Student Debt: What We Still Need To Know

Sandy Baum[1]

I. INTRODUCTION

Googling "student debt" gives some perspective on the current focus of discussions about the reliance on borrowing to finance higher education: "$1 Trillion Student Loan Debt Widens US Wealth Gap"; "Has College Student Loan Debt Killed the Entrepreneur in You?"; "A Generation Hobbled by the Soaring Cost of College"; and "Student Loans: Debt for Life." There is no doubt that some students are borrowing excessive amounts on unreasonable terms for programs that are unlikely to lead to good outcomes. Public policy should address this problem.

Sensible policy will be possible only if the role of student loans in facilitating educational opportunity is well understood and if we approach the issue with a focus on identifying who is borrowing unwisely, who is struggling to repay student loans, and what causes these specific problems. The general notion that there is too much debt may or may not be accurate. Either way, this way of framing the issue does not help to chart a constructive path to solving the real difficulties facing individual students while providing the liquidity that many students need to invest in themselves and their futures.

What we *think* about student debt may be very different from what we *know* about student debt. And there is much more that we should know. Framing the issues in a way that facilitates an understanding of the real problems, rather than just the startling headlines, is the first step toward solving the problem. We should ask the right questions and work toward gathering the information we need to assure that student loans play a positive role in improving access to quality educational opportunities. We should seek constructive ideas for mitigating existing difficulties rather than creating panic about a situation that is much more complicated than the headlines suggest.

II. WHAT WE KNOW

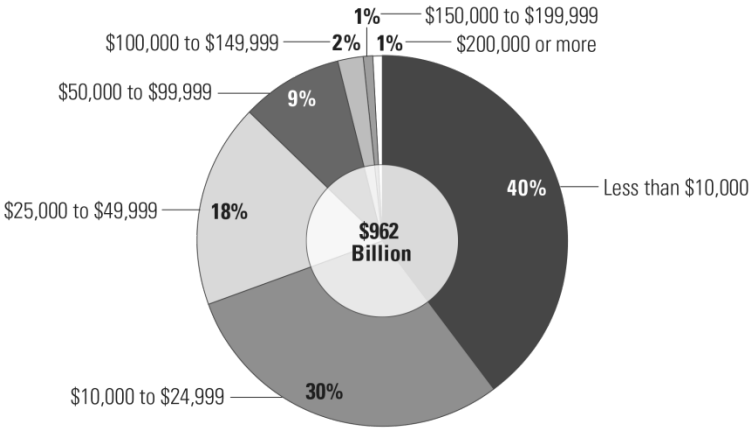
Almost every story, study, and discussion of student loans over the past year has included two "factoids": Outstanding student loan debt exceeds $1 trillion and student loan debt now exceeds credit card debt. These "factoids" are both

1 The Urban Institute and George Washington University.

true, however they raise further questions: What do they tell us about individual students, the decisions they are making, the benefits they are experiencing, and the problems they are facing?

We do know quite a bit about the distribution of student loan debt. According to the Federal Reserve Bank of New York, the source of the information that has caused so much alarm, at the end of 2012 approximately 13% of outstanding student loan balances exceeded $50,000 and only around 4% exceeded $100,000.[2] In other words, the one trillion dollars of outstanding student loan debt is spread out over many borrowers.

FIGURE 1: DISTRIBUTION OF OUTSTANDING EDUCATION DEBT BALANCES, FOURTH QUARTER 2012[3]



According to data from the Beginning Postsecondary Students Longitudinal Study, among students who began postsecondary education in 2003-04, only 2% had accrued more than $50,000 in debt by 2009.[4] Among those who completed bachelor's degrees, 5% had borrowed this much.[5]

The National Postsecondary Student Aid Study indicates that among 2011-12 bachelor's degree recipients, 33% had no education debt and another 14% borrowed less than $15,000.[6] At the other end of the spectrum, about 6% of

2. Meta Brown, *Student Debt Overview*, FED. RES. BANK OF N.Y. 10 (Aug. 14, 2013), http://www.newyorkfed.org/regional/Brown_presentation_GWU_2013Q2.pdf, *archived at* http://perma.cc/AW2M-TFPL; *see also infra* Figure 1.

3. COLL. BD., TRENDS IN STUDENT AID 2013: 30 YEARS: 1983-2013, at 10 (2013), *available at* http://trends.collegeboard.org/sites/default/files/student-aid-2013-full-report.pdf, *archived at* http://perma.cc/EDD2-2RXZ.

