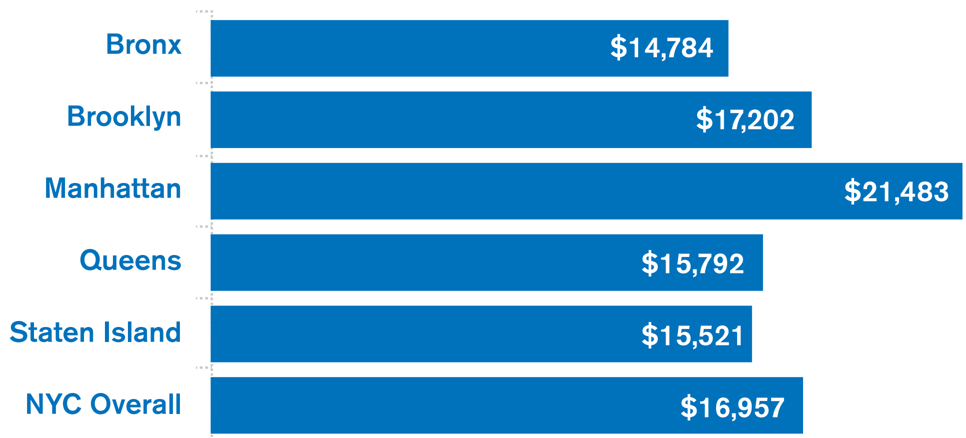
Higher educational attainment is often associated with higher loan balances, and professional degrees, which enhance earning potential, are often associated with particularly high balances.[5] Balances in Manhattan (where many highly educated–and thus highly indebted–professionals reside) are considerably higher, on average, than balances in the Bronx, where educational attainment is lower.

This pattern holds when we examine median loan balances, as seen in Figure 3 below. These medians are in keeping with Manhattan and the Bronx's respective rates of educational attainment. Because of higher levels of educational attainment in Manhattan, we would expect borrowers there to have higher median and average loan balances than borrowers in the Bronx, where only 18.9 percent of the adult population has completed a college degree.

Median Student Loan Balances among Borrowers

(2016Q4)

Figure 3



Source: New York Fed Consumer Credit Panel / Equifax

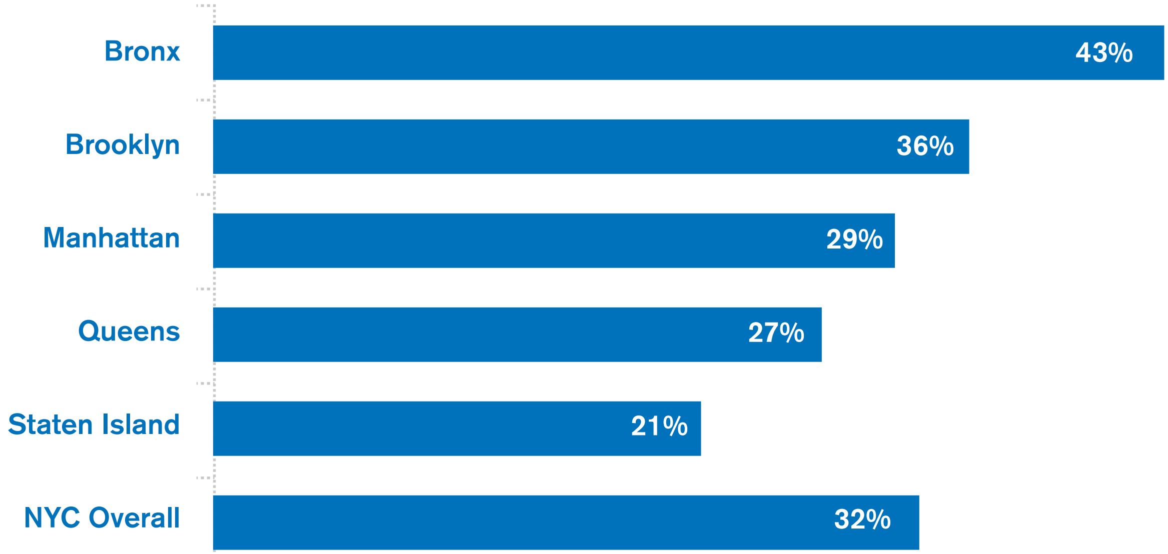
However, comparing median loan balances with median family incomes (which should be a proxy for educational attainment), Bronx neighborhoods have high loan balances relative to income. Again, comparing Manhattan and Bronx borrowers, those who reside in Manhattan owe a median student debt of $21,483, while Bronx borrowers have a median balance of $14,784, a significant difference. However, the gap in median household incomes between the Bronx and Manhattan is even more sizable than the median loan balances, suggesting that despite higher balances in Manhattan, these balances may be a smaller percent of income. The typical Bronx family owes more of their limited income to student loans, as seen in Figure 4.

[5] See https://www.urban.org/sites/default/files/publication/22591/413123-Student-Loans-Rising.PDF

Median Student Loan Balance as Percent of Median Income

(2016Q4)

Figure 4



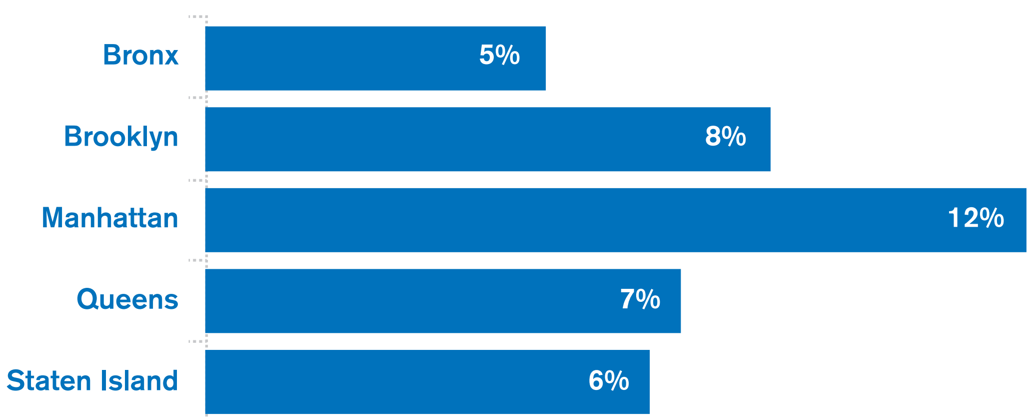
Source: New York Fed Consumer Credit Panel / Equifax; Census Bureau

Manhattan has a higher concentration of high-balance borrowers, defined here as those with balances over $100,000 (Figure 5). This concentration is consistent with a greater prevalence in Manhattan of borrowers with graduate degrees, and is not in itself a cause for concern, as long as the additional education carries a sufficiently large wage premium. Almost half of the degree holders in Manhattan have a graduate degree.[6] Manhattan's median household income of $72,871 indicates a higher ability to repay student debt.

Percent of Borrowers with Student Loan Balances Greater than $100,000

(2016Q4)

Figure 5



Source: New York Fed Consumer Credit Panel / Equifax

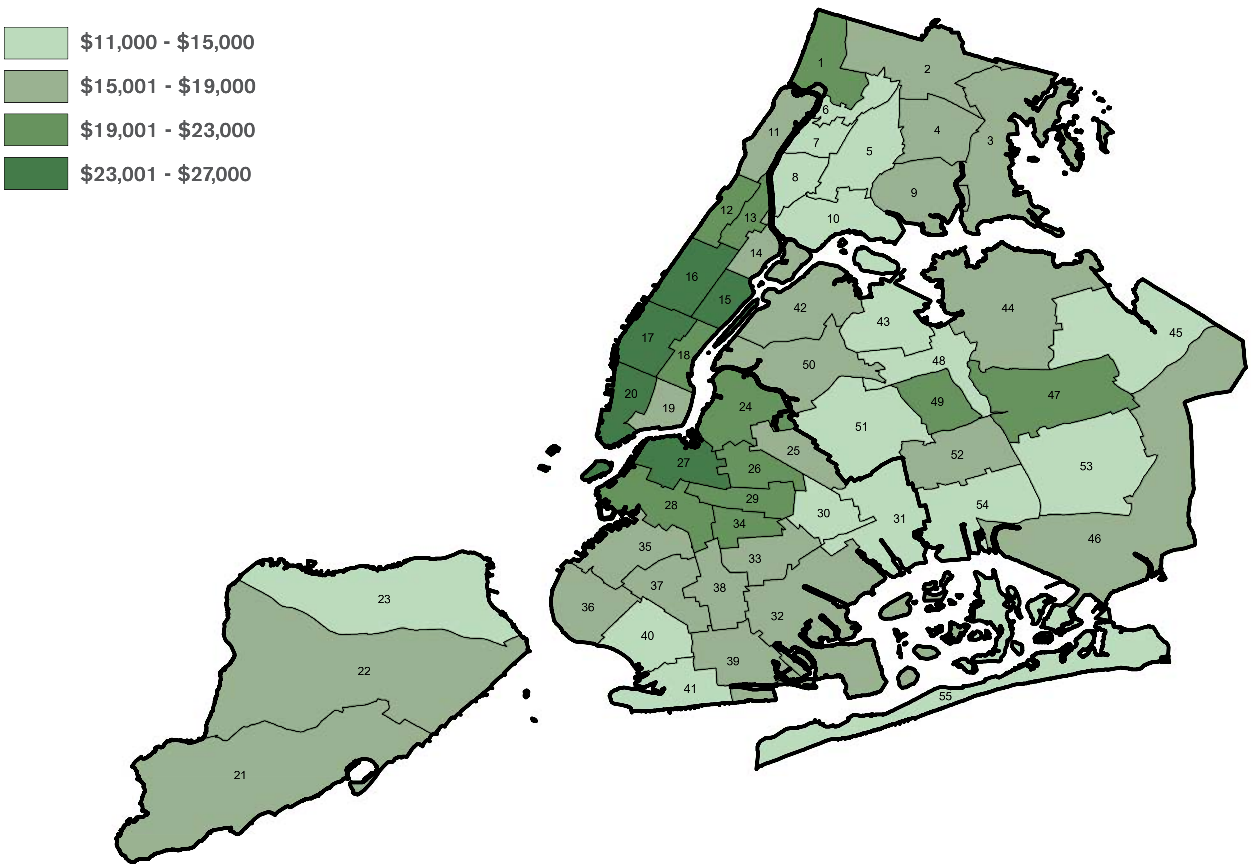
[6] 2011-2015 American Community Survey 5-Year Estimates, Educational Attainment.

The map in Figure 6 shows the median student loan balance per borrower in each of New York City's Community Districts. The contrast between Manhattan neighborhoods and all other outer borough neighborhoods is clear from the map. Residents in Manhattan's West Side, East Side, and downtown neighborhoods, as well as Brooklyn Heights tend to have significantly higher median balances.

Median Student Loan Balance per Borrower by Community District

(2016Q4)

Figure 6



Source: New York Fed Consumer Credit Panel / Equifax

See Index of Community Districts

Repayment Outcomes

Having examined who borrows and how much, we can examine outcomes of student loan debt as measured by delinquency, default, and repayment success.

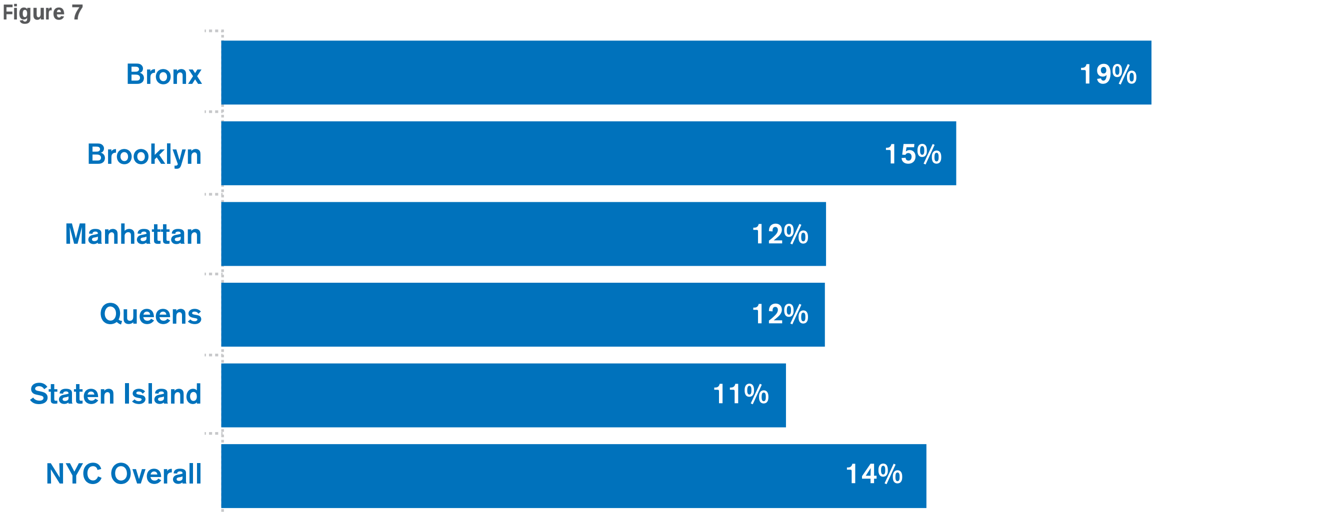
Delinquency

Delinquency, measured here as the percent of borrowers who are at least 90 days or more past due on one or more student loans, is another indicator that varies substantially by borough (Figure 7). Borrowers in the Bronx are more likely to be behind on their student loans, despite having lower median loan balances ($14,784, compared to the citywide median of $16,957).

