<u>Student Loans Conference Abstracts</u>

Sandy Baum
The Urban Institute and George Washington University
"The Evolution of Student Debt in the U.S.: An Overview"

More students are borrowing to finance their education today than was the case a generation ago or even a decade ago. More students are borrowing amounts of money that have the potential to cause them long-term financial difficulties. But this reality does not define a "crisis." In order to address the very real problems of students with unmanageable levels of education debt, it is necessary to put that debt into the context of the investment it is financing and the payoff of that investment. It's time to take a step back to examine the role of debt in financing postsecondary education, the path over time in postsecondary participation and the accompanying student borrowing, and the basic arguments underlying debt financing of postsecondary education and the government's role in the system. The sections that follow examine some of the perspectives on student loan data that can alter the picture that emerges. Is outstanding debt or annual borrowing more meaningful? Should non-borrowers be included in average debt figures? Does the path of total borrowing tell the same story as the path of borrowing per student? Should we focus on all postsecondary students or only on undergraduates? The goal is not to choose the optimal data on which to rely, but to elucidate the different information emerging from different choices about what to measure.

Brad Hershbein
Kevin Hollenbeck
W.E. Upjohn Institute for Employment Research
"The Distribution of College Graduate Debt, 1990 to 2008: A Decomposition Approach"

Despite tremendous recent interest on the subject of student debt by both researchers and policymakers, little is known about how the distribution of college graduate debt has been evolving and what factors can explain it. We use National Postsecondary Student Aid Survey data from 1990 through 2008 to document the evolution of college graduate debt profiles. We find that growth in debt over the 1990s was rapid and occurred throughout the distribution; during the 2000s, in contrast, debt grew appreciably only for the top quartile. Employing several decomposition techniques, we exploit the richness of the data to explain these shifts. Over the entire horizon, observable characteristics of students and institutions explain about one-third of the debt increase, though this share tends to be higher around the extensive margin and the median and lower in the right tail. While observables, largely costs, explain a majority of the increase between 1990 and 1996 and again from 2000 to 2008, they explain nothing over the late 1990s. We offer suggestive evidence that this "unobservable" share was supply-side driven due to the advent of both federal unsubsidized Stafford loans and private loans.

Stephanie R. Cellini
George Washington University
Rajeev Darolia
University of Missouri
"College Costs and Financial Constraints: Student Borrowing at For-Profit Institutions"

This paper assesses trends in student borrowing at for-profit institutions. Drawing on data from the National Postsecondary Student Aid Study (NPSAS), we document the high and rising debt levels of for-

profit students relative to students in other sectors. We explore several reasons for the increase in student debt over the last decade. Our results suggest that relatively high and rising tuition, but relatively low student financial resources in the for-profit sector are likely the key factors contributing to increased borrowing in the for-profit sector. Although costs and borrowing patterns in the for-profit sector are similar to the patterns found in four-year non-profit institutions, unlike the non-profit sector, tuition hikes were not offset by increases in institutional grants. While there is clear evidence that student demographics, resources, or work behavior differ from other sectors in important ways, we find little evidence that changes in these elements can explain rising borrowing in the for-profit sector over time.

Susan M. Dynarski
Daniel Kreisman
University of Michigan
"College Loans for Educational Opportunity: Making Borrowing Work for Today's Students"

Borrowing for college has risen for decades, and today 7 million of these student loans are in default. Yet the cost of borrowing is far lower than the lifetime payoff to college, which is estimated to be hundreds of thousands of dollars. Moreover, 69 percent of students borrow less than $10,000 and 98 percent borrow $50,000 or less. In addition, distressed borrowers do not have larger loans than other borrowers, though they do tend to be younger. These facts—moderate debt, a high payoff to college, high rates of default on typical loans, and high default among young workers—suggest we do not have a debt crisis but rather a repayment crisis. The current system turns reasonable levels of debt into crippling payment burdens that can prevent young workers from attaining financial independence and stability.