4. *Id.* at 22 fig.11C.

5. *Id.*

6. Sandy Baum derived these data using the National Center for Education Statistics' National Postsecondary Student Aid Study 2011-12 database and DataLab. *See DataLab for Postsecondary Education*,

dependent students and 15% of independent students graduated with more than $50,000 in debt.[7] While these are relatively small numbers, the contrast between traditional-age college students whose parents may be contributing and independent students, most of whom are older and many of whom are juggling complex work and family responsibilities while trying to get an education, is important for understanding the difficulties created by education borrowing. As Table 1 indicates, independent students are less likely than dependent students to graduate without debt and 9% of 2011-12 independent bachelor's degree recipients borrowed $36,000 or more, compared to just 3% of dependent students.

TABLE 1: TOTAL DEBT OF 2011-12 BACHELOR'S DEGREE RECIPIENTS BY DEPENDENCY STATUS[8]

	All Students	Dependent Students	Independent Students
No Debt	44%	48%	41%
$1 - $5,999	14%	15%	12%
$6,000 - $11,999	13%	12%	14%
$12,000 - $17,999	9%	9%	9%
$18,000 - $23,999	6%	6%	7%
$24,000 - $29,999	4%	4%	5%
$30,000 - $35,999	4%	3%	4%
$36,000 - $41,999	2%	1%	3%
$42,000 & Above	4%	2%	6%

Overall, these data are important because they clarify that startling levels of undergraduate debt are actually quite unusual. When such cases exist, journalists find them. These situations are real and we should figure out how to make them even more unusual. But they are not representative and allowing these examples to set the tone for the policy debate is at least as harmful to educational opportunity as ignoring the problems of education debt.

III. WHAT WE NEED TO KNOW

In order to find constructive ways of addressing the issues surrounding student loans, we need to know much more than the total amount of outstanding debt. We also need to know more than the fact that very few

NAT'L CTR. FOR EDUC. STAT., http://nces.ed.gov/datalab/postsecondary/index.aspx (last visited Apr. 23, 2015).

7. *Id.*

8. Sandy Baum created Table 1 using the National Center for Education Statistics' National Postsecondary Student Aid Study 2011-12 database and DataLab. *See DataLab for Postsecondary Education*, *supra* note 6.

students borrow daunting amounts of money to finance their undergraduate educations.

We need to know what it means to over-borrow. We need to know *who* over-borrows and *why*. This means not taking the programs of study on which students embark as a given. The goal should not be to assure that everyone has the ability to finance any program, regardless of its appropriateness or value, without borrowing more than they can repay. Rather, in addition to improving financing mechanisms, we should change the way students make choices, providing much better guidance about the costs and likely outcomes of alternative paths.

We also need to know who becomes delinquent on their education loan payments and why. We need to know more about the impact of nonfederal borrowing. We need to know why the income-sensitive repayment options have not been more effective and how to improve them.

A. We Need To Know More About the Default Problem

Ten percent of borrowers who went into repayment in Fiscal Year (FY) 2011 defaulted on their payments within two years.[9] From FY 2001 to FY 2006, the default rate was about 5% and it rose gradually over the next five years.[10] The reality that the FY 1990 student loan default rate was 22% and the default rate was 10% or higher every year from FY 1987 through FY 1996 is sobering.[11] Defaulting on education loans has serious long-term implications for borrowers. The cost to taxpayers pales beside the problems created for students who end up in this situation.

While 31.8% of the borrowers entering repayment in FY 2011 were from for-profit institutions, 43.3% of defaulters were from this sector.[12] How much of the default problem is accounted for by for-profit institutions and would more effective monitoring of the sector solve a significant part of the problem? What would the best design be for regulations prohibiting students from borrowing to attend institutions that are very unlikely to serve them well? Would effective regulations transform the student loan landscape?

Why do students default? Some students are unemployed or have meager wages and really cannot pay. Many of the students who default, however,

9. Inst. of Educ. Sci., Nat'l Ctr. for Educ. Statistics, *Table 332.50: Number of Postsecondary Students Who Entered the Student Loan Repayment Phase, Number of Students Who Defaulted, and Student Loan Cohort Default Rates, by 2-Year or 3-Year Default Period and Level and Control of Institution: Fiscal Years 2009 Through 2011*, NAT'L CTR. FOR EDUC. STAT. (2013), http://nces.ed.gov/programs/digest/d13/tables/dt13_332.50.asp, *archived at* http://perma.cc/T4X7-K8B5, [hereinafter *Table 332.50*].