Percent of Student Loan Borrowers 90+ Days Past Due on Student Loans

(2016Q4)

Figure 7



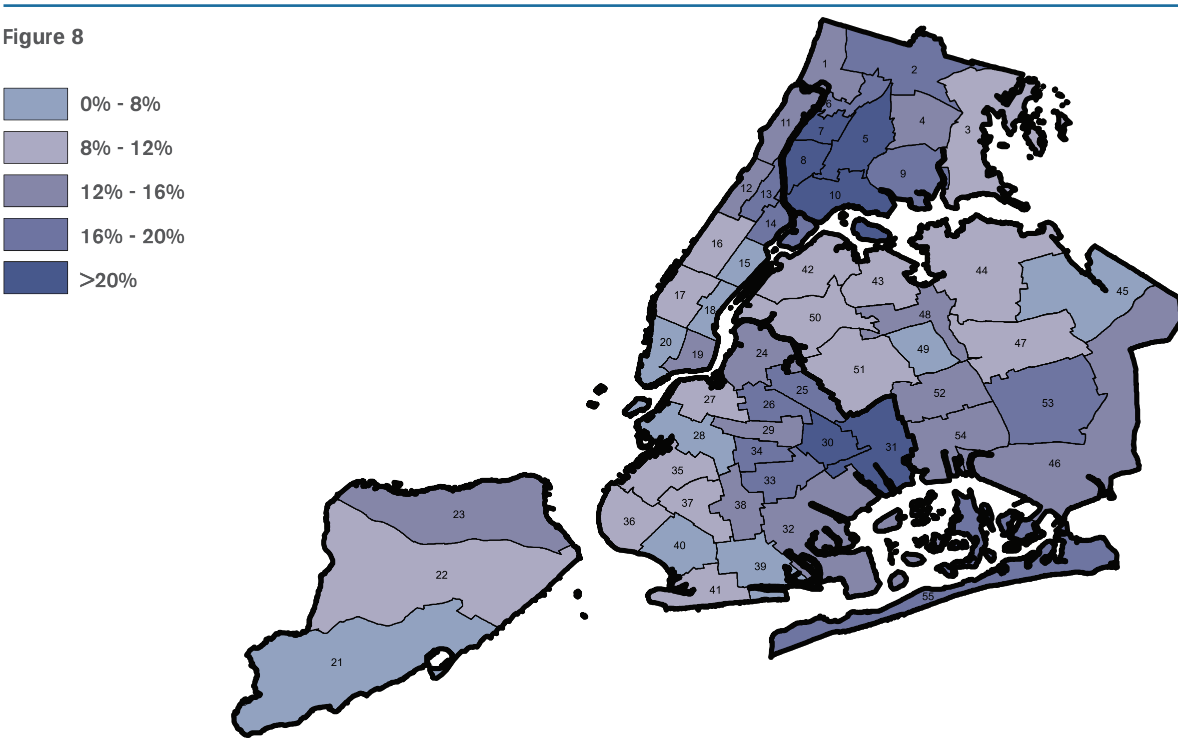
Source: New York Fed Consumer Credit Panel / Equifax

Below, in Figure 8 we provide a map indicating delinquency rates by neighborhood, from which the high delinquency rates in Brooklyn and the Bronx are evident. The community districts with the highest delinquency rates despite relatively low median loan balances are: Brooklyn CD 5 (East New York and Starrett City) -- 10%; Bronx CD 5 (Morris Heights, Fordham South and Mount Hope) -- 8%; Bronx CD 4 (Concourse, Highbridge and Mount Eden) -- 8%; Bronx CD 1 and 2 (Hunts Point, Longwood and Melrose) --7%; and Brooklyn CD 17 (East Flatbush, Farragut and Rugby) --7%. Wealthy areas of Manhattan show very low delinquency rates though median loan balances are high.

Percent of Student Loan Borrowers 90+ Days Past Due on Student Loans by Community District

(2016Q4)

Figure 8



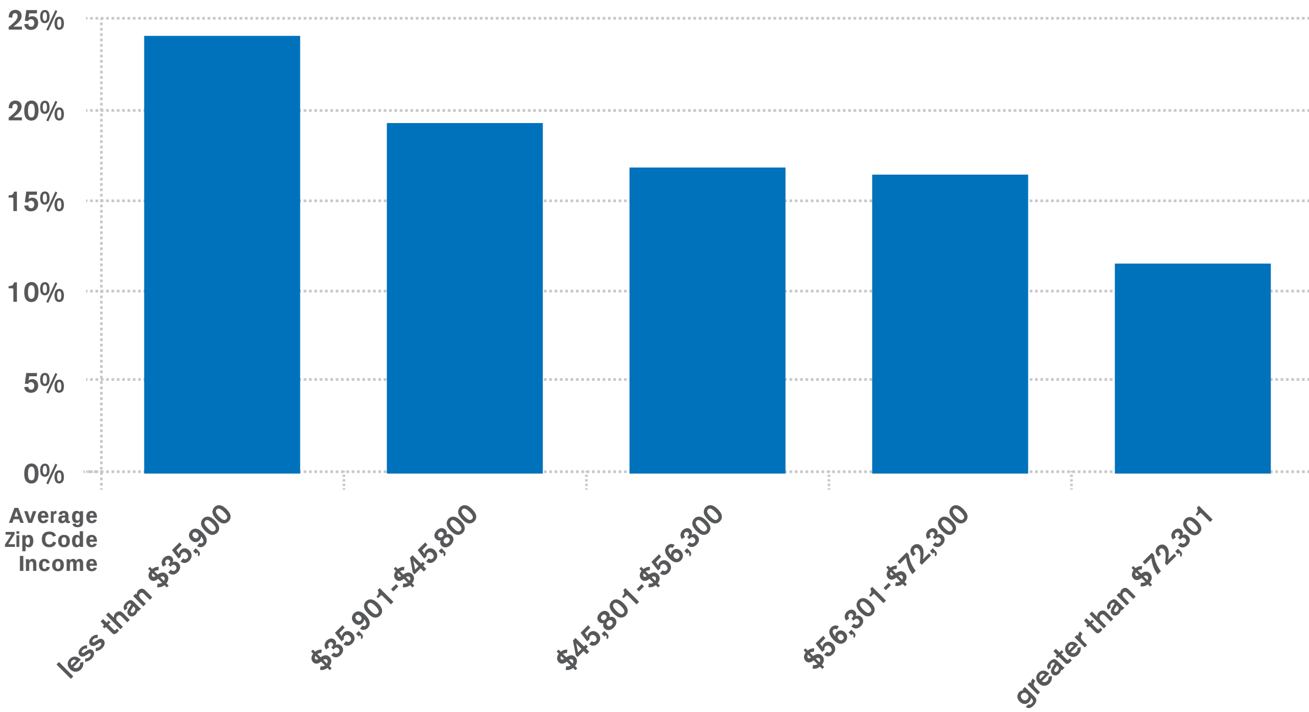
Source: New York Fed Consumer Credit Panel / Equifax *See Index of Community Districts*

Default

Borrowers who live in lower-income areas are also more likely to default, which is defined as becoming 270 days delinquent on student loan payments. As described, we do not have income data at the borrower level and use Zip Code income from the IRS. Borrowers in the lowest quintile are twice as likely to have ever defaulted as those in the highest income quintile (Figure 9). Even though low-income borrowers typically have smaller loan balances, they are also more likely to default due to nonpayment of their balances.

Percent of NYC Student Loan Borrowers Who Have Ever Defaulted as of 2016Q4, by Neighborhood Income

Figure 9



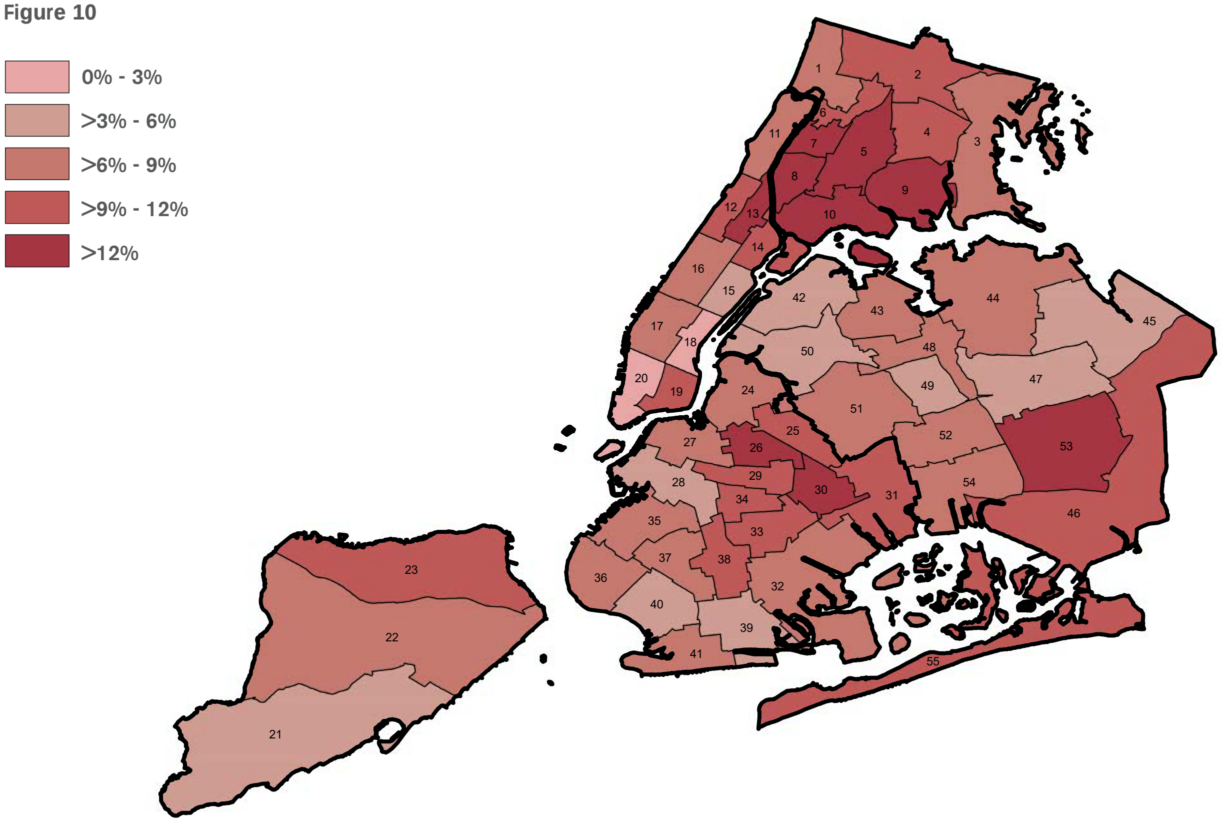
Source: New York Fed Consumer Credit Panel / Equifax

Among student loan borrowers, Brooklyn and the Bronx has high concentrations of defaulted borrowers. The five community districts with the highest borrower default rates are (see map below for all PUMAs): Bronx CD 3 and 6 (Belmont, Crotona Park East and East Tremont) -- 16%; Bronx CD 1 and 2 (Hunts Point, Longwood and Melrose) -- 15%; Bronx CD 4 (Concourse, Highbridge & Mount Eden) --15%; Brooklyn CD 16 (Brownsville and Ocean Hill) --14%; and Bronx CD 5 (Morris Heights, Fordham South, and Mount Hope) -- 14%. These findings have implications for overall community financial health in Brooklyn and the Bronx. Residents who have defaulted on student debt are likely to have difficulty accessing credit to cover emergency expenses or start a small business, for example. Defaulted federal loans may also be collected through wage or tax refund garnishment, leading to further financial insecurity among those borrowers.

Percent of Student Loan Borrowers in Default Status by Community District

(2016Q4)

Figure 10



Source: New York Fed Consumer Credit Panel / Equifax

See Index of Community Districts

The maps above show rates of delinquency and default by neighborhood, and reveal high rates in certain neighborhoods in the Bronx and Brooklyn. However, looking at the number of residents with loans in delinquency or default three other neighborhoods rise to the top, Harlem, Jamaica, and Queens Village. Manhattan CD 10 (Central Harlem) has 2980 residents in default and 1480 in delinquency; Queens CD 12 (Jamaica, Hollis, and St. Albans) has 4100 residents in default and 2080 in delinquency; and Queens DC 13 (Queens Village, Cambria Heights and Rosedale) has 3120 residents in default and 1320 in delinquency, all seen in Appendix B . Queens has some of the largest community districts by population, and these two are no exception. The high absolute numbers in Queens CD 12 and 13 simply signify the large populations of the districts. Central Harlem has nearly half the population of the Queens' neighborhoods but just as many borrowers in distress. As districts to target for populations in distress, these neighborhoods deserve highlighting.