In this paper we propose a better model of loan repayment. A single, simple, income-based repayment system called Loans for Educational Opportunity (LEO) will replace the current, bewildering array of repayment options. Student-loan payments will automatically rise and fall with a borrower's earnings, just as contributions to Social Security rise and fall. A fraction of earnings will be deducted from each paycheck, with a larger fraction taken when incomes are high and a smaller fraction when incomes are low. A borrower who wants to pay off the loan more aggressively can file a W-4 that indicates the higher payment. If a borrower loses her job or suffers a pay cut, she will not need to file paperwork to adjust her payments since her withholding will automatically adjust. Payments will continue until the loan is paid off, for a maximum of twenty-five years.

This is a system of loan repayment designed for the 98 percent of students who borrow a manageable amount. For the other 2 percent, we propose stronger consumer protection: private student loans will not survive bankruptcy, loans that need a credit check will not be marketed as "student loans," and individuals will exhaust all federal student loans before being allowed to take out any private loans.

Lance J. Lochner
University of Western Ontario
Alexander Monge-Naranjo
Federal Reserve Bank of St. Louis and Washington University
"Default and Repayment among Baccalaureate Degree Earners"

Lenders are interested in the expected return on their loans. In this paper, we go beyond an analysis of student loan default to consider a number of other measures of repayment and non-payment that are

likely to be of greater interest to lenders. Using data from the Baccalaureate and Beyond Survey (B&B), we document repayment and non-payment outcomes ten years after graduation for American students receiving a BA/BS in 1993. We estimate differences in these outcomes across individual/family background characteristics, college major, type of institution, the amount borrowed, and post-school income. A key contribution is our analysis of the following outcomes in addition to student loan default rates: the fraction of the original undergraduate loan amount repaid as of 2003, non-payment rates (including deferment and forbearance as well as default), and the fraction of original undergraduate loan amounts that borrowers defaulted on or are currently not repaying.

Xiaoling Ang
Consumer Financial Protection Bureau
Dalié Jiménez
University of Connecticut
"Private Student Loans and BAPCPA: Did Four-Year Undergraduates Benefit from the Increased Collectability of Student Loans?"

Since 1976, Congress has progressively amended the bankruptcy laws to treat various kinds of student loans differently from other unsecured debt. Until recently, this differing treatment was restricted to loans insured or originated by federal or state agencies, or by nonprofit institutions. In 2005, student loans originated by private companies—loans that were risk-priced at origination and not backed by the government—were added to the list of educational loans that are presumptively nondischargeable in bankruptcy. This means that unlike personal loans, credit card debt, or virtually any other type of unsecured debt, a debtor needs to prove to a bankruptcy court in a special proceeding that continuing to repay her student loans after bankruptcy would impose an "undue hardship" on her or her dependents. Originally the exception for student loans was justified in terms of preventing fraud and protecting the public budget and the federal student loan program; neither justification applies to the provision of loans by the private market. The proffered rationale for the latest change was to ensure availability of loans originated by the private market ("private student loans") to students. Until now, there has been little to no evidence of the effects of this change.

We develop and test a theoretical model for the plausible effects of the law change on private student loans granted to students at four-year undergraduate institutions. Using a unique dataset of private student loan originations before and after the 2005 bankruptcy law change, we test that model and its resulting hypotheses using OLS, Oaxaca-Blinder, and matching methods. We find that the overall cost of private student loans at four year undergraduate institutions increased an average of 3.5 basis points as a result of the law change. We also find that the credit score composition of borrowers post-law change skewed towards the lower end of the credit score spectrum but the average borrower credit score only decreased slightly in practical terms. Finally, the volume of loans originated also increased three-fold in the post period, the majority of which is attributable to the law change.

Dora Gicheva
University of North Carolina, Greensboro
Jeffrey Thompson
Federal Reserve Board of Governors
"The Effects of Student Loans on Long-Term Household Financial Stability?"

Student debt has been growing at a pace considerably faster than inflation, but so have the

costs of and returns to postsecondary education. By examining how student borrowers fare financially after graduation, we attempt to further the existing knowledge of the costs associated with education debt and the manageability of the typical debt burden. We compare the financial stability of individuals who have borrowed for education to similar individuals who have not. We show one unintended consequence of student debt that borrowers and policy makers should be mindful of: impaired access to financial markets after graduation and implied financial hardship for many borrowers. Our results, however, should be interpreted with caution because the optimal level of student debt and its repercussions vary considerably with individual ability, family background and other characteristics. Furthermore, it is difficult to define a counterfactual outcome for a student borrower because this type of debt has impact on one's lifetime earnings stream. We show the impact of debt keeping education and other factors constant, which translates to comparing a dollar of loans to a dollar of grant aid or reduction in posted tuition and fees.

