

Student Debt: Rhetoric and Realities

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November 2020

Understanding student debt

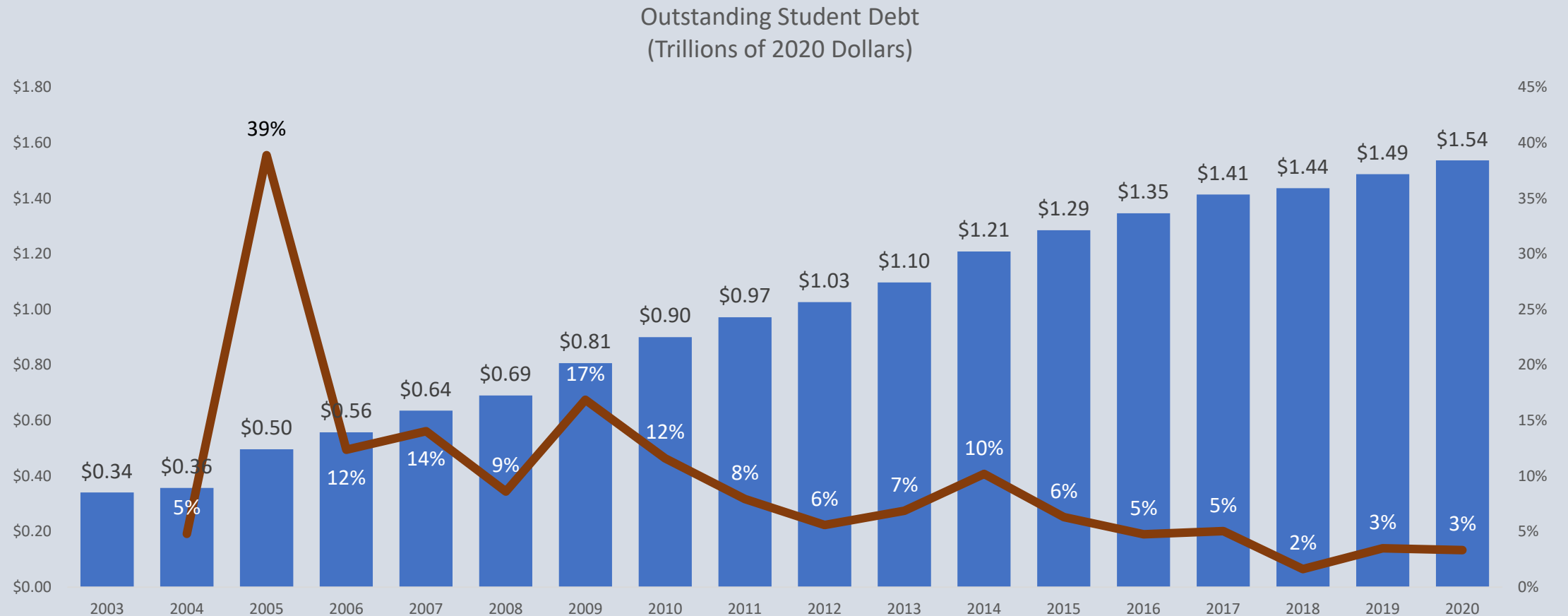
- Does it make sense for students to borrow for college?
- Is student debt a general crisis?
- Which students and institutions face real difficulties?
- Does it make sense to forgive student debt?
- Can the repayment system be modified to address borrower hardship while protecting taxpayers?
- Are there other constructive policy directions?

Borrowing for college does have advantages

- Increasing access and choice
- Higher education as an investment
- Analyzing the impact of debt: What is the counterfactual?

The rate of growth in outstanding education debt has slowed.

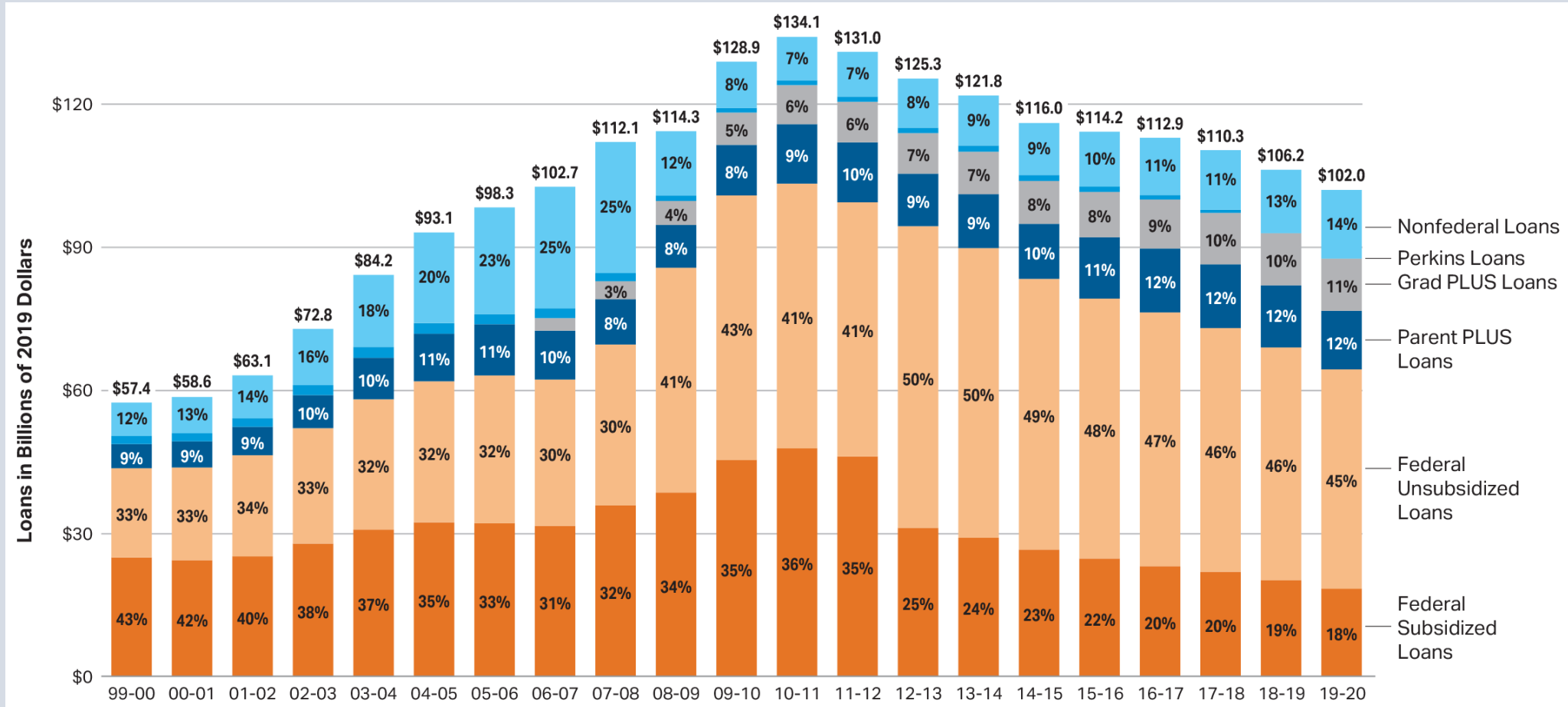
Total outstanding student debt (in 2020 dollars) and annual increases