10. Fed. Student Aid, *National Student Loan Two-Year Default Rates*, U.S. DEP'T OF EDUC., http://www2.ed.gov/offices/OSFAP/defaultmanagement/defaultrates.html (last visited Apr. 23, 2015), *archived at* http://perma.cc/C4JQ-FYDB.

11. *Id.*

12. *Table 332.50*, *supra* note 9.

would be eligible for deferment, forbearance, or income-sensitive repayment plans. Do bureaucratic hurdles prevent them from taking advantage of these options? What other debt do these borrowers hold? Do they prioritize mortgages, automobile loans, or credit card debt over student loan debt? Are there many people who do not pay back their loans because they don't feel they benefited sufficiently from their education or because they feel that student loan debt is unfair? Is it reasonable to think that we could solve the student loan default problem with a well-designed, income-sensitive repayment plan?

B. We Should Distinguish Between Undergraduate and Graduate Debt

Average annual borrowing and total debt levels have grown more rapidly for graduate students than for undergraduates in recent years. Average grant aid per full-time equivalent (FTE) undergraduate student increased by approximately $2,500 in 2013 dollars (45%) between 2008-09 and 2013-14.[13] Average borrowing from federal and nonfederal sources increased by $250 (4.3%) to $6,100 per student over these five years.[14] The story was quite different for graduate students, for whom grant aid per FTE student increased by $1,600 (23%), while borrowing was about $17,000 per student in both 2008-09 and 2013-14.[15]

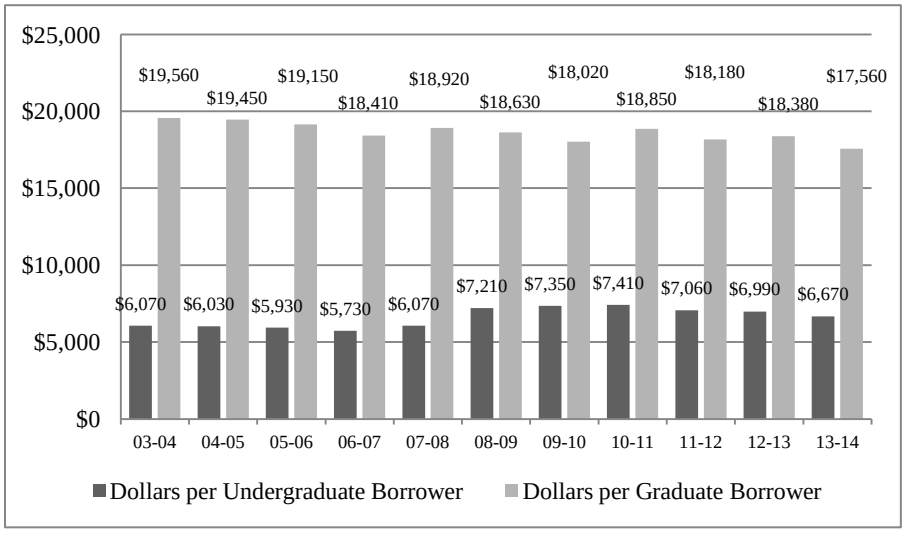
13. *See* COLL. BD., TRENDS IN STUDENT AID 2014, at 11 fig.1A (2014), *available at* https://secure-media.collegeboard.org/digitalServices/misc/trends/2014-trends-student-aid-report-final.pdf, *archived at* http://perma.cc/ENR5-8YAJ; *Trends in Student Aid*, COLL. BD. (2014), http://trends.collegeboard.org/student-aid, *archived at* http://perma.cc/98JQ-J8XF (selecting "Download Data in Excel" in right-hand menu provides data points for figures in TRENDS IN STUDENT AID 2014).

14. *See* COLL. BD., *supra* note 13, at 11 fig.1B; *Trends in Student Aid*, *supra* note 13.

15. *See* COLL. BD., *supra* note 13, at 11 fig.1B; *Trends in Student Aid*, *supra* note 13.