We show that, keeping education constant, more student debt is associated with higher probability of being credit constrained, more difficulty staying current on payments on different types of debt, and greater likelihood of declaring bankruptcy. We find some evidence that homeownership rates may also be affected by education loans. Controlling for earnings tends to strengthen these relationships, which is consistent with omitted variable bias combined with a positive return to student loans. The relationship between and financial status appears to be related to current economic conditions: it weakens when we control for the unemployment rate in the county where a household resides. Households that hold student debt and include a noncompleter tend to be more credit constrained.

Meta Brown
Andrew Haughwout
Donghoon Lee
Joelle Scally
Wilbert van der Klaauw
Federal Reserve Bank of New York
"Grading Student Debt"

Among the various types of household debt, student debt is unique. While balances on all other forms of household debt -- including mortgages, credit cards, auto loans, and home equity lines of credit -- declined during and after the Great Recession, student debt has steadily risen. In 2010, student debt surpassed credit cards to become the second largest form of household debt after mortgages. There are several explanations for these increases. First, more people are attending college, adding to the number of borrowers. Second, students are staying in college longer and attending graduate school in greater numbers. Third, it has become easier for parents to out student loans to help finance their children's education.

If student borrowers complete their education, and quickly start repaying their debt, then the increase in the number of borrowers and in the total amount of student debt would be offset by the outflow. However, the repayment rate is low. This is because many borrowers delay payments through continuing education, deferrals, forbearance, and through income-based repayment plans. Some borrowers also have difficulty making required payments and become delinquent on their debt and ultimately default. Because discharging student debt is very difficult and the delinquent debt stays with the borrower, the high rate of inflow and the low rate of outflow contribute to the increase in total student debt outstanding.

Higher education is an important investment among younger individuals to equip them for better job prospects and higher income potential, but it is accompanied by a growing student debt burden. Total student loan balances almost tripled between 2004 and 2012 due to increasing numbers of borrowers and higher balances per borrower. Nearly one third of the borrowers in repayment are delinquent on student debt. It appears that the higher burden of student loans and the associated high delinquency rate negatively affect borrowers' home purchases, other debt payments and access to credit.

Beth Akers
Matthew Chingos
Alice Henriques
Brown Center on Education Policy, Brookings Institution
"Is a Student Loan Crisis on the Horizon? Understanding Changes in the Distribution of Student Loan Debt over Time"

The media has provided many anecdotes about recent graduates with large amounts of student loan debt who are in financial distress, often living in their parents' basements. Data on the distribution of loan debt, both from the Survey of Consumer Finances and other sources, indicate that extremely large debt burdens remain exceptional cases. Our analysis of the SCF data also provides some rough estimates of the role that different factors have played in driving up student debt over the last two decades. Rising educational attainment explains some of the trend, and debt data disaggregated by highest degree earned suggest that graduate education has played a particularly important role, especially for the cases of large debt balances.

Tuition is also a likely culprit, although the limitations of historical data on tuition make it difficult to tell exactly how much. Our analysis suggests that inflation in published prices may account for upwards of 60 percent of the increase in debt, leaving a significant share of the rise in debt that is unexplained. This fact coupled with evidence that students are substituting away from paying for college out-of-pocket towards financing (Greenstone and Looney 2013) suggests that behavioral shifts may account for some of the increase in education debt.

These analyses do not shed light on whether the increasing loan burdens taken on to finance education are leading to financial hardship for borrowers. To the extent that increases in attainment are the culprit, at least some of the increase in debt has financed sound investments. But there are surely cases of investments in educations that didn't pay off, or didn't even result in a degree. In future work, we will expand this analysis to examine debt-to-income ratios and other measures of financial distress to determine whether the trends described above spell trouble for the student loan market at large.

Sara Goldrick-Rab
University of Wisconsin-Madison
Robert Kelchen
Seton Hall University
"Making Sense of Loan Aversion: Evidence from Wisconsin"

In 2012 total student loan debt in the United States reached an all-time high of $966 billion, with one-third of that debt held by 15 million people under age 30. With the costs of attendance higher than ever, and grant aid often available only for the financially needy or exceptionally talented, nearly two-thirds of all undergraduates receive at least some government-backed credit to cover those costs.