Repayment Success

The CCP includes two categories of borrowers whose accounts are current, indicating repayment "success," broadly speaking. The first category, shown in green in Figure 11, indicates borrowers whose accounts are current and whose balances are declining. The second category, shown in blue below, indicates borrowers whose accounts are current but whose balances are either flat or increasing since the previous quarter.

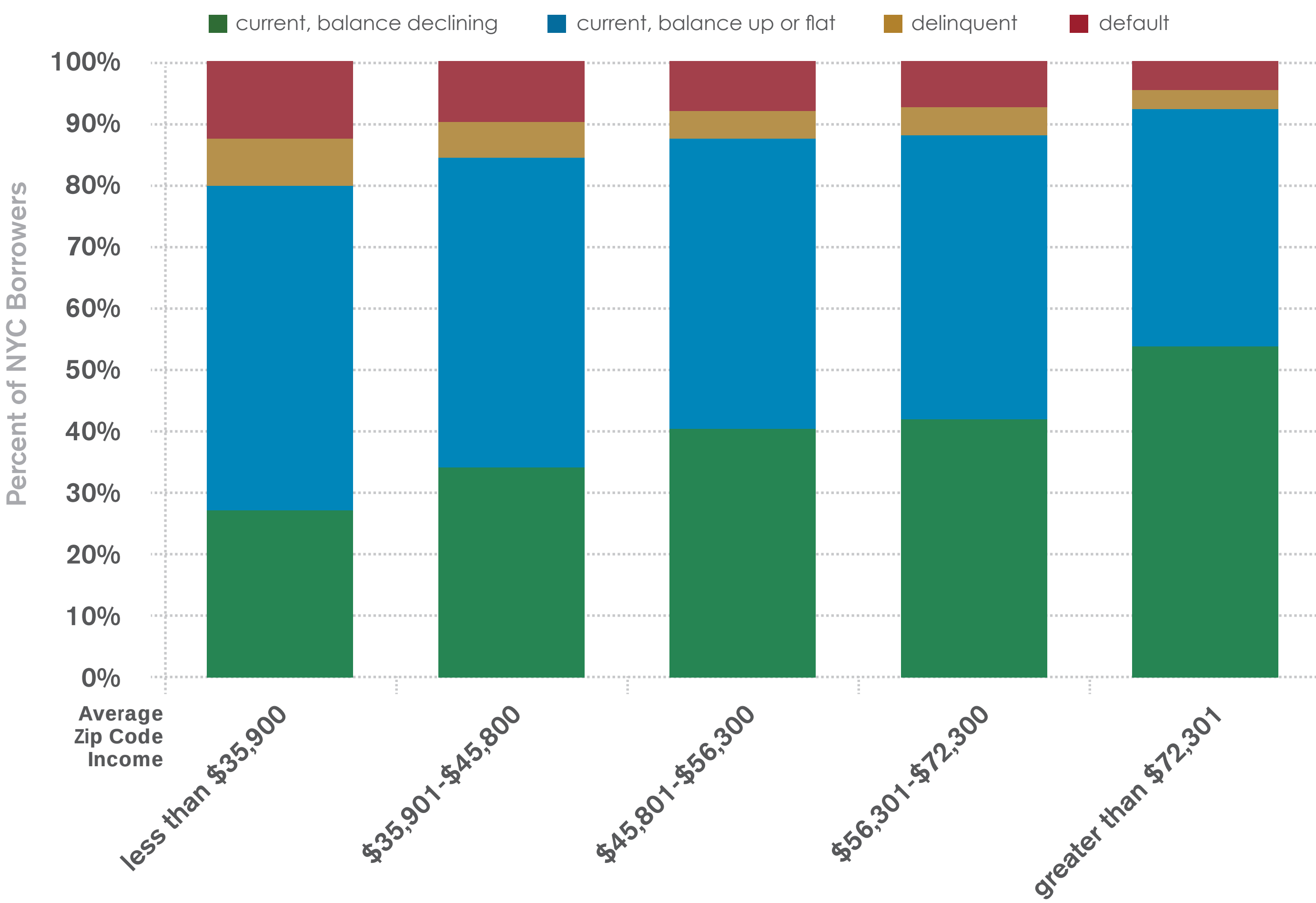
The second category includes borrowers in different borrowing phases, unfortunately obscuring multiple types of borrowers. Borrowers who are enrolled in school are in this category, as each year of enrollment implies an additional year's worth of borrowing, and this should not be interpreted as a failure in repayment. However, the second category also includes individuals who are not making sufficient payments to offset the accruing interest. A borrower participating in one of the federal government's income-driven repayment plans, such as Pay As You Earn (PAYE), for example, may have scheduled payments smaller than the interest. In that case, the borrower's loan balance would grow even as the borrower stayed current on monthly payments. A borrower in this second category could also be enrolled in a forbearance plan temporarily allowing a suspension of loan payments. Further research is therefore needed to disaggregate the cohort of borrowers whose accounts are current but whose balances are either flat or increasing. Note: This estimate includes individuals who are currently enrolled in school.

In our examination of repayment success we focus on success by income quintile. Although the CCP data do not contain information about borrowers' incomes, we again infer based on where the borrowers live, as described above. Over 20 percent of borrowers from the poorest New York City Zip Codes are either in delinquency or in default on their loans (Figure 11). Less than 30 percent of the poorest New Yorkers are making progress on paying down their loans. The remainder – over 50 percent of borrowers residing in the poorest neighborhoods –has not reduced their balances (as shown by the blue category in Figure 11 below). In contrast, less than 10 percent of borrowers in the top income quintile are either delinquent or in default on their student loan.

Student Loan Repayment Success by Neighborhood Income Among NYC Borrowers

(2016Q4)

Figure 11



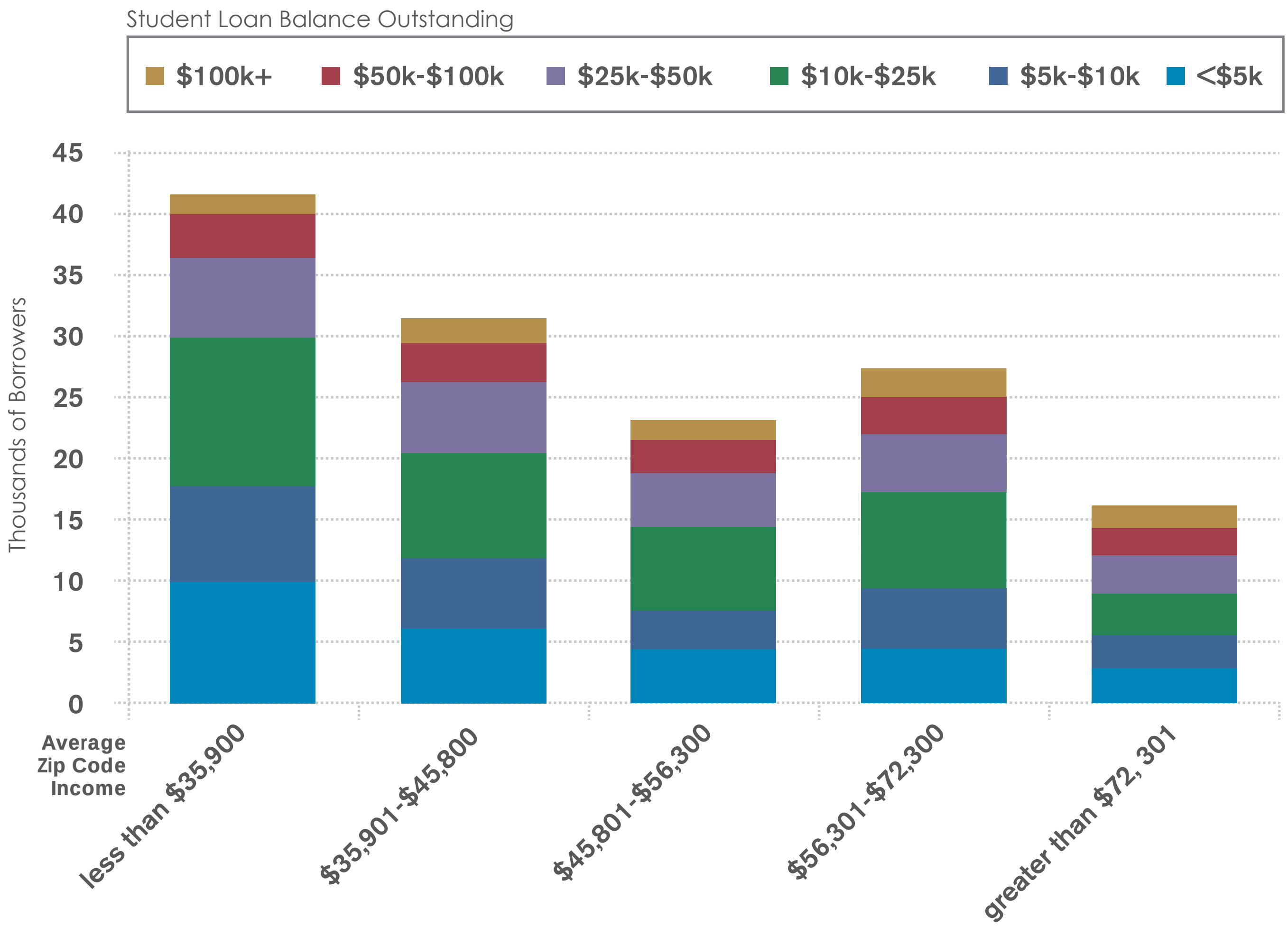
Source: New York Fed Consumer Credit Panel / Equifax; Internal Revenue Service

Figure 12 below describes the number of borrowers who are delinquent or in default status in each income quintile, as well as the size of their loan balances. As shown already, and as we may expect, the lowest income Zip Codes have the greatest number of borrowers in distress. But equally striking is the fact that nearly 25 percent of these low-income borrowers owe less than $5,000 on their student loans. This large cohort calls out for more research as to how such small loan amounts are wreaking havoc on borrowers' credit, especially among individuals who may not have finished their degrees.

Number of Delinquent and Defaulted Student Loan Borrowers in NYC by Outstanding Balance and Neighborhood Income

(2016Q4)

Figure 12



Source: New York Fed Consumer Credit Panel / Equifax; Internal Revenue Service

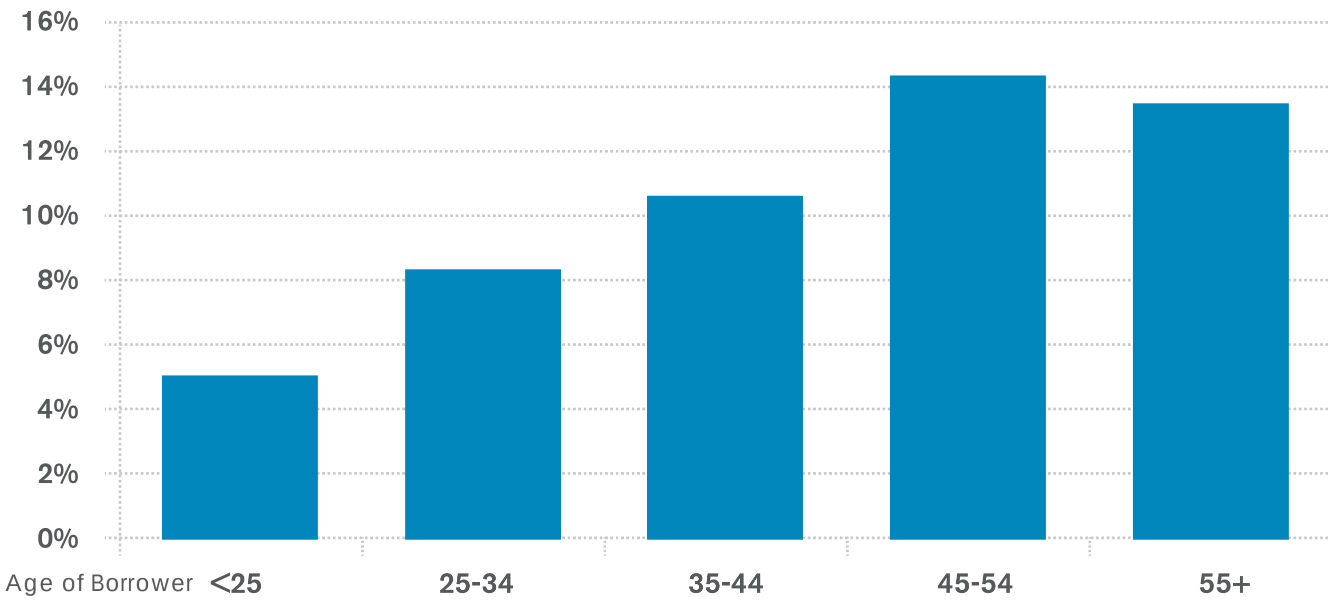
Delinquency and Default by Age

As mentioned in the introduction, older borrowers (those 45 and older) have higher delinquency rates than younger borrowers, who are more likely to be enrolled in school or eligible for income-based repayment plans that limit a borrower's monthly payments. There is some variation in delinquency and default rates broken out by the age of the borrower, and delinquency rates increase with age, with only a small decline among borrowers 55 or older (Figure 13).