The following chart illustrates the disparity:

FIGURE 2: AVERAGE AMOUNT OF FEDERAL STUDENT LOANS (SUBSIDIZED AND UNSUBSIDIZED) PER BORROWER, 2002-03 TO 2012-13[16]



In 2013, undergraduate students borrowed an average of $4,840 per student in federal loans.[17] The per-student average increases to $6,670 when undergraduate students who did not borrow federal loans are filtered out.[18] The average federal loan debt for graduate students in 2013, on the other hand, was $16,080 when spread across all graduate students and $17,560 per graduate-student-federal borrower.[19]

Graduate and undergraduate borrowing are conceptually different. Much undergraduate borrowing is among students with the most limited resources, who are at risk of being unable to maintain a reasonable standard of living if they are not subsidized to access postsecondary education. Graduate students already hold bachelor's degrees. While many of them face significant financial hurdles, they cannot be labeled high-risk or disadvantaged relative to the overall national population.

We should have more conversation about the role of graduate education, for which the average earnings premium relative to undergraduate degrees has increased rapidly in recent years. There is wide variation in these degrees, so

16. Sandy Baum created Figure 2 using the National Center for Education Statistics' National Postsecondary Student Aid Study 2011-12 database and DataLab. *See DataLab for Postsecondary Education*, *supra* note 6.

17. *See* COLL. BD., *supra* note 13, at 11 fig.1A.

18. *See supra* Figure 2.

19. *See* COLL. BD., *supra* note 13, at 11 fig.1B; *supra* Figure 2.

distinguishing among them is important. What is the goal of graduate education? Do the arguments for broad liberal arts study to develop the intellectual and personal capacity of undergraduates also apply to graduate students? Or should we view graduate education more as vocational training in which the investment should be expected to pay off financially? Should social work degrees and MBAs be financed in the same way? What is the difference in the circumstances leading to loan repayment difficulties among graduate students as opposed to those who borrowed only for undergraduate education?

We should also focus separately on undergraduate and graduate students as we develop the optimal income-based repayment plans. How can we protect graduate students from unforeseen risks without directing excessive subsidies to those who enroll in expensive programs and borrow as much as they are allowed?

C. We Should Address the Issue of Nonfederal Education Loans

The discourse about education loans frequently ignores both the income-based repayment options available to federal borrowers and the important distinction between federal and nonfederal loans.

The percentage of undergraduate students taking private loans declined from 14% in 2007-08 to 6% in 2011-12, and among graduate students, the decline was from 11% to 4%.[20] But 12% of undergraduates in both private for-profit and private nonprofit institutions were still relying on this source of funding.[21] In both of these sectors, private borrowing is most common among middle-income students, with 18% of for-profit and 20% of private nonprofit dependent undergraduates coming from families with incomes between $65,000 and $106,000 taking private loans in 2011-12.[22]

Constructive long-term solutions to protecting federal borrowers may face political barriers, but they are not very difficult to conceptualize. Solutions for private borrowers are another story all together. If we allowed those with private debt to refinance into federal debt, we would be using taxpayer funds to provide a big subsidy to banks and other lenders that made risky loans. The most appealing solutions involve changing the terms of the loans for which borrowers have already signed.

We need to know much more about the private student loan market. Is there a good reason to have any governmental recognition of this category of borrowing? What if we eliminated any distinction between private student loans and other unsecured loans? That would mean dropping the special bankruptcy provisions. It would also mean dropping the borrowing limits. What impact would this have on students? What would the implications be for

20. COLL. BD., *supra* note 3, at 20 fig.9B.
21. *Id.*
22. *See id.* at 20 fig.9C.

federal loan structures? Is there reason to be very concerned about future private borrowing or is the problem really one of the debt that is now outstanding?

The majority of horror stories about student debt involve some amount of private debt and it is not easy to think about a federally subsidized income-based repayment plan solving the student debt problem without a new system that holds private lenders accountable.

We need better data on how much individual students in different circumstances borrow through banks and other lenders. We should think about credit card borrowing, home equity borrowing, and other sources in the same context. We need both conceptual grounding and data to understand better how to sort out why students borrow different amounts from different sources, whether and how to separate out educational borrowing from lifestyle borrowing in a meaningful way, and the appropriate roles for information, advice, and regulation.

D. We Should Thoughtfully Design Repayment Options That Protect Both Students and Taxpayers

There is a growing consensus that a simple income-sensitive repayment plan for federal student loans is the best solution for easing student debt problems in an environment where students will continue to rely on debt for a significant portion of their postsecondary education financing. Better analyses of the potential direct and indirect outcomes of different policies of this type are needed. Arguing that the best policies are those that reduce the burden most on the greatest number of students is unreasonable, given the reality of limited resources and policy trade-offs. Such policies are also likely to be counterproductive in the long run, subsidizing adults with high levels of educational attainment and creating perverse incentives. We should carefully analyze the distribution of benefits under different scenarios, the potential impact on postsecondary prices and debt levels, and the projected cost to taxpayers.