Source: New York Fed Consumer Credit Panel/Equifax

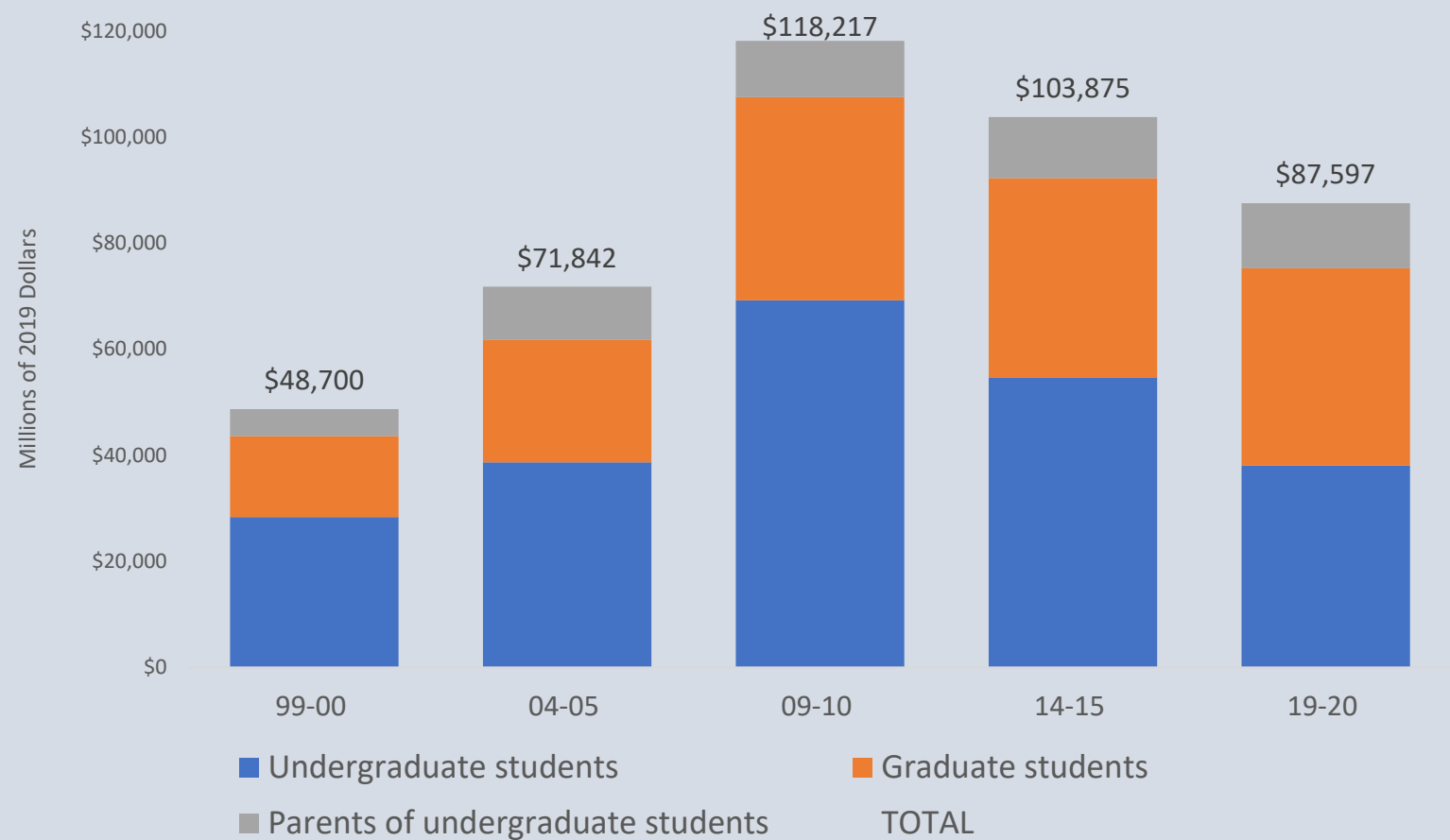
Total annual borrowing has declined for 9 consecutive years.

Total Federal and Nonfederal Loans by Type of Loan, 1999-00 to 2019-2020 in 2019 Dollars



Source: *Trends in Student Aid 2020*, .