Percent of Balance 90+ Days Delinquent by Borrower Age in NYC

(2016Q4)

Figure 13



Source: New York Fed Consumer Credit Panel / Equifax

While this may be surprising, one key reason for this finding is that younger borrowers are still in the borrowing phase of their loans and are not yet in the repayment cycle. Further, the fact that defaulted student loan debt balances cannot be discharged in bankruptcy means that the pool of stagnant defaulted debts grows with age, inflating the delinquency rates. Additionally, older student loan borrowers may still be in the pool because they have been delinquent and not yet successfully repaid their loans.

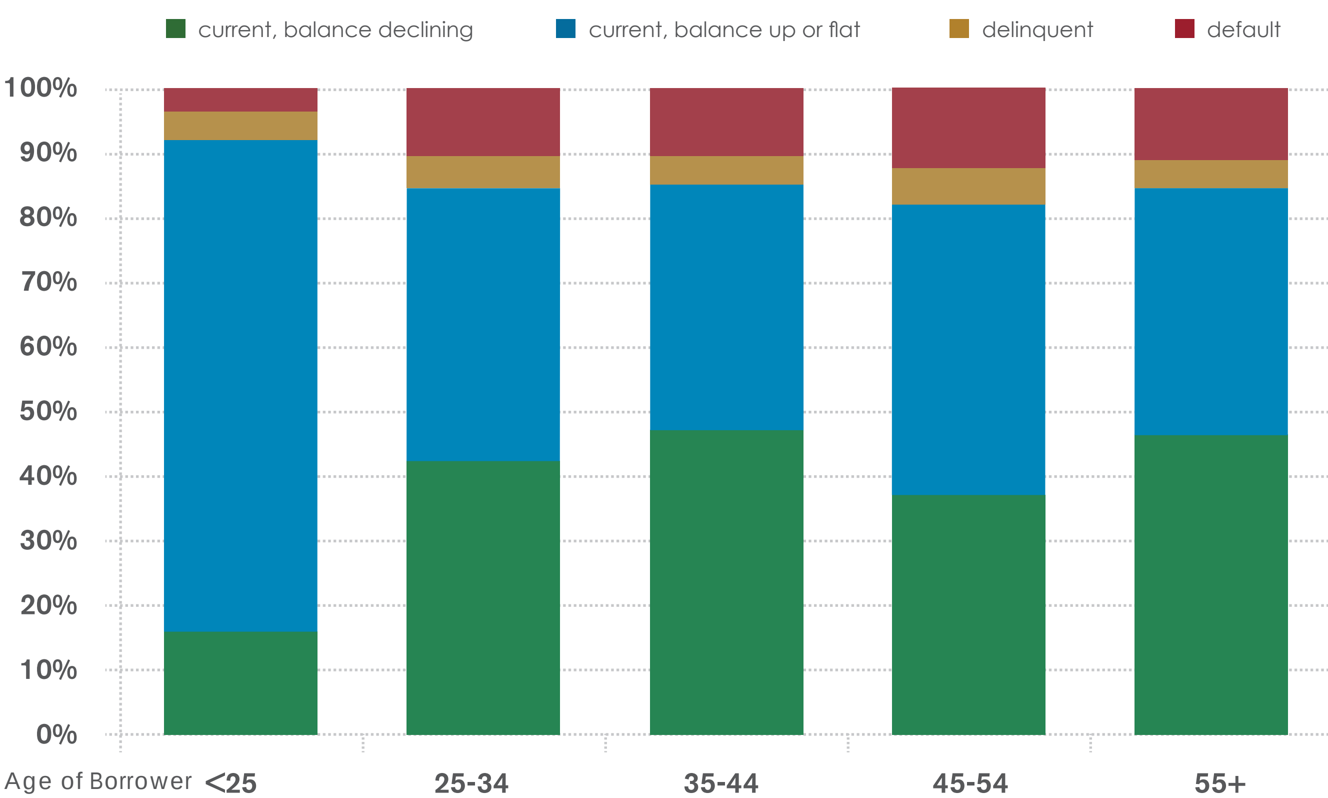
In Figure 14, we disaggregate borrowers into their repayment status by their age group, using the same repayment statuses described above. For the younger borrowers, the large blue share stands out, with 77 percent of borrowers 18-24 experiencing increasing loan balances. This reflects the fact that college-age adults are likely still enrolled. As it takes more than a year from the last enrollment for a borrower to default, the very small share of borrowers in default among the youngest borrowers is mostly because too little time has elapsed since leaving college.

The high delinquency rate observed in older borrowers is partly due to selection, such that some older borrowers are left with loans perhaps taken out for their own educations but left in delinquent status for many years. Additionally, a limitation exists in the data such that we cannot observe whether an individual has borrowed for his or her own education or to finance the education of his or her children (with a Parent PLUS loan, for example). Parent PLUS loans have higher interest rates and fewer, less borrower-friendly income-based repayment options, so can be onerous for parent borrowers. The surprising dip in borrowers in repayment among 45 to 54 year olds may be due to co-signing on private loans or loans taken out through the federal Parent PLUS program. Further research is therefore needed to understand the specific profile of older borrowers in New York City.

Student Loan Repayment Status by Borrower Age in NYC

(2016Q4)

Figure 14

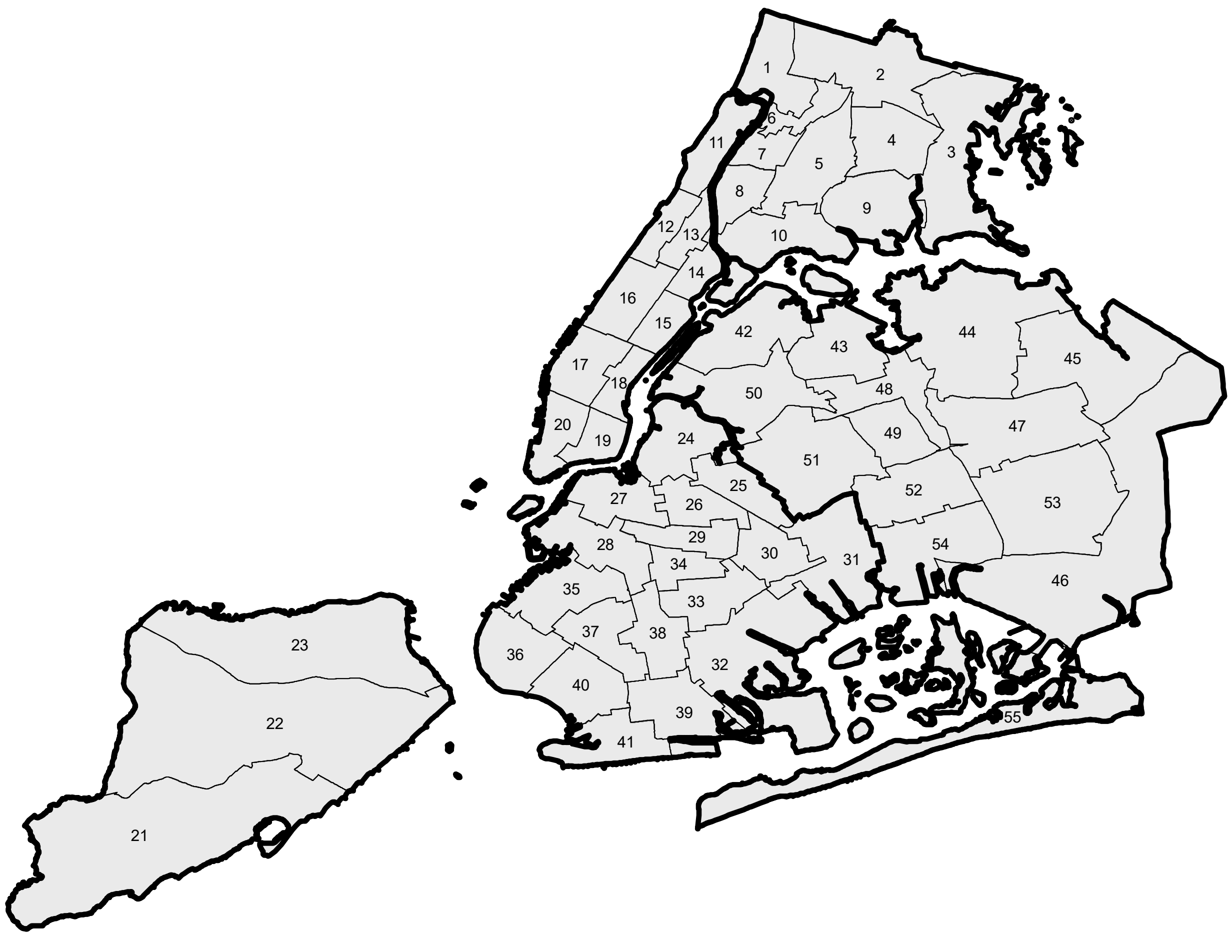


Source: New York Fed Consumer Credit Panel / Equifax

Conclusion

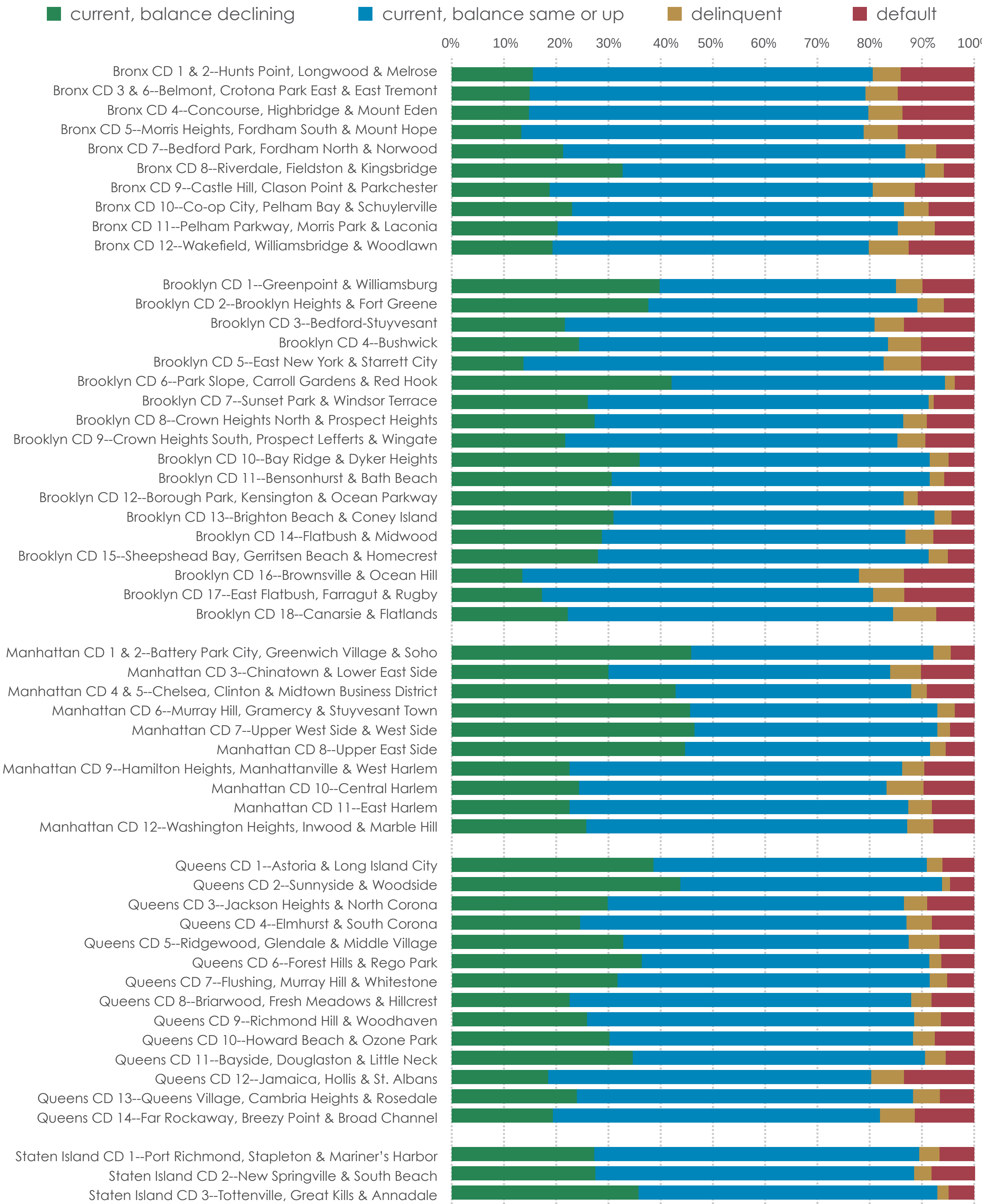
This report, the first to provide a comprehensive examination of student loan debt across New York City (or indeed any single U.S. city) at a neighborhood level, provides insight into areas likely to be of interest to policymakers, advocates, and others. Acute student loan-connected financial distress, as measured by the default rate, is troublingly high among New Yorkers from the poorest neighborhoods. We hope that this report will serve as a foundation for policymakers and other stakeholders to develop pragmatic solutions that can provide relief to struggling borrowers. Our findings here suggest that lower-income areas have disproportionately high delinquency and default rates. Borrowers in these areas may benefit from programs designed to educate troubled borrowers on the repayment programs for which they may be eligible and assist them with enrollment, with the goal of curing delinquent and defaulted loans that continue to damage city residents' credit reports. Such an intervention would enable these New Yorkers to access credit in the future. Further, providing more comprehensive information about student loans at the time of origination may assist new students with making sensible decisions about their borrowing. As noted above, opportunities for further research abound and can provide a more detailed picture of New York borrowers.