This analysis should take place in the context of a clear understanding of the motivation for income-based repayment. There is considerable variation in the outcomes of virtually every course of study. It is not always easy to predict where in the distribution of outcomes individual students will end up. Those who made sound decisions but are victims of a weak economy, those whose educational or labor market pursuits are interrupted by unanticipated health or family problems, and those who end up using their skills in relatively low-paying but socially valuable careers should not be oppressed by unmanageable debt.

But the goal is not to assure that any student can try any postsecondary program without risk, for price to be irrelevant for students, or to encourage high levels of borrowing for programs almost certain to yield low returns.

Rather, the goal is to protect students against unforeseen circumstances.

Repayment plans have to be designed with an understanding of why more students are not currently taking advantage of income-sensitive options. In 2012-13, 22% of dollars and 11% of recipients were in these plans, while the majority of borrowers stayed with the standard ten-year level payment plan in which they are placed if they do not actively choose an alternative.[23]

TABLE 2: DISTRIBUTION OF OUTSTANDING FEDERAL DIRECT LOAN DOLLARS AND RECIPIENTS BY REPAYMENT PLAN, FY 2013[24]

	% of dollars	% of recipients
Level Payments, 10 Years or Less	43%	66%
Level Payments, More than 10 Years	19%	11%
Graduated Repayment	14%	11%
Income-Related	22%	11%
Alternative	1%	2%

E. We Need Better Data

We need data that will allow us to follow the educational and labor force experiences of individual students. We should be able to answer these questions:

How do individual students in different circumstances make their borrowing decisions?

How do borrowing patterns influence degree completion?

How are earnings and employment related to borrowing patterns and debt?

How much other debt do borrowers with different characteristics accumulate?

How do repayment patterns differ for people in similar circumstances?

IV. FINDING SOLUTIONS

Framing the questions, developing a conceptual underpinning for the issues, and gathering and analyzing the appropriate data are all important. But we also need solutions. Generalized statements about student debt being too high do not lead to constructive solutions. It is just not true that everyone borrows too much. It may be true that our society would be better off with stronger public funding of higher education, lower tuition prices, and more generous, well-

23. *See id.* at 23.

24. Sandy Baum created Table 2 using the National Center for Education Statistics' National Postsecondary Student Aid Study 2011-12 database and DataLab. *See DataLab for Postsecondary Education*, *supra* note 6.

targeted grant aid. The most constructive analyses of student debt, however, will lead to well-thought-out policy options that will mitigate the real problems faced by a minority of students because of circumstances beyond their control.

There are a number of changes that would lead to less student debt overall and to fewer former students struggling to repay their loans. Some of these changes would make the world a better place. Others might not. Some of these changes are specific to postsecondary education. Others relate to the overall economy. For example:

Changes in enrollment patterns, with fewer students going to college and more of those enrolling attending institutions with lower net prices;

Lower tuition prices, reduced living costs, and increased grant aid;

Improved completion rates and reduced time to degree;

Improved financial decision-making;

Encouraging students to work more while they are in school and pay for more of their costs out of current income;

A stronger economy, creating better jobs for recent graduates—and for parents who could provide larger subsidies to their children;

Improved financing options for older students seeking occupational training.

This list could be longer. But the central idea is that student debt is not a problem that can be addressed in isolation. We cannot just expect that students will follow their current paths and figure out ways to finance these paths on their own. We have to think about how to support more productive educational paths for students at the same time that we think about reducing costs and increasing subsidies. We have to understand that the problems facing former college students are not separate from the problems facing others in a weak economy characterized by increasing inequality. Many of those who have difficulty repaying their student loans are actually financially better off than they would be if they had not borrowed and had not gone to school. But even so, their incomes are too low to support a reasonable lifestyle, so their student loans and many of their other expenses appear unaffordable. The problems are much bigger than the price of education.

If we want to mitigate student loan problems even in the absence of solutions to our fundamental economic problems, we have to recognize that certain subsets of students face real problems. Many of these students have made decisions about when to study, where to study, and what to study without the guidance they need. We should do a better job of restricting the financing available for programs without real value and of supporting informed decision-making.

Asserting generally that there is "too much" student debt is not likely to solve those problems. We should direct our efforts towards understanding the causes of the specific problems and their exact nature.