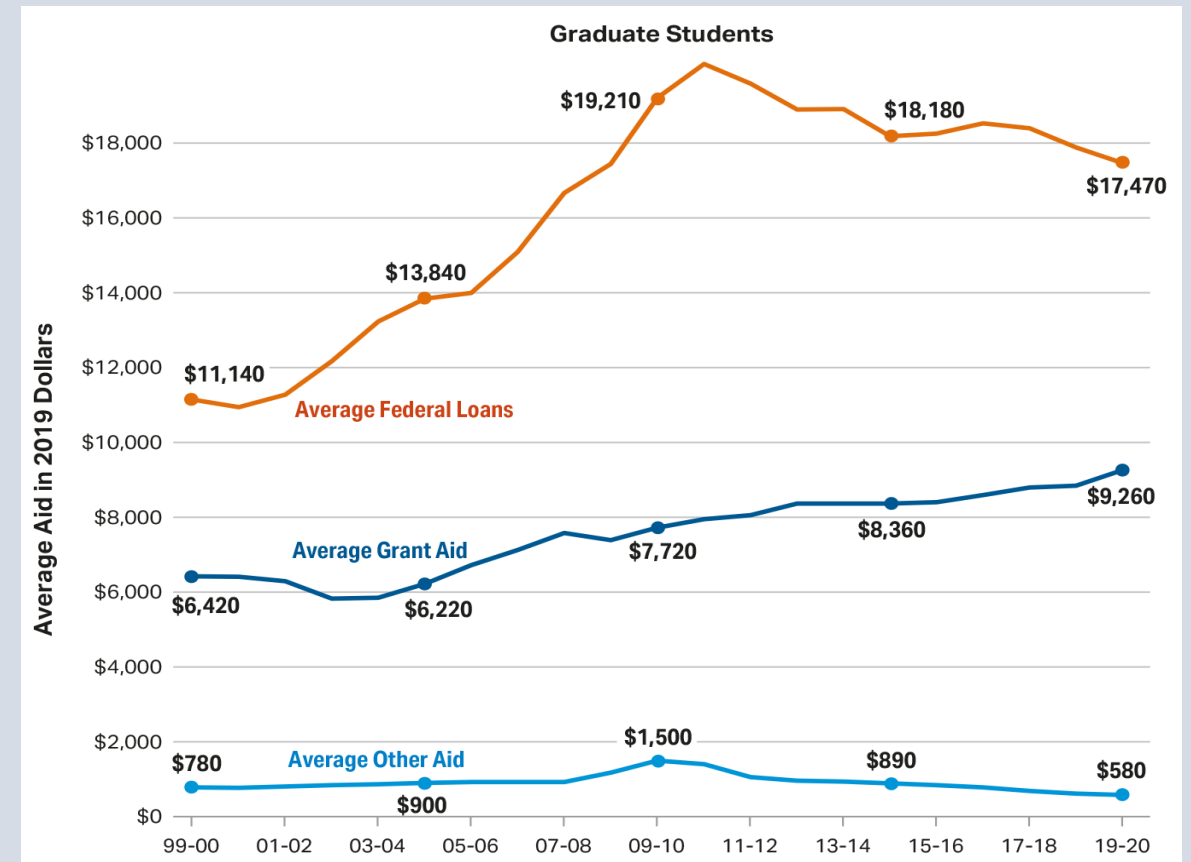
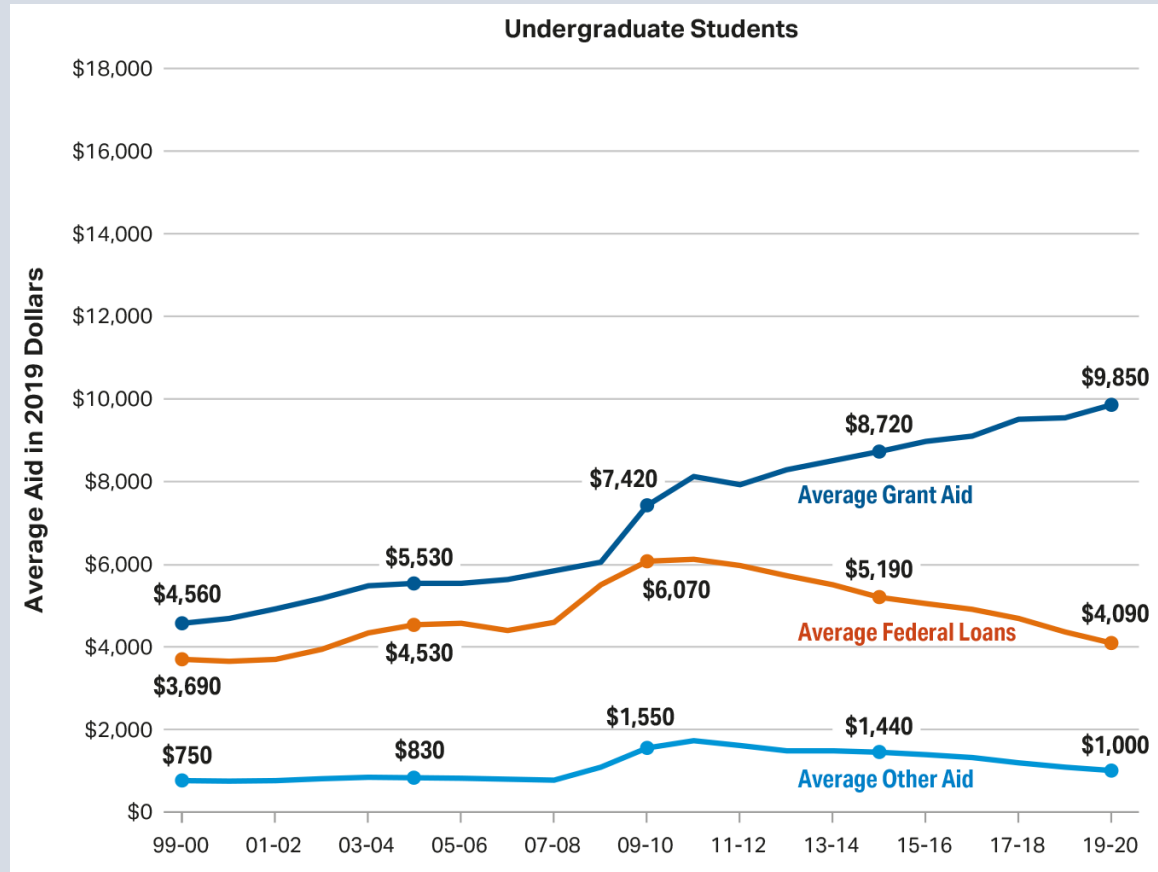
Federal loans to undergraduates have been declining for a decade.



Source: *Trends in Student Aid 2019*

Loans per student are also declining.