Index of Community Districts



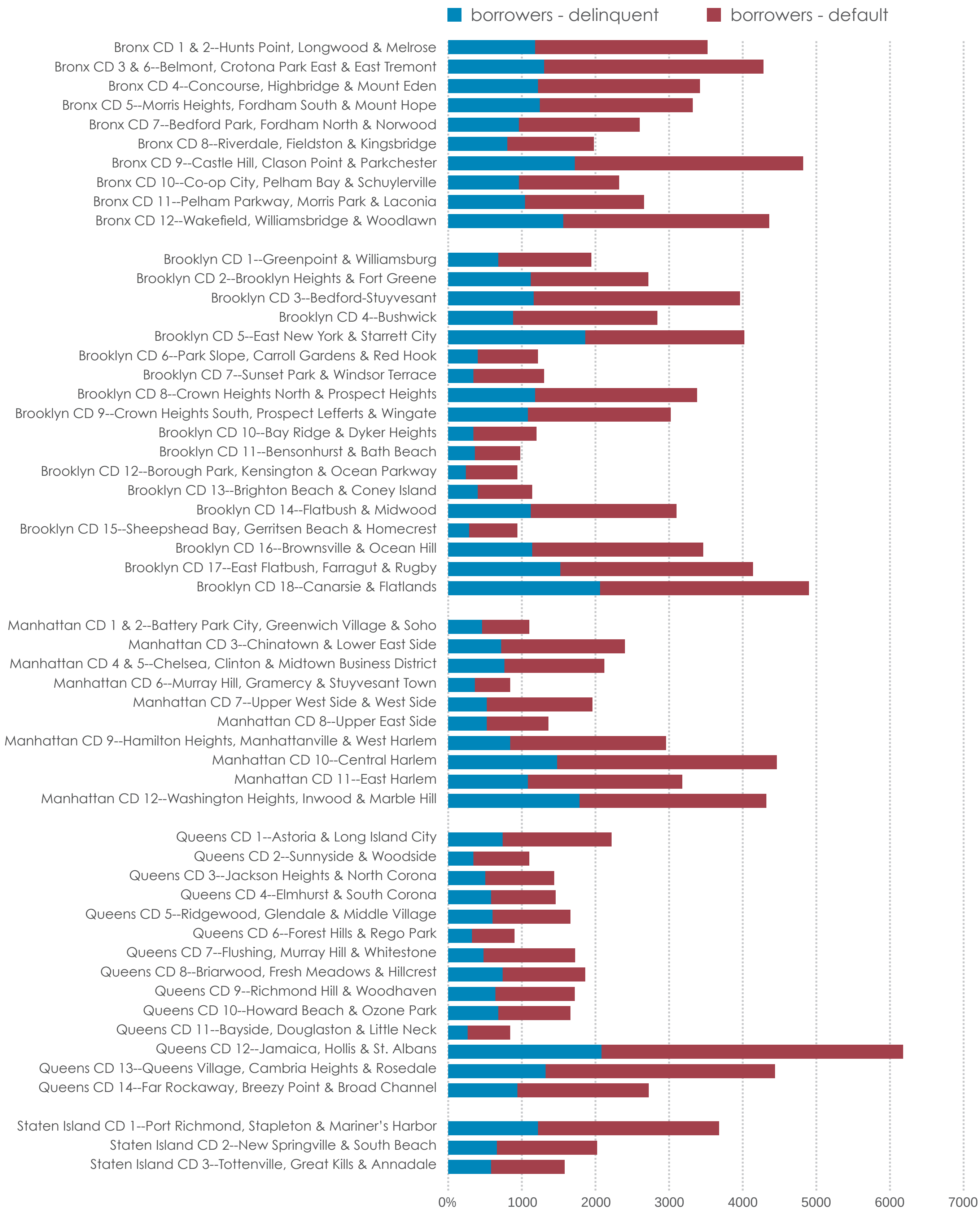
Label	PUMA	Community Districts and Neighborhoods
1	3701	Bronx CD 8--Riverdale, Fieldston & Kingsbridge
2	3702	Bronx CD 12--Wakefield, Williamsbridge & Woodlawn
3	3703	Bronx CD 10--Co-op City, Pelham Bay & Schuylerville
4	3704	Bronx CD 11--Pelham Parkway, Morris Park & Laconia
5	3705	Bronx CD 3 & 6--Belmont, Crotona Park East & East Tremont
6	3706	Bronx CD 7--Bedford Park, Fordham North & Norwood
7	3707	Bronx CD 5--Morris Heights, Fordham South & Mount Hope
8	3708	Bronx CD 4--Concourse, Highbridge & Mount Eden
9	3709	Bronx CD 9--Castle Hill, Clason Point & Parkchester
10	3710	Bronx CD 1 & 2--Hunts Point, Longwood & Melrose
11	3801	Manhattan CD 12--Washington Heights, Inwood & Marble Hill
12	3802	Manhattan CD 9--Hamilton Heights, Manhattanville & West Harlem
13	3803	Manhattan CD 10--Central Harlem
14	3804	Manhattan CD 11--East Harlem
15	3805	Manhattan CD 8--Upper East Side
16	3806	Manhattan CD 7--Upper West Side & West Side
17	3807	Manhattan CD 4 & 5--Chelsea, Clinton & Midtown Business District
18	3808	Manhattan CD 6--Murray Hill, Gramercy & Stuyvesant Town
19	3809	Manhattan CD 3--Chinatown & Lower East Side
20	3810	Manhattan CD 1 & 2--Battery Park City, Greenwich Village & Soho
21	3901	Staten Island CD 3--Tottenville, Great Kills & Annadale
22	3902	Staten Island CD 2--New Springville & South Beach
23	3903	Staten Island CD 1--Port Richmond, Stapleton & Mariner's Harbor
24	4001	Brooklyn CD 1--Greenpoint & Williamsburg
25	4002	Brooklyn CD 4--Bushwick
26	4003	Brooklyn CD 3--Bedford-Stuyvesant
27	4004	Brooklyn CD 2--Brooklyn Heights & Fort Greene
28	4005	Brooklyn CD 6--Park Slope, Carroll Gardens & Red Hook
29	4006	Brooklyn CD 8--Crown Heights North & Prospect Heights
30	4007	Brooklyn CD 16--Brownsville & Ocean Hill
31	4008	Brooklyn CD 5--East New York & Starrett City
32	4009	Brooklyn CD 18--Canarsie & Flatlands
33	4010	Brooklyn CD 17--East Flatbush, Farragut & Rugby
34	4011	Brooklyn CD 9--Crown Heights South, Prospect Lefferts & Wingate
35	4012	Brooklyn CD 7--Sunset Park & Windsor Terrace
36	4013	Brooklyn CD 10--Bay Ridge & Dyker Heights
37	4014	Brooklyn CD 12--Borough Park, Kensington & Ocean Parkway
38	4015	Brooklyn CD 14--Flatbush & Midwood
39	4016	Brooklyn CD 15--Sheepshead Bay, Gerritsen Beach & Homecrest
40	4017	Brooklyn CD 11--Bensonhurst & Bath Beach
41	4018	Brooklyn CD 13--Brighton Beach & Coney Island
42	4101	Queens CD 1--Astoria & Long Island City
43	4102	Queens CD 3--Jackson Heights & North Corona
44	4103	Queens CD 7--Flushing, Murray Hill & Whitestone
45	4104	Queens CD 11--Bayside, Douglaston & Little Neck
46	4105	Queens CD 13--Queens Village, Cambria Heights & Rosedale
47	4106	Queens CD 8--Briarwood, Fresh Meadows & Hillcrest
48	4107	Queens CD 4--Elmhurst & South Corona
49	4108	Queens CD 6--Forest Hills & Rego Park
50	4109	Queens CD 2--Sunnyside & Woodside
51	4110	Queens CD 5--Ridgewood, Glendale & Middle Village
52	4111	Queens CD 9--Richmond Hill & Woodhaven
53	4112	Queens CD 12--Jamaica, Hollis & St. Albans
54	4113	Queens CD 10--Howard Beach & Ozone Park
55	4114	Queens CD 14--Far Rockaway, Breezy Point & Broad Channel

Appendix A: Repayment Success by NYC Community District



Source: New York Fed Consumer Credit Panel / Equifax

Appendix B: Number of Borrowers in Delinquency and Default by NYC Community District



Source: New York Fed Consumer Credit Panel / Equifax

dfs.ny.gov

Press Release - October 16, 2019: Governor Cuomo Announces Final Student Loan Servicer Regulation

4-5 minutes

Press Release

October 16, 2019

Final Regulation Issued by the Department of Financial Services Protects New York's 2.8 Million Student Borrowers from Abusive Practices in the Student Loan Servicer Industry

Governor Andrew M. Cuomo today announced the Department of Financial Services has issued a final regulation that will protect student loan borrowers from unscrupulous practices in the student loan servicing industry. The regulation, which goes into effect today, requires companies that service student loans held by New Yorkers to meet new standards addressing problems that have plagued the student loan servicing industry. DFS issued the final regulation after taking into consideration comments submitted during a 60-day comment period. This is the latest step in Governor Cuomo's historic commitment to protecting the approximately 2.8 million student loan borrowers in New York.

"New York is taking aggressive action to protect students who invest in their education and to hold unscrupulous lenders accountable for deceptive practices," **Governor Cuomo said.** "This new regulation will force student loan servicers to be more transparent when it comes to how they do business and in the process help ensure students and their families aren't misled when trying to pay for their higher education."

Under the final regulation, student loan servicers are required to:

- Provide clear and complete information concerning fees, payments due and terms and conditions of loans;
- Apply payments in borrowers' best interest, rather than in ways that maximize servicer fees;
- Inform borrowers of income-based repayment and loan forgiveness options;
- Maintain and provide to consumers a detailed history of their account;
- When a borrower's loan is transferred to a new servicer, ensure all necessary servicing information is transferred with the loan so the borrower's repayment is not disrupted;
- Provide accurate information to credit reporting agencies; and
- Provide timely and substantive responses to consumer complaints.

Department of Financial Services Superintendent Linda A. Lacewell said, "While the federal government strips away consumer protections, New York continues to step up for students. Our new and final regulation will protect New York's nearly 3 million student loan borrowers from predatory practices and demand clear information from student loan servicers to help borrowers make the best financial choices towards their future."

Senator Kevin Thomas, Senate Chair of Consumer of Affairs Committee, said, "As the student loan crisis continues to balloon, it is now more important than ever to ensure borrowers are protected. This regulation will help root out bad actors in the student loan servicers industry who prey on the most vulnerable."

Senator James Sanders Jr., Senate Chair of Banks Committee, said, "Again, New York delivers for student loan borrowers with this new final regulation. This is a warning to loan servicers who put their profits over people first and we will continue to help safeguard New Yorkers from predatory lending practices."

Assembly Member Kenneth P. Zebrowski, Assembly Chair of Banks Committee, said, "The student loan industry continues to thrive as a lucrative business at the expense of borrowers. These new protections will provide New York borrowers with an accurate representation of their repayment options that work in their favor and will ban deceptive practices by dishonest servicers."

Assembly Member Michael DenDekker, Assembly Chair of Consumer Affairs Committee, said, "Student loan borrowers expect to improve themselves and their lives through higher education, but are forced to take on the unexpected burden of high fees and unscrupulous practices from student loan servicers. This final regulation upholds consumer protections for borrowers and will help discourage and prevent fraudulent activities by lenders."

The final regulation announced today also prohibits servicers from defrauding or misleading borrowers, engaging in any unfair, deceptive, abusive or predatory act or practice or misapplying borrowers' payments.

A copy of the final regulation is available on the DFS website.

NEW YORK STATE
DEPARTMENT OF FINANCIAL SERVICES
3 NYCRR 409

STUDENT LOAN SERVICERS

I, Linda A. Lacewell, Superintendent of Financial Services, pursuant to the authority granted by Sections 10, 11, 14, 718 and Article 14-A of the Banking Law and Sections 102, 201, 202, 301, and 302 of the Financial Services Law, do hereby promulgate Part 409 of Title 3 of the Official Compilation of Codes, Rules and Regulations of the State of New York, to take effect upon publication of the Notice of Adoption in the State Register, to read as follows:

(ALL OF THE FOLLOWING MATERIAL IS NEW)

§ 409.1 Definitions.