That credit is comparatively accessible, requiring a lengthy application but no credit history, and students and families can borrow a sizable amount of money. Yet not all students and families borrow, even when declining to borrow means that they are hard-pressed to afford college, and there is little evidence to help account for that apparent aversion.

Declining loans that could help meet the costs of college attendance is typically referred to as "loan aversion" and according to some economists constitutes "bizarre" behavior. But "aversion" is a frequently used but poorly understood term, since it is unclear whether these students are actually averse to loans (implying a belief about borrowing), lack information about them, or are not offered them at all. In addition, since data on loan aversion typically comes from student surveys, it is difficult to know whether stated attitudes translate into action. Finally, there is little systematic information about demographic differences in loan aversion and to what they may be attributed.

With these challenges in mind, this paper contributes to the study of loan aversion by drawing on a comprehensive set of information about a focal group of students: Pell Grant recipients. Overall, our findings strongly suggest that the manner in which loan decisions are measured have serious implications about the prevalence and antecedents of so-called "loan aversion." Some analyses indicate that the decision to decline loans may be a strategy undertaken by students with strong family commitments and those living in contexts where the use of credit for consumption is normalized. We conclude with a discussion of future areas for research and intervention, noting that there are still many unknowns regarding the consequences of loan taking, both on average and for different groups of students. This paper suggests that is far from clear that loan aversion is something that must be overcome, as it may in fact benefit some students, perhaps while hampering the college attainment of others.

Debbie Cochrane (et al.)
The Institute for College Access and Success
"Aligning the Means and the Ends: How to Improve Federal Student Aid and Increase College Access and Success"

The current federal student loan program is too complex, its terms are too arbitrary, and its benefits are poorly targeted. Much of the complexity is a holdover from when banks received subsidies to make Stafford Loans that were guaranteed by the government, shielding lenders – but not borrowers or taxpayers – from risk. Now that these loans are made directly and more cost-effectively by the Department of Education, the entire student loan system can and should be streamlined and improved.

We advocate providing a single undergraduate student loan with a fixed interest rate and no fees, in place of the two types of Stafford Loans available today. To help borrowers who go to school when interest rates are unusually high, rates would be capped. Federal loan repayment options could be streamlined by offering one income-based repayment plan that lets any borrower choose the assurance of manageable payments and forgiveness after 20 years. Likewise, enabling borrowers to make one payment that covers all their federal loans would improve continuous, on-time payments.

We recommend improving the timing, content, and effectiveness of student loan counseling to help students borrow wisely, complete college without burdensome debt, pick a repayment plan that works for them, and repay their loans. Student loan defaults could be reduced by automatically enrolling severely delinquent borrowers in an income-based repayment plan. Furthermore, we suggest strengthening consumer protections for private loan borrowers by requiring school certification for all private education loans, enabling private loan borrowers to refinance or modify their loans, and treating private loans like credit cards and other similar types.

Jason Delisle
Alex Holt
New America Foundation
Kristin Blagg
Georgetown Public Policy Institute
"Measuring the Benefits of Income-Based Repayment for Graduate and Professional Students"

In this paper we examine how the federal government's Income Based Repayment (IBR) program for student loans would affect graduate and professional students. Unlike undergraduates, graduate and professional students can finance their entire educations using federal loans, regardless of the cost. That provision has important interactive effects with the repayment rules and loan forgiveness benefits under IBR.

To measure those effects, our analysis focuses on the point at which graduate and professional students reach a "no marginal cost threshold" (NMCT) in which borrowing more to finance their educations does not increase the additional payments they would make over the life of the loan if it is repaid using IBR. We approximate that point by estimating the future incomes of specific categories of graduate and professional degree students using data from the U.S. Census Bureau's American Community Survey.

Using debt levels from the U.S. Department of Education's National Postsecondary Student Aid Study and a loan payments calculator that we developed, we find that for many graduate and professional students, the majority of borrowers are likely to borrow above the NMCT, meaning that IBR functions as a form of tuition assistance. The most significant effects occur in conjunction with Public Service Loan Forgiveness, where loans are forgiven after only 10 years of payments under IBR.