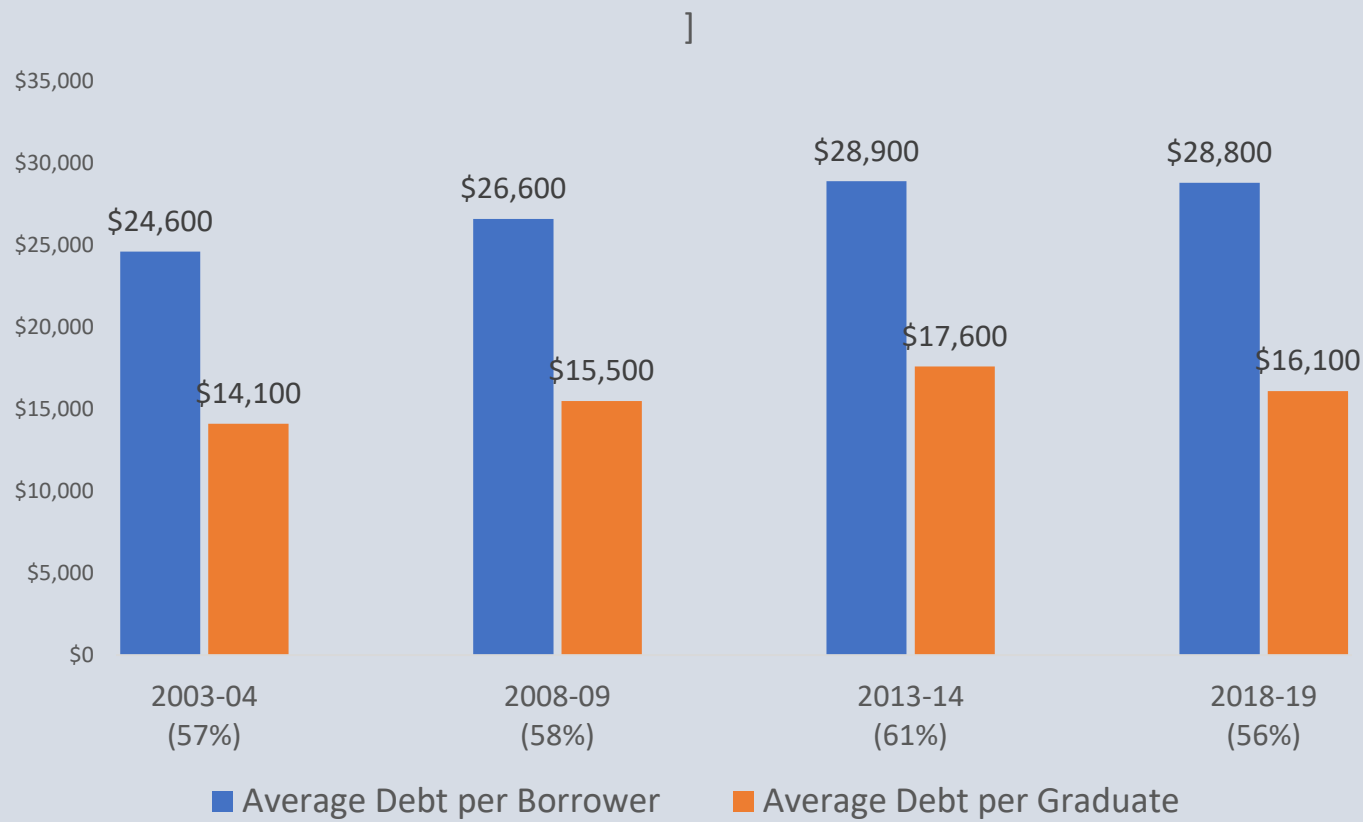
Average Aid per Full-Time Equivalent (FTE) Student in 2019 Dollars, 1999-2000 to 2019-20



Source: *Trends in Student Aid 2020*

Average debt levels for public and private nonprofit college graduates have leveled off.

Average Cumulative Debt Levels: Bachelor’s Degree Recipients, Private Nonprofit Four-Year Institutions, 2003-04 to 2018-19, in 2018 Dollars

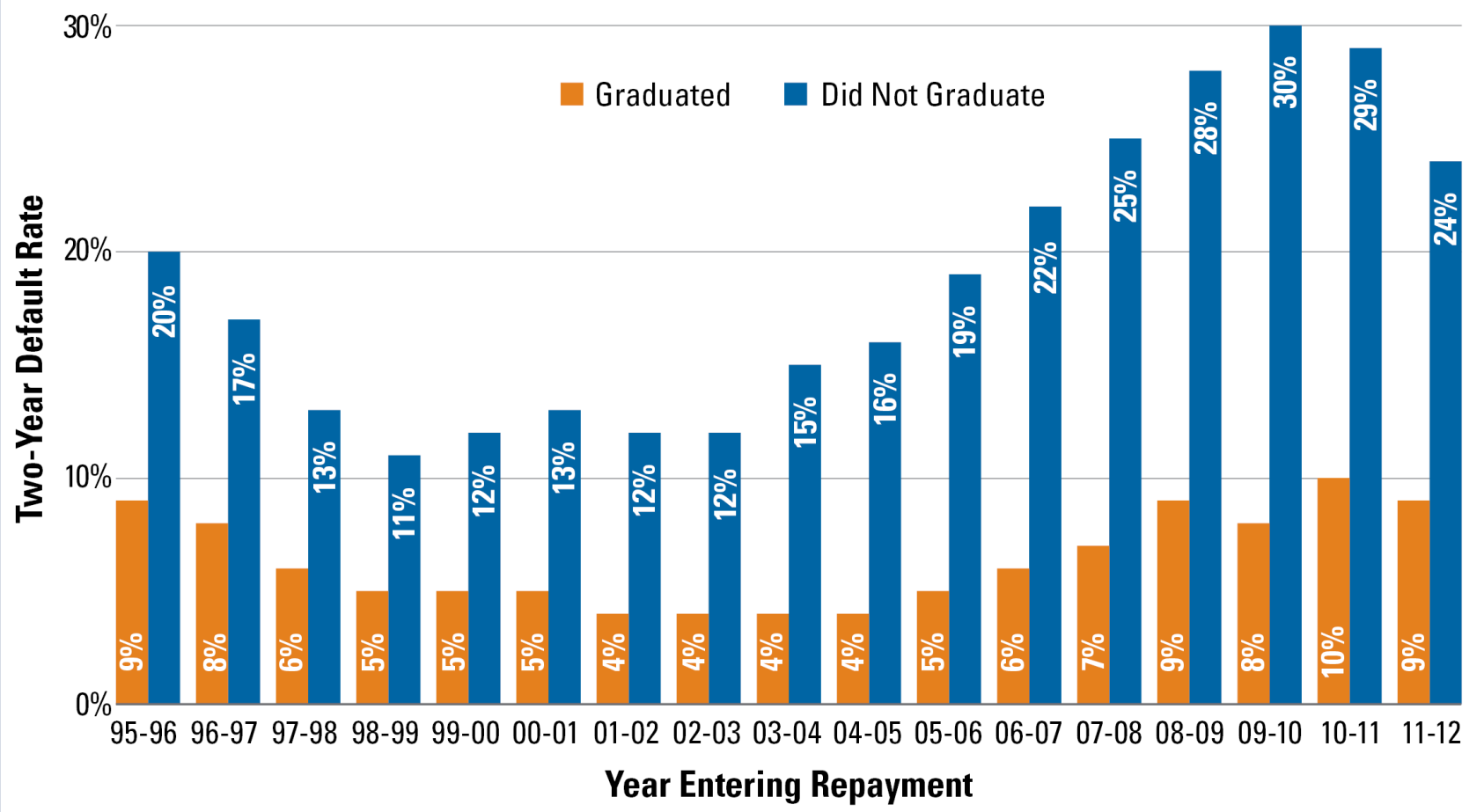


Source: *Trends in Student Aid 2020*, Figure 14.