(a) "Applicant" shall mean any person applying for a license under this part.

(b) "Borrower" shall mean any resident of this state who has received a student loan or agreed in writing to pay a student loan or any person who shares a legal obligation with such resident for repaying a student loan.

(c) "Borrower benefit" shall mean an incentive offered to a borrower in connection with the origination of a student loan, including but not limited to an interest rate reduction, principal rebate, fee waiver or rebate, loan cancellation, or cosigner release.

(d) "Exempt organization" shall mean any banking organization, foreign banking corporation, national bank, federal savings association, federal credit union, or any bank, trust company, savings bank, savings and loan association, or credit union organized under the laws of any other state; any public postsecondary educational institution or private nonprofit postsecondary educational institution; the New York State higher education services corporation; and any entity that holds a license under articles nine or eleven-b of the banking law.

(e) "NMLS" means the Nationwide Multistate Licensing System & Registry and shall include all related computer systems, the Conference of State Bank Supervisors, and State Regulatory Registry LLC.

(f) "Nonconforming payment" shall mean an overpayment or a partial payment.

(g) "Overpayment" shall mean a payment on a student loan in excess of the total monthly amount due from a borrower on a student loan, also commonly referred to as a prepayment.

(h) "Partial payment" shall mean a payment on a student loan in an amount less than the monthly amount due from a borrower on a student loan, also commonly referred to as an underpayment.

(i) "Person" shall mean any individual, association, corporation, limited liability company, partnership, trust, unincorporated organization, government, or any other entity.

(j) "Student loan servicer" shall mean a person engaged in the business of servicing student loans owed by one or more borrowers.

(k)(1) "Servicing" shall mean:

(i) receiving any payment from a borrower pursuant to the terms of any student loan; or

(ii) applying any payment to the borrower's account pursuant to the terms of a student loan or the contract governing the servicing of any such loan; or

(iii) during a period where a borrower is not required to make a payment on a student loan, maintaining account records for the student loan and communicating with the borrower regarding the student loan on behalf of the owner of the student loan promissory note; or

(iv) in conjunction with performing the activities described in subparagraphs (i), (ii), and (iii) of this paragraph:

(*a*) providing any notification of amounts owed on a student loan by or on account of any borrower;

(*b*) performing other administrative services with respect to a borrower's student loan; or

(*c*) interacting with a borrower with respect to or regarding any attempt to avoid default on the borrower's student loan and facilitating the activities described in subparagraph (i) or (ii) of this paragraph.

(2) “Servicing” shall not include collecting, or attempting to collect, on a Direct Loan or FFELP Loan for which no payment has been received for 270 days or more, a Perkins Loan in default, or on a private student loan in default according to the terms of the loan documents.

(l) “Student loan” shall mean any loan to a borrower to finance postsecondary education or expenses related to postsecondary education. The term shall not include an extension of credit under an open-end consumer credit plan, a reverse mortgage transaction, a residential mortgage transaction, or any other loan that is secured by real property or a dwelling.

(m) “Federal student loan” means:

(1) any Direct Loan;

(2) any FFELP Loan, which was purchased by the government of the United States pursuant to the federal Ensuring Continued Access to Student Loans Act and is presently owned by the government of the United States; and

(3) any other student loan which is owned by the government of the United States.

(n) “Direct Loan” means any student loan made under the William D. Ford Federal Direct Loan Program, authorized under Title IV of the Higher Education Act, as amended (20 U.S.C. § 1070, et seq.).

(o) “FFELP Loan” means any student loan made under the Federal Family Education Loan Program, authorized under Title IV of the Higher Education Act, as amended (20 U.S.C. § 1070, et seq.).

(p) “Perkins Loan” means any Federal Perkins Loan, authorized under Title IV of the Higher Education Act, as amended (20 U.S.C., § 1070, et seq.).

(q) “Private student loan” means a student loan which is not a Direct Loan, FFELP Loan, or Perkins Loan but, rather, a private student loan made by a lender.

§ 409.2 Applicability.

(a) Except as provided in subdivision (b) of this section or as explicitly provided for in another section of this part, all provisions of this part shall apply to every student loan servicer.

(b) The following sections shall not apply to a student loan servicer that services only federal student loans:

(1) section 409.3;

(2) section 409.4;

(3) section 409.5;

(4) section 409.6; and

(5) section 409.7.

§ 409.3 Licensing.

(a) License required.

(1) Except as provided in subdivisions (2) and (3), every person engaged in the business of servicing student loans owed must be licensed by the superintendent as a student loan servicer in accordance with this section.

(2) An exempt organization is not required to apply for or receive a license under this section to engage in the business of servicing student loans, provided that unless preempted by federal law such exempt organization notifies the superintendent that it is servicing student loans in this state. In the event that a student loan servicer ceases to be an exempt organization, that person may not service student loans without first being licensed by the superintendent as a student loan servicer in accordance with this section.

(3) A student loan servicer that services only federal student loans is not required to apply for or receive a license under this section to engage in the business of servicing student loans. In the event that a student loan servicer ceases to be a student loan servicer that services only federal student loans seeks to begin servicing student loans which are not federal student loans, that person may not service student loans other than federal student loans owed by one or more borrowers residing in this state without first being licensed by the superintendent as a student loan servicer in accordance with this section.

(4) (i) A debt collector whose student loan debt collection business, and business operations, involve collecting, or attempting to collect, on a Direct Loan or FFELP Loan for which no payment has been received for 270 days or more, a Perkins Loan in default, or on a private student loan in default according to the terms of the loan documents shall not be required to obtain a license under paragraph (1) of this subdivision. (ii) Notwithstanding subparagraph (i) of this paragraph any debt collector who services non-defaulted student loans, as part of their business, and business operations, shall be deemed to be engaged in the business of servicing student loans and shall be required to obtain a license pursuant to paragraph (1) of this subdivision.

(b) Use of NMLS.

(1) Every application for a license under this section shall be filed through NMLS.

(2) Every applicant shall make such application in accordance with the checklist and instructions of NMLS for transmission to the department.

(3) An applicant that files an application through the NMLS shall comply with all of the filing requirements imposed by the NMLS and the department including the payment of all fees required by the NMLS and by the department. Fees payable to the NMLS shall be the sole property of the NMLS and shall not be deemed revenue of the department.

(4) Any information or documentation required to be submitted in connection with an application that cannot be filed through NMLS shall be transmitted to the department in a form and manner as required by the superintendent.

(c) Initial Application.

(1) Every application for a license under this section shall include all information required by the NMLS checklist and instructions for the application, including:

(i) a description of the business operations of the applicant;

(ii) an affirmation of financial solvency noting such capitalization requirements as may be required by the superintendent, and access to such credit as may be required by the superintendent;

(iii) a financial statement prepared by a certified public accountant, the accuracy of which is sworn to under oath before a notary public by an officer or other representative of the applicant who is authorized to execute such documents;

(iv) an affirmation that the applicant, or its members, officers, partners, directors and principals as may be appropriate, are at least twenty-one years of age;

(v) information as to the character, fitness, financial and business responsibility, background and experiences of the applicant, or its members, officers, partners, directors and principals as may be appropriate including but not limited to an affirmation setting forth whether the applicant, or its members, officers, partners, directors and principals:

(*a*) has, within the last ten years prior to the date of application, committed any act involving dishonesty, fraud, deceit, or has been convicted of, or pleaded nolo contendere to, a crime directly related to the qualifications, functions, or duties related to servicing student loans, provided that any criminal conviction be evaluated consistent with article twenty-three-A of the correction law;

(*b*) has had a license or registration revoked by the superintendent or any other regulator or jurisdiction;

(*c*) has been an officer, director, partner, member or substantial stockholder of an entity which has had a license or registration revoked by the superintendent or any other regulator or jurisdiction; and

(*d*) has been an agent or employee of an entity which has had a license or registration revoked by the superintendent or any other regulator or jurisdiction and the nature of the agency or employment at the time of the revocation; and

(vi) any additional detail or information required by the superintendent.

(d) Investigation fee. No application shall be deemed submitted unless accompanied by a fee as prescribed pursuant to section 18-a of the banking law.

(e) Review of applications.

(1) Upon a complete application being submitted, the superintendent shall consider, in her sole discretion, whether the financial responsibility, experience, character, and general fitness of the applicant and, if applicable, the members, officers, partners, directors, and principals of the applicant are such as to command the confidence of the community and to warrant belief that the business will be operated honestly, fairly, and efficiently within the purpose of article 14-A of the banking law.

(2) If this review reveals that any matter requires, in the superintendent's judgment, the submission of additional information from the applicant, the applicant shall be so notified and shall submit such supplementation as may be required, in a manner directed by the superintendent. Failure to submit the information required by the superintendent within fifteen days after being notified of the need for supplementation, or such longer time as provided by the superintendent, shall be deemed a withdrawal of the application.

(3) If, after the application is submitted, but before the superintendent has made a determination thereon, any information in the application ceases to be true or correct, the applicant shall immediately file through NMLS an amendment correcting the information.

(4) Refusal to issue license.

(i) If, after consideration of the application, the superintendent, in her sole discretion, determines that the financial responsibility, experience, character, and general fitness of the applicant and, if applicable, the members, officers, partners, directors and principals of the applicant are not such as to command the confidence of the community and to warrant belief that the business will be operated honestly, fairly, and efficiently, the superintendent shall refuse to issue the license.

(ii) Further, after consideration of the application, the superintendent may refuse to issue a license to any applicant if she finds that the applicant, or any person who is a director, officer, partner, agent, employee, member, or substantial stockholder of the applicant:

(*a*) within the last ten years prior to the date of application, has committed any act involving dishonesty, fraud, deceit, or has been convicted of, or pleaded nolo contendere to, a crime directly related to the qualifications, functions, or duties related to servicing student loans, provided that any criminal conviction be evaluated consistent with article twenty-three-A of the correction law;

(*b*) has had a license or registration revoked by the superintendent or any other regulator or jurisdiction;

(*c*) has been an officer, director, partner, member or substantial stockholder of an entity which has had a license or registration revoked by the superintendent or any other regulator or jurisdiction; or

(*d*) has been an agent, employee, officer, director, partner or member of an entity which has had a license or registration revoked by the superintendent where such person shall have been found by the superintendent to bear responsibility in connection with the revocation.

(iii) If the superintendent refuses to issue a license under this paragraph, the superintendent shall notify the applicant of such refusal.

(5) Issuance of a license.

(i) If after consideration of the application the superintendent, in her sole discretion, determines that the financial responsibility, experience, character, and general fitness of the applicant and, if applicable, the members, officers, partners, directors, and principals of the applicant are such as to command the confidence of the community and to warrant belief that the business will be operated honestly, fairly, and efficiently, and the superintendent determines that no other grounds to refuse to issue the license exist, the superintendent may cause the license to be issued.

(ii) Upon determining the license should be issued the superintendent shall cause the license to be transmitted in an electronic format to the applicant and shall cause a copy to be retained in the records of the department.

(iii) No application shall be considered approved until it is approved by the superintendent and the license is received by the applicant.

(f) Surrender of License.

(1) Any student loan servicer may surrender a license issued under this section by delivering to the superintendent written notice that it thereby surrenders such license, but such surrender shall not affect such student loan servicer's civil or criminal liability for acts committed prior to such surrender. Further, such surrender shall not affect the jurisdiction of the department or the courts of this state over acts committed prior to such surrender.

(2) If such surrender is made after the issuance by the superintendent of a statement of charges and notice of hearing, the superintendent may proceed against the student loan servicer as if such surrender had not taken place.

(3) A student loan servicer that surrenders its license shall remain responsible for paying assessments under section 206 of the financial services law for the year in which the surrender takes place.

(4) No surrender shall be effective during the conduct of an examination under this part without the consent of the superintendent upon such conditions as she may deem necessary and appropriate in her discretion.

(5) A student loan servicer that surrenders its license shall preserve books and records in accordance with section 409.13 of this part.

(g) Any license issued under this section shall continue in full force and effect until it is surrendered, revoked, or suspended.

(h) By filing an application under this section, a student loan servicer is deemed to have consented to the jurisdiction of the courts in this State and waives any defense to the contrary.

§ 409.4 Temporary license during transition period.

(a) Notwithstanding section 409.3 of this part, any student loan servicer required to obtain a license under that section, that is engaged in the business of servicing student loans prior to October 9, 2019 and that on or before such date submits a complete application pursuant to that section, shall be deemed to possess a temporary license to continue its engagement in the business of student loan services subject to the conditions and limitations set forth in subdivision (b) of this section.

(b) Temporary license.

(1) The temporary license provided for in subdivision (a) of this section, shall be effective from October 9, 2019 and shall expire upon the superintendent's issuance of a license, the superintendent's refusal to issue a license, or the withdrawal of the application, whichever occurs first.

(2) A temporary license provided for in subdivision (a) of this section may be terminated without a hearing if the superintendent, in her sole discretion, finds that there is a risk of public harm or other good cause for such termination.

(3) A temporary license provided for in subdivision (a) of this section shall not be renewable.

(c) Any person that fails to obtain a temporary license under this section shall not commence or continue the business of servicing student loans without first obtaining a license pursuant to section 409.3 of this part.

§ 409.5 Continuing duty to update licensing information; changes in officers and directors.

(a) Every student loan servicer required to obtain a license pursuant to section 409.3 of this Part, shall within five days of any change in any of its executive officers, directors, partners or members notify the superintendent of the change by executing an amendment in NMLS which contains the information required to be submitted by the checklist and instructions for such an amendment posted on NMLS.

(b) Every student loan servicer required to obtain a license pursuant to section 409.3 of this Part, shall file with NMLS an amendment as soon as practicable, but in no event more than ten days, after any information contained in the application or the NMLS file, as the case may be, ceases to be true and correct or applicable.

§ 409.6 Change in control application; prior approval.

(a) Definition of Control.

(1) As used in this part the term "control" means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a student loan servicer, whether through the ownership of voting stock of such student loan servicer, the ownership of voting stock of any person which possesses such power, or otherwise.

(2) Control shall be presumed to exist if any person, directly or indirectly, owns, controls, or holds with power to vote ten percent or more of the voting stock of any student loan servicer or of any person which,

directly or indirectly, owns, controls, or holds with power to vote ten percent or more of the voting stock of any student loan servicer, but no person shall be deemed to control a student loan servicer solely by reason of being an officer or director of such student loan servicer. Such presumption may not be rebutted except by a determination of the superintendent on an application under subdivision (g) of this section.

(3) As used in this section the term "person" means individual, partnership, firm, association, corporation, joint-stock company, trust, any similar entity or any combination of the foregoing acting in concert.

(4) As used in this part the term "substantial stockholder" means a person owning or controlling directly or indirectly ten percent or more of the total outstanding stock of a corporation.

(b) Prior Approval Required.

(1) Any action which results in a change of control of the business of a student loan servicer shall be void unless the superintendent has given prior approval of the act before it is taken.

(2) Prior to taking any action which results in any change of control of a student loan servicer, the person desiring to acquire control shall make a proposed amendment through NMLS consistent with the checklist and instructions for making such an amendment posted in NMLS and pay an investigation fee as prescribed pursuant to section eighteen-a of the banking law. After receiving the proposed amendment, the superintendent may require the person desiring to acquire control to submit any other information she determines necessary as a supplement thereto.

(c) Without limiting the responsibilities of persons seeking to acquire control of a student loan servicer to make application to the superintendent pursuant to section 715 of the banking law and this section, every student loan servicer shall report to the superintendent within five days of the date the student loan servicer becomes aware of such information, the name and residence of each person (or each member of a group of persons acting in concert) who becomes an owner of ten percent or more of the outstanding shares of any voting class of the student loan servicer and shall inform such person of the reporting requirements under this part.

(d) Application for a determination of control.

(1) The superintendent may in her discretion, upon the application of a student loan servicer or any person who, directly or indirectly, owns, controls, or holds with power to vote or seeks to own, control or hold with power to vote any voting stock of such student loan servicer, determine whether or not the ownership, control, or holding of such voting stock constitutes or would constitute control of such student loan servicer for purposes of this section.

(2) Such an application shall be in the form of a letter, containing a sworn statement under penalty of perjury by the person making the application that the contents of the letter are true, that sets forth all the information necessary for the superintendent to make the determination. Such information must at a minimum include:

(i) name and address of the person seeking a determination;

(ii) a detailed narrative description of the manner in which the person owns, controls, or holds, or seeks to own, control, or hold, voting stock of a student loan servicer;

(iii) the number of shares of each class of stock of the licensee and the amount (if any) of obligations of the licensee of which the person seeking a determination owns or intends to be beneficial owner;

(iv) an organizational chart showing the structure or the proposed structure of the ownership of the student loan servicer now or immediately after the proposed transaction to which the application relates, including anyone who controls the person seeking the determination; and

(v) any other information required by the superintendent as deemed necessary under the circumstances of the particular application.

(3) The superintendent may require the person making the application to supplement the information contained in the application as she, in her sole discretion, deems necessary to render a decision.

(e) Applications for prior approval under this section shall be approved or disapproved in accordance with the provisions of section 713 of the banking law and section 409.3 of this part.

(f) This section shall not apply to an exempt organization.

§ 409.7 Suspension and revocation of a license.

(a) After a hearing. After notice and hearing, the superintendent may revoke or suspend any license to engage in the business of servicing student loans if she finds that:

(1) a student loan servicer has violated any provision of Article 14-A of the banking law, any provision of this part, or any other applicable law;

(2) any fact or condition exists which, if it had existed at the time of the original application for such license, would have warranted the superintendent refusing originally to issue such license;

(3) a student loan servicer does not cooperate with an examination or investigation by the superintendent;

(4) a student loan servicer engages in fraud, intentional misrepresentation, or gross negligence in servicing a student loan;

(5) the competence, experience, character, or general fitness of the student loan servicer, a person controlling, directly or indirectly, ten percent or more of the outstanding interests, or any person responsible for servicing a student loan for the student loan servicer indicates that it is not in the public interest to permit the student loan servicer to continue servicing student loans;

(6) the student loan servicer engages in an unsafe or unsound practice;

(7) the student loan servicer is insolvent, suspends payment of its obligations, or makes a general assignment for the benefit of its creditors;

(8) a student loan servicer has violated the laws of this state, any other state or any federal law involving fraudulent or dishonest dealing, or a final judgement has been entered against a student loan servicer in a civil action upon grounds of fraud, misrepresentation or deceit;

(9) a student loan servicer fails to comply with any of the servicing standards set forth in section 409.8 of this part; or

(10) a student loan servicer engages in a prohibited practice in violation of section 409.9 of this part.

(b) Emergency Suspension.

(1) The superintendent may suspend a student loan servicer license on an emergency basis for a period not exceeding thirty days if:

(i) the superintendent finds that there is a substantial risk of public harm; or

(ii) the superintendent finds that there is good cause for such a suspension on the basis that:

(*a*) the student loan servicer has defaulted or is likely to default in performing its financial engagements; or

(*b*) the student loan servicer has engaged, or is engaging, in dishonest or inequitable practices which may cause substantial harm to borrowers or the student loan servicer market, including by taking any action prohibited by subdivision (a) of section 409.9 of this part.

(2) When the superintendent suspends a license pursuant to this subdivision she shall thereafter provide notice to the licensee.

(3) The superintendent may renew an emergency suspension under this subdivision if such additional emergency suspension is accompanied by notice of a hearing to be conducted under subdivision (a) of this section within the period of such additional suspension. If such a hearing is delayed at the request or with the consent of the licensee, the licensee shall be deemed to consent to the continuation of the emergency suspension during the ensuing period ending upon a determination on the hearing.

§ 409.8 Servicing standards.

(a) A student loan servicer shall not misrepresent or omit any material information in connection with the servicing of a student loan, including, but not limited to, misrepresenting or omitting:

(1) the amount, nature, or terms of any fee or payment due or claimed to be due on a student loan;

(2) the terms and conditions of a student loan or a borrower's obligations under a student loan; or

(3) the availability of any program or protection specific to or applicable to military borrowers, borrowers working in public service, older borrowers, cosigners, or borrowers with disabilities.

(b) Nonconforming payments. Except as provided in federal law or required by a student loan agreement:

(1) a student loan servicer shall inquire of a borrower how to apply a borrower's nonconforming payment, shall give a borrower not less than ten business days to provide instructions, and shall follow the borrower's instructions on how to apply a nonconforming payment. A borrower's instructions on how to apply a nonconforming payment shall remain in effect for any future nonconforming payment during the term of a student loan until the borrower provides different instructions.

(2) if a borrower has multiple loans with a student loan servicer and does not provide instructions to the student loan servicer on how to apply a nonconforming payment, a student loan servicer shall:

(i) apply an overpayment in a manner that is in the best financial interest of the borrower. A student loan servicer shall be considered to meet the requirements of this subparagraph if the servicer applies the overpayment to the highest interest-rate loan on the borrower's account.

(ii) apply a partial payment in a manner that minimizes late fees and negative credit reporting. If there are multiple loans on a borrower's account with an equal stage of delinquency, a student loan servicer shall satisfy the requirements of this subparagraph by applying a partial payment to satisfy as many loans as possible on a borrower's account.

(c) Consumer reporting.

(1) A student loan servicer shall not provide inaccurate information to a consumer reporting agency.

(2) If a student loan servicer regularly reports information to a consumer reporting agency, the student loan servicer shall accurately report a borrower's payment performance to at least one consumer reporting agency that compiles and maintains files on consumers on a nationwide basis as defined in Section 603 of the federal Fair Credit Reporting Act (15 U.S.C. Sec. 1681a(p)), upon acceptance as a data furnisher by that consumer reporting agency.

(d) Sale, assignment, or other transfer of servicing.

(1) If the sale, assignment, or other transfer of the servicing of a student loan results in a change in the identity of the person to whom a borrower is required to send subsequent payments or direct any communications concerning a student loan, a student loan servicer shall transfer all information regarding the borrower, the borrower's account, and the borrower's student loan to the new student loan servicer servicing the borrower's student loan within forty-five days. Such information shall include, at a minimum:

(i) the borrower's repayment status;

(ii) any borrower benefits associated with the borrower's student loan;

(iii) a schedule of all transactions credited or debited to the student loan account;

(iv) a copy of the promissory note for the student loan;

(v) any notes created by student loan servicer personnel reflecting communications with the borrower about the student loan account;

(vi) a report of the data fields relating to the borrower's student loan account created by the student loan servicer's electronic systems in connection with servicing practices;

(vii) copies of any information or documents provided by the borrower to the student loan servicer;

(viii) usable data fields with information necessary to assess qualification for forgiveness, including public service loan forgiveness; and

(ix) any information necessary to compile a payment history.

(2) A student loan servicer shall adopt policies and procedures to verify that it has received all information regarding a borrower, a borrower's account, and a borrower's student loan, including at a minimum the information listed in paragraph (1) of this subdivision, when the student loan servicer obtains the right to service a student loan.

(3) If a student loan servicer sells, assigns, or otherwise transfers the servicing of a student loan to a new student loan servicer, the sale, assignment or other transfer shall be completed at least seven days before the borrower's next payment is due.

(4) A student loan servicer that sells, assigns, or otherwise transfers the servicing of a student loan shall require as a condition of such sale, assignment, or other transfer that the new student loan servicer shall honor all borrower benefits originally represented as being available to a borrower during the repayment of the student loan and the possibility of such benefits, including any benefits that were represented as being available but for which the borrower had not yet qualified.

(5) A student loan servicer that obtains the right to service a student loan shall honor all borrower benefits originally represented as being available to a borrower during the repayment of the student loan and the possibility of such benefits, including any benefits that were represented as being available but for which the borrower had not yet qualified.

(e) A student loan servicer shall post, process, and credit student loan payments in a timely manner, including but not limited to:

(1) crediting a payment received on the date on which that payment is due as effective on the date on which the student loan servicer received the payment; and

(2) treating a payment received from a borrower on or before the borrower's due date as an on-time payment.

(f) Customer service.

(1) A student loan servicer shall prominently post, on the homepage of the student loan servicer's website, a toll-free telephone number a borrower may call to discuss their student loans with a live person.

(2) A student loan servicer shall fully train representatives who answer calls to the toll-free number described in paragraph (1) of this subdivision and shall ensure that such representatives are capable of informing and discussing with callers any available alternative repayment plans, loan forgiveness, cancellation, and discharge benefits. If a caller calls to inquire about repayment options, such student loan servicer representatives shall inform and discuss with callers any available alternative repayment plans, loan forgiveness, cancellation, and discharge benefits. Such student loan servicer representatives must also be trained in the differences among deferment, forbearance, and alternative repayment plans, and be able to answer caller questions regarding the differences.

(g) Loan repayment options and loan forgiveness benefits.

(1) To assist the prevention of borrower delinquency or default, a student loan servicer shall prominently post, on the student loan servicer's website, clear and complete information, written in easily understandable language, about any available repayment options, including deferments and income-based alternative repayment plans, and forgiveness or discharge benefits. The posted information may appear on the student loan servicer's homepage or be available through links on the homepage to specified web pages. Student loan servicers that service Direct Loans or FFELP Loans shall include direct, live links to the following web pages, or successor or replacement web pages, of the Student Aid Office of the United States Department of Education website: "How to Repay Your Loans," https://studentaid.ed.gov/sa/repay-loans; and https://studentloans.gov/myDirectLoan/repayOptions.action.

(2) At least once per calendar year, a student loan servicer shall send to borrowers a plain language notice, containing the information or links to information regarding repayment, loan forgiveness, and discharge options, required under this rule. This notice shall also include the toll-free telephone number described in paragraph (1) of subdivision (f) of this section to call to discuss student loans with a live person.