Where are the problems?

Default rates are two to three times higher for non-completers than for completers.

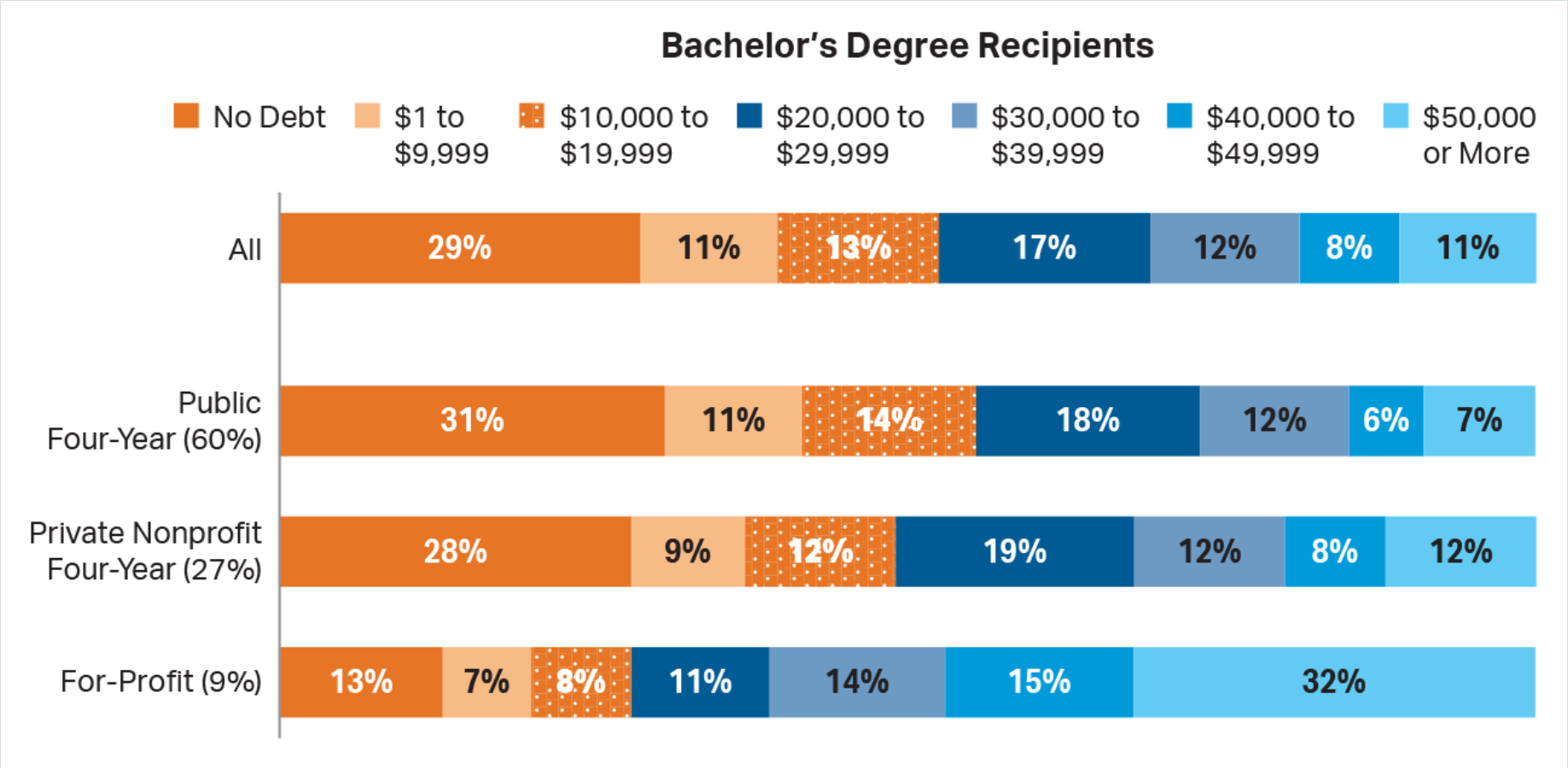
Two-Year Student Loan Default Rates by Degree Completion Status, 1995-96 to 2011-12



Source: Trends in Student Aid 2015, Figure 14A

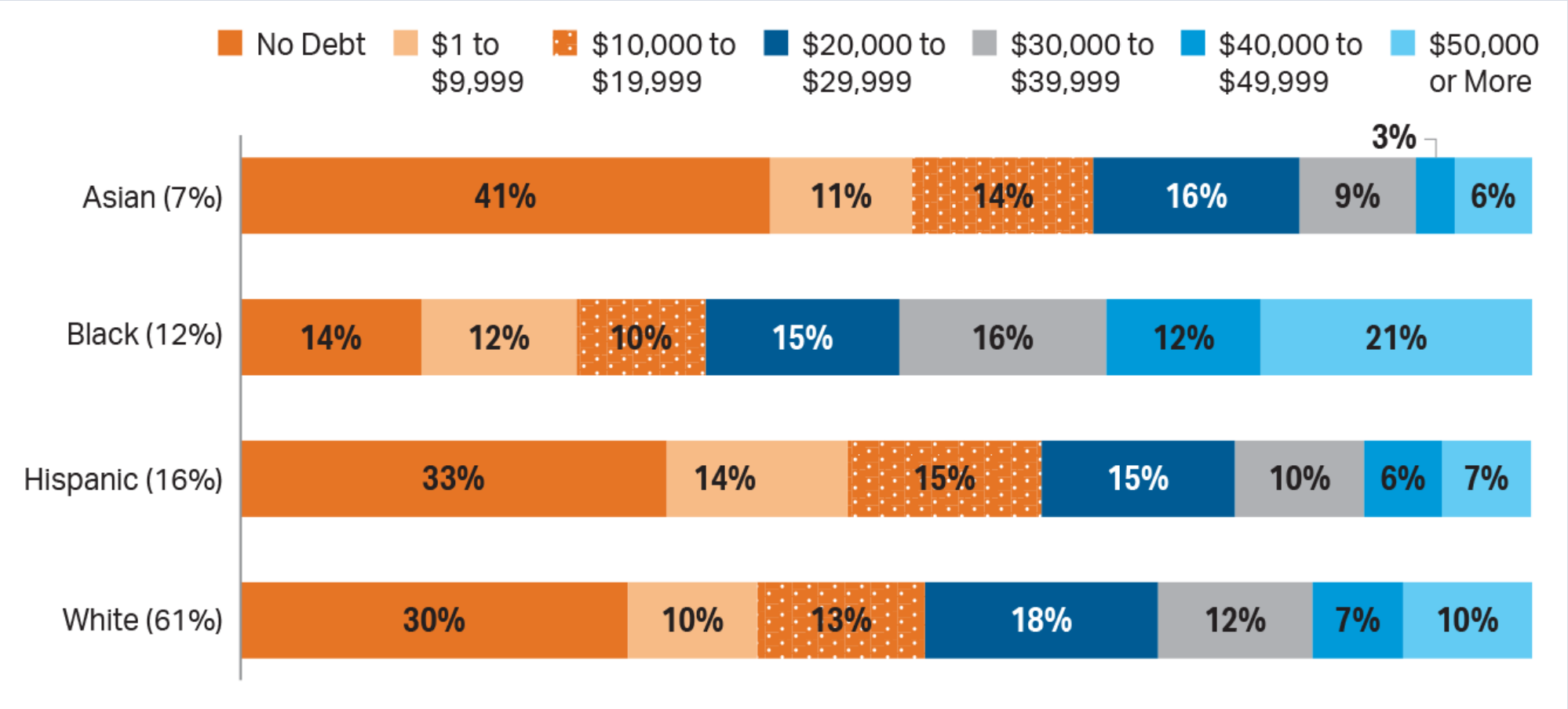
Debt levels at for-profit institutions institutions highest.

Distribution of 2015-16 Bachelor's Degree Recipients by Cumulative Amount Borrowed for Undergraduate Study



Debt levels are highest among Black students.

Cumulative Debt of 2015-16 Bachelor's Degree Recipients by Race/Ethnicity



Source: The College Board, Trends in Student Aid 2019, Figure 16.

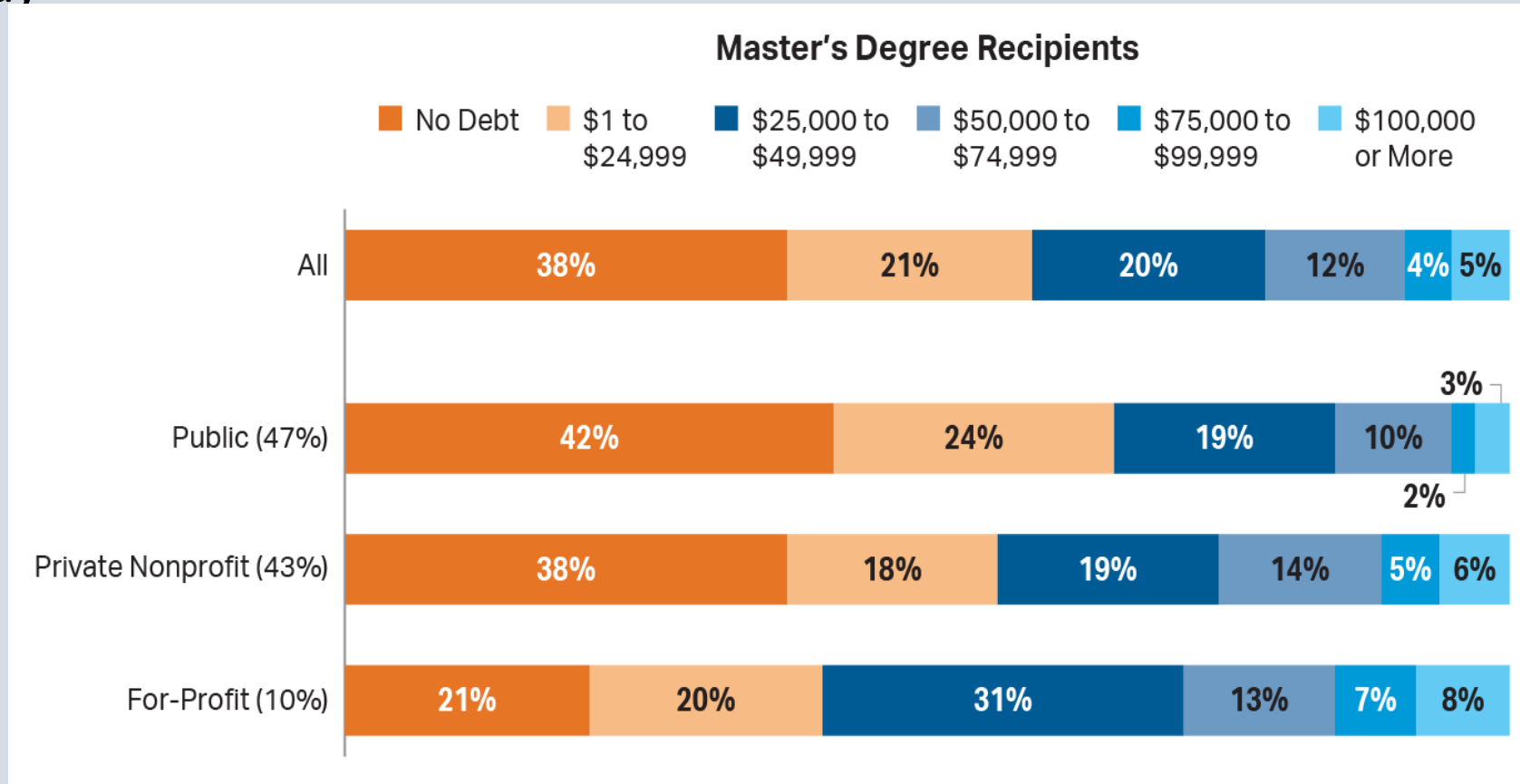
Half of all federal student loans now go to graduate students.

	99-00	04-05	09-10	14-15	19-20
	Including parent loans as undergraduate loans				
Undergraduate students	58%	54%	59%	53%	43%
Graduate students	31%	32%	32%	36%	43%
Parents of undergraduate students	10%	14%	9%	11%	14%
	Student loans				
Undergraduate students	65%	63%	64%	59%	51%
Graduate students	35%	37%	36%	41%	49%

Source: College Board, *Trends in Student Aid and College Pricing 2020*

More than 20% of 2015-16 master's degree recipients borrowed \$50,000 or more.

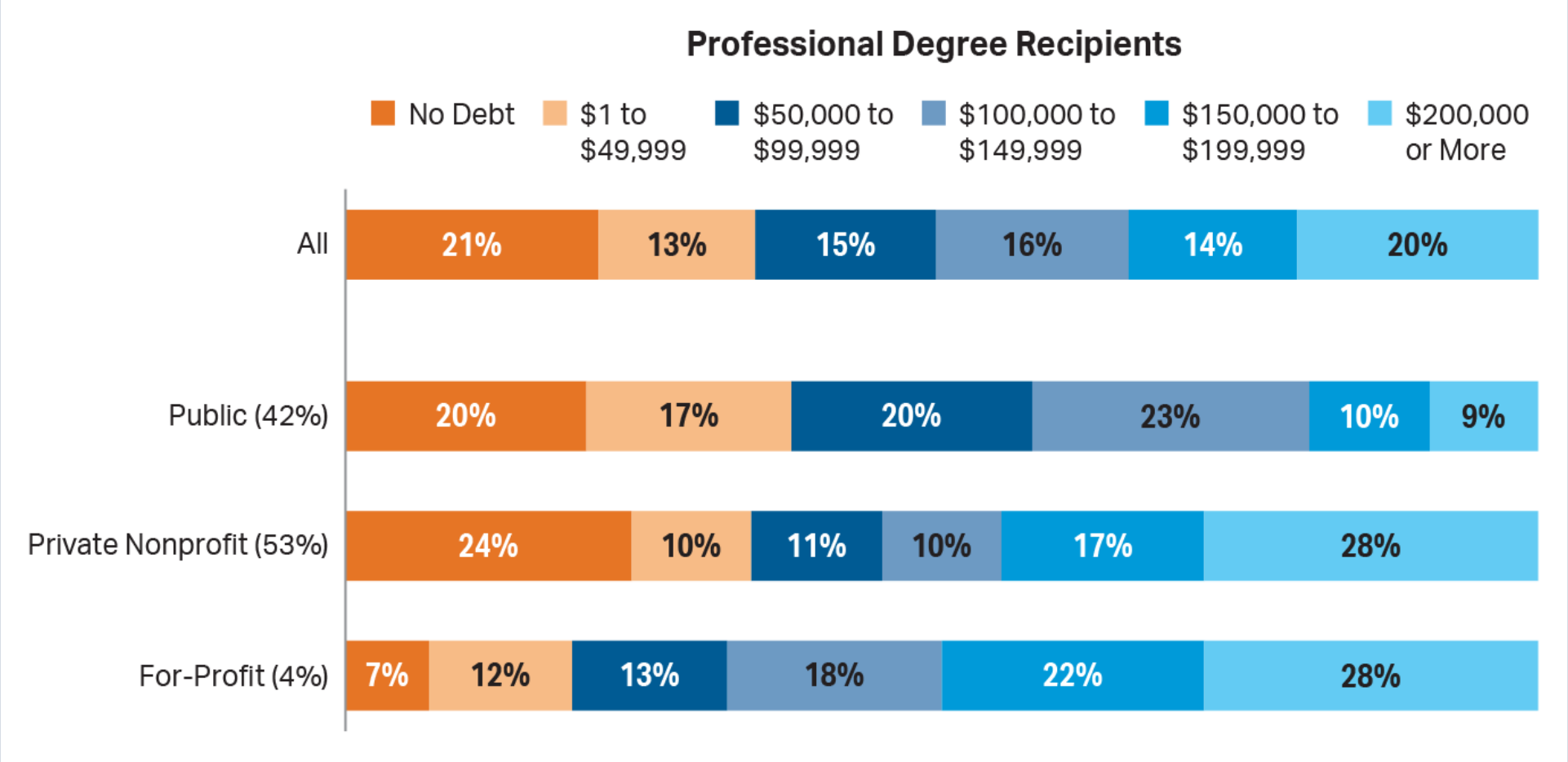
Distribution of 2015-16 Master's Degree Recipients by Cumulative Amount Borrowed for Graduate Study



Source: *Trends in Student Aid 2018*, Figure 17, The College Board.

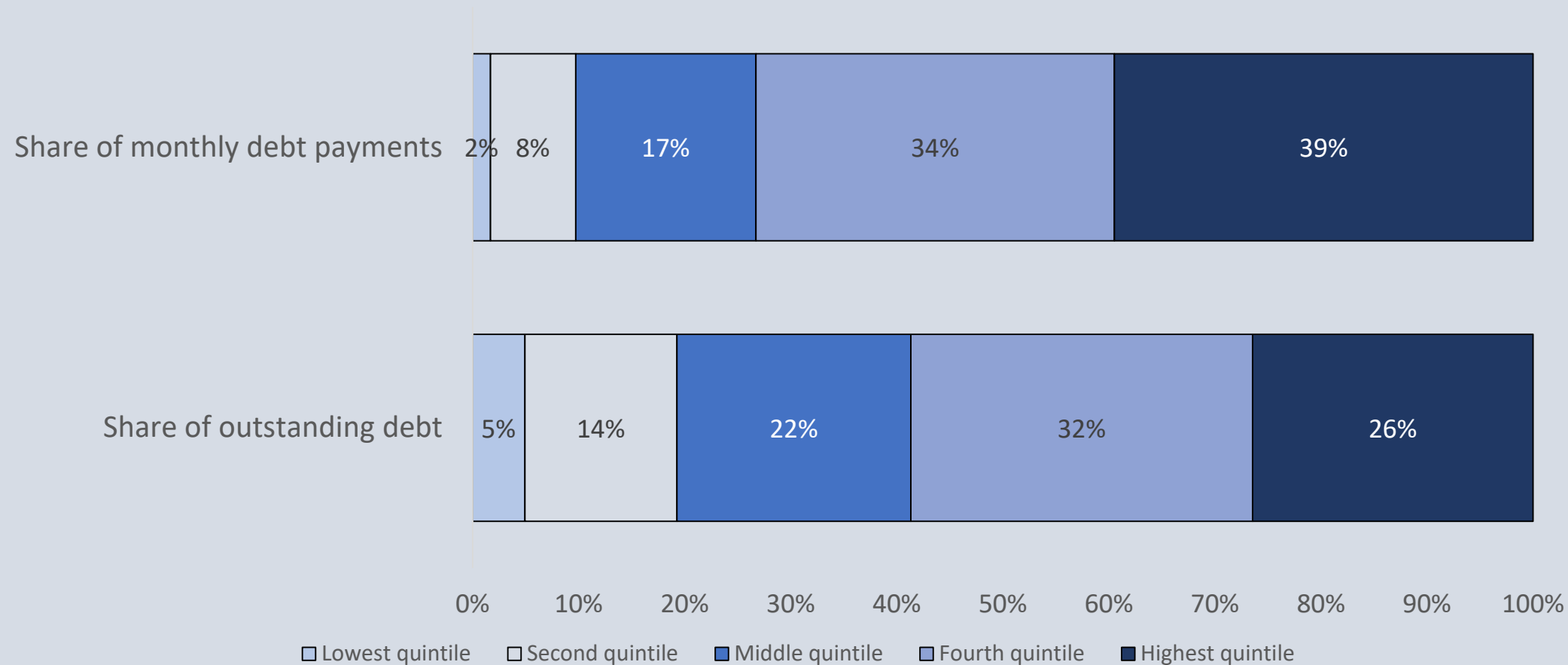
One-third of professional degree recipients borrow \$150,00 or more.

Distribution of 2015-16 Advanced Degree Recipients by Cumulative Amount Borrowed for Graduate Study



Source: *Trends in Student Aid 2018*, Figure 17.

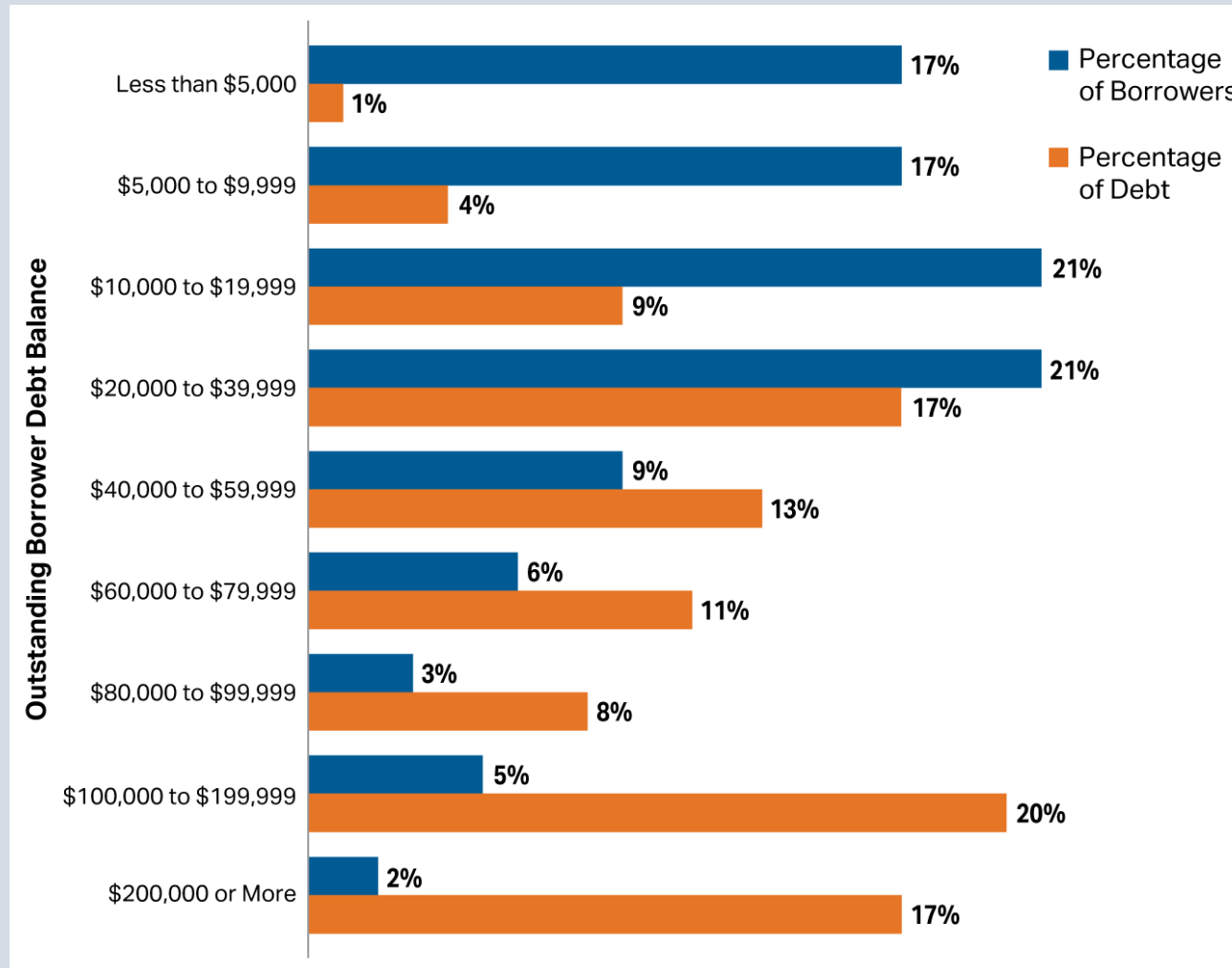
Education debt is concentrated in the upper half of the income distribution.



Notes: Households age 25 and older.
Source: Baum and Looney (2020) "Who owes the most in student loans? New data from the Fed?" *Brookings*. |

The 1/3 of borrowers owing less than \$10,000 hold 5% of outstanding student debt; the 7% of borrowers owing \$100,000 or more hold 37% of outstanding debt.

Distribution of Borrowers and Debt by Outstanding Balance, Second Quarter of FY2020



COVID policies for those with student debt are generous.