(3) A student loan servicer shall establish policies and procedures, and implement them consistently, in order to facilitate disclosure of any available alternative repayment arrangements, including:

(i) providing accurate information regarding any alternative repayment arrangements that may be available to the borrower through the promissory note, that may have been marketed to the borrower though marketing materials, or that have been widely advertised or marketed by the servicer, original lender, or promissory note holder as available to similarly-situated borrowers; and

(ii) consistently presenting and offering any available alternative repayment arrangements to borrowers with similar financial circumstances.

(h) Borrower information and statements of account.

(1) A student loan servicer shall maintain and make available through its website, free of charge, clear and complete information and account records for each borrower. This information and accounting shall be accessible to the borrower only, through a secure log-in system. This information shall include a consolidated

report for each borrower, and a loan history for each student loan serviced. This information and accounting shall be available to borrowers at all times, except for occasional, short periods of time when the student loan servicer's system is not available because the system is undergoing routine maintenance or blocked for security reasons.

(2) The consolidated report required under paragraph (1) of this subdivision must include, at a minimum:

(i) borrower name;

(ii) number of student loan(s) serviced for each borrower;

(iii) loan number, for each student loan;

(iv) loan type, i.e., Direct Loan; FFELP Loan; Perkins Loan; or private student loan.

(v) loan disbursement amount and date, for each student loan;

(vi) interest rate(s) and maturity date, or number of monthly payments required to repay the loan, for each student loan;

(vii) loan balance and status, for each student loan;

(viii) cumulative balance owing for each borrower;

(ix) whether the borrower has an application pending for, or is repaying under, an alternative repayment plan, listing the plan chosen; and

(x) whether the borrower has an application pending for any loan forgiveness cancellation, or discharge benefit.

(3) The loan history required under paragraph (1) of this subdivision must include, at a minimum, the following information, including the corresponding dates for each:

(i) disbursements;

(ii) interest accruals;

(iii) fees;

(iv) late charges;

(v) any other miscellaneous amounts charged to the borrower;

(vi) payments received;

(vii) payments toward loan forgiveness programs; and

(viii) the borrower's repayment plan.

(i) A student loan servicer that services private student loans must provide on its website clear and complete information, written in easily understandable language, concerning the availability and criteria for a cosigner release.

(j) Consumer complaints and inquiries.

(1) A student loan servicer shall respond within fifteen calendar days to a consumer complaint submitted to the student loan servicer by the department. A student loan servicer may request additional time to respond up to a maximum of forty-five calendar days. Such a request for additional time must be accompanied by an explanation why such additional time is reasonable and necessary. The department may grant additional time to respond in its sole discretion.

(2) A student loan servicer shall not refuse to communicate with an authorized representative of a borrower who provides a written authorization signed by such borrower, including those transmitted to the student loan servicer by mail, facsimile, or electronically, provided that the student loan servicer may adopt procedures reasonably related to verifying that the representative is in fact authorized to act on behalf of the borrower.

(3) Complaints from a Borrower or a Borrower's Representative. A student loan servicer shall comply with the requirements of this section for any written complaint, including those transmitted by mail, facsimile, or electronically, from a borrower or an authorized representative of a borrower that enables the student loan servicer to identify the name and account of the borrower, the borrower's student loan account, and the nature of the borrower's complaint.

(i) Within ten days of receiving a complaint, a student loan servicer shall acknowledge receipt of the complaint and inform the borrower or the authorized representative of the borrower of any additional information or documentation required by the student loan servicer to review and address the complaint.

(ii) A student loan servicer must conduct a reasonable investigation of the complaint and either:

(*a*) correct any error or other servicing-related issue identified and provide the borrower or the authorized representative of the borrower with a written notification of the correction and the effective date of the correction; or

(*b*) if the student loan servicer has determined that no error occurred or that no action is warranted to correct a servicing-related issue, inform the borrower or the authorized representative of the borrower, in writing delivered via mail unless the borrower has elected to receive this response in another format, of the results of the student loan servicer's investigation and provide a statement of the reason or reasons for this determination.

(iii) A student loan servicer shall comply with the requirements of subparagraph (ii) of this paragraph within thirty days of receiving a complaint.

(4) A student loan servicer shall adopt policies and procedures permitting borrowers to escalate a complaint or inquiry to a senior representative if the borrower is dissatisfied with the outcome of the initial complaint or inquiry.

(k) All information listed in paragraph (1) of subdivision (d) of this section, and all communications with borrowers shall be considered books and records of the student loan servicer and shall be preserved pursuant to the requirements of section 409.13 of this part.

(l) A student loan servicer shall adopt policies and procedures permitting borrowers to obtain hard copies of information required to be disclosed by the student loan servicer, with particular focus on meeting the needs of borrowers without access to the internet.

§ 409.9 Prohibited Practices.

(a) No student loan servicer shall undertake any unlawful action including:

(1) employing any scheme, device or artifice to defraud or mislead a borrower;

(2) engaging in any unfair, deceptive, abusive, or predatory act or practice;

(3) misapplying payments to the outstanding balance of any student loan or to any related interest or fees;

(4) making any false statement or make any omission of a material fact in connection with any information or reports filed with a governmental agency or in connection with any investigation conducted by the superintendent or another governmental agency;

(5) failing to respond within fifteen calendar days to communications from the department, or within such other time as the department may provide in its communication;

(6) failing to provide a response pursuant to the requirements of this Part, to a consumer complaint submitted to the student loan servicer by the department or a consumer; or

(7) altering any license issued by the department.

(b) Unfair and abusive acts and practices.

(1) As used in this part the term “unfair” shall include any act or practice that:

(i) causes or is likely to cause substantial injury to borrowers which is not reasonably avoidable by borrowers; and

(ii) such substantial injury is not outweighed by countervailing benefits to consumers or to competition.

(2) As used in this part the term “abusive” shall include any act or practice that:

(i) materially interferes with the ability of a borrower to understand a term or condition of a student loan or other service or option thereunder; or

(ii) takes unreasonable advantage of:

(*a*) a lack of understanding on the part of the borrower of the material risks, costs, or conditions of a student loan or other service or option thereunder;

(*b*) the inability of the borrower to protect the interests of the borrower in selecting or using a student loan or other service or option thereunder; or

(*c*) the reasonable reliance by the borrower on a student loan servicer to act in the interests of the borrower.

§ 409.10 Examinations.

(a) The superintendent may at any time, and as often as she may determine, either personally or by a person duly designated by the superintendent, investigate the business and examine the books, accounts, records, and files used therein of every student loan servicer.

(b) The superintendent and her duly designated representative shall have free access to the offices and places of business, books, accounts, papers, records, files, safes and vaults of all student loan servicers.

(c) The superintendent and any person duly designated by her may require the attendance of and may examine under oath all persons relative to the acts, operations, or business of a student loan servicer. Such attendance may be required at any office of the department or any office of the student loan servicer in the superintendent’s sole discretion.

(d) The superintendent and any person duly designated by her shall have authority to require the production of documents, or copies thereof, in hard copy or electronic form. Such production can be required to be made at any office of the department or any office of the student loan servicer in the superintendent’s sole discretion. The superintendent may permit such production by means other than personal delivery of the documents, including by electronic mail.

(e) No person subject to investigation or examination under this section may knowingly withhold, abstract, remove, mutilate, destroy or secrete any books, records, computer records or other information.

(f) An examination under this section may be used to determine any matter the determination of which in the judgment of the superintendent is necessary or advisable. Such matters shall include:

(1) the financial condition of the licensee;

(2) the safety and soundness of the conduct of its business;

(3) the policies of its management;

(4) whether the requirements of law have been complied with in the administration of its affairs; and

(5) such other matters, as the Superintendent may determine, including any activities of the licensee outside this State if in the opinion of the Superintendent such activities may affect the licensee's servicing business in this State.

(g) Assessment for the cost of examination. The expenses incurred in making any examination pursuant to this section shall be assessed against and paid by the student loan servicer so examined. Upon written notice by the superintendent of the total amount of such assessment, the student loan servicer shall become liable for and shall pay such assessment to the superintendent.

(h) Without limiting any other power or responsibility of the superintendent, this section shall not apply to an exempt organization.

§ 409.11 Reporting requirements.

(a) Annual Reporting.

(1) Each year by the first of February the superintendent shall publish instructions for the submission of an annual report by each student loan servicer on the website of the department, which instructions shall set forth the content of such report for the previous calendar year.

(2) Each student loan servicer shall, by the first of April of each year, submit an annual report, which complies with the instructions published pursuant to paragraph (1) of this subdivision, in the manner set forth in those instructions.

(3) Extensions.

(i) In an exercise of discretion, the superintendent may extend the dates established by this subdivision for such period as she determines is necessary.

(ii) A student loan servicer may request an extension to its time to file an annual report by making such request in writing at least fifteen days prior to the date on which the annual report is due. Such request shall set forth the reasons such an extension is necessary and provide all information relevant to the request. Making such a request shall not stay the date on which the report is due. The superintendent may grant such a request in her discretion, but failure to respond to such a request within five days shall be deemed a denial.

(b) Special Reports. In addition to the regular reporting required by this section, the superintendent may address to any student loan servicer, or to any officer, director, member, or partner thereof, any inquiry necessary to the proper supervision of the student loan servicer or the servicing industry. Such inquiry shall be answered in writing within fifteen days, unless the superintendent in her discretion provides for different period to answer, and such answer shall be affirmed as true under penalty of perjury by the person to whom the inquiry is addressed.

(c) Without limiting any other power or responsibility of the superintendent, this section shall not apply to an exempt organization.

§ 409.12 Confidential supervisory information.

(a) The following, including any duly authenticated copy or copies thereof, shall be deemed confidential communications under subdivision (10) of section 36 of the banking law:

(1) All communications between the department and any student loan servicer.

(2) Any materials compiled by the department in the course of the supervision of any student loan servicer.

(3) Any reports provided to the department by any student loan servicer.

(4) Any reports of examinations or investigations, correspondence, and memoranda concerning or arising out of such examination and investigations.

(b) Such information shall not be subject to subpoena and shall not be made public. No student loan servicer or any other person in possession of such information shall make any disclosure or publication of such information.

(c) Notwithstanding subdivision (b) of this section, the superintendent in her discretion may determine that the ends of justice and the public advantage will be served by the disclosure or publication of any confidential communication and may publish or authorize the publication of a copy of any such confidential communication or any part thereof in such manner and subject to such conditions as the superintendent in her discretion deems proper.

§ 409.13 Books and records.

(a) Each student loan servicer shall keep and use in its business such books, accounts, and records as will enable the superintendent to determine whether such student loan servicer is complying with the provisions of this article and with the rules and regulations lawfully made by the superintendent.

(b) Every student loan servicer shall preserve such books, accounts, and records, for at least three years or such longer period as may be required by any other provision of law.

(c) In addition to the requirements of subdivision (b) of this section, each student loan servicer shall keep records of each student loan, including at a minimum all the information listed in paragraph (d)(1) of section 409.8 of this part, and all communications with borrowers for not less than two years following the final payment on such student loan or the sale, assignment or other transfer of the servicing of the student loan to which they relate.

(d) A licensee who surrenders its license shall remain under the obligations of this section to maintain books, accounts, and records notwithstanding the surrender.

§ 409.14 Cybersecurity.

(a) Every student loan servicer, other than an exempt organization, is a Covered Entity under Part 500 of title 23 and shall comply with that part.

(b) A student loan servicer shall have until April 9, 2020 to comply with Part 500 of title 23, except that a student loan servicer shall have until October 9, 2020 to comply with the requirements of sections 500.06, 500.08, 500.11, 500.13, 500.14 (a) and 500.15 of that part.

§ 409.15 Notifications.

Any student loan servicer not required to obtain a license under section 409.3 of this part that is required by section 711 of the banking law to notify the superintendent that it is servicing student loans shall make such notification by completing the form published on the department's website for such purpose.

§ 409.16 Severability.

To the extent any portion of this part is found by a court of competent jurisdiction to be preempted by federal law, it is intended that such portion be reformed to narrow its applicability, to the minimum extent necessary, and that it shall continue to apply to any student loan servicer to whom its application is not preempted.

NEW YORK STATE OF OPPORTUNITY. | Department of Financial Services

ANDREW M. CUOMO
Governor

LINDA A. LACEWELL
Superintendent

I, Linda A. Lacewell, Superintendent of Financial Services, do hereby certify that the foregoing is the new Part 409 of Title 3 of the Official Compilation of Codes, Rules and Regulations of the State of New York, promulgated by me on October 1, 2019, pursuant to the authority granted by Sections 10, 11, 14, 718 and Article 14-A of the Banking Law and Sections 102, 201, 202, 301, and 302 of the Financial Services Law, to take effect upon publication of the Notice of Adoption in the State Register.

Pursuant to the provisions in the State Administrative Procedure Act, prior notice of the proposed regulation was published in the State Register on July 31, 2019. No other publication or prior notice is required by statute.

Linda A. Lacewell

Linda A. Lacewell
Superintendent of Financial Services

Date: October 1, 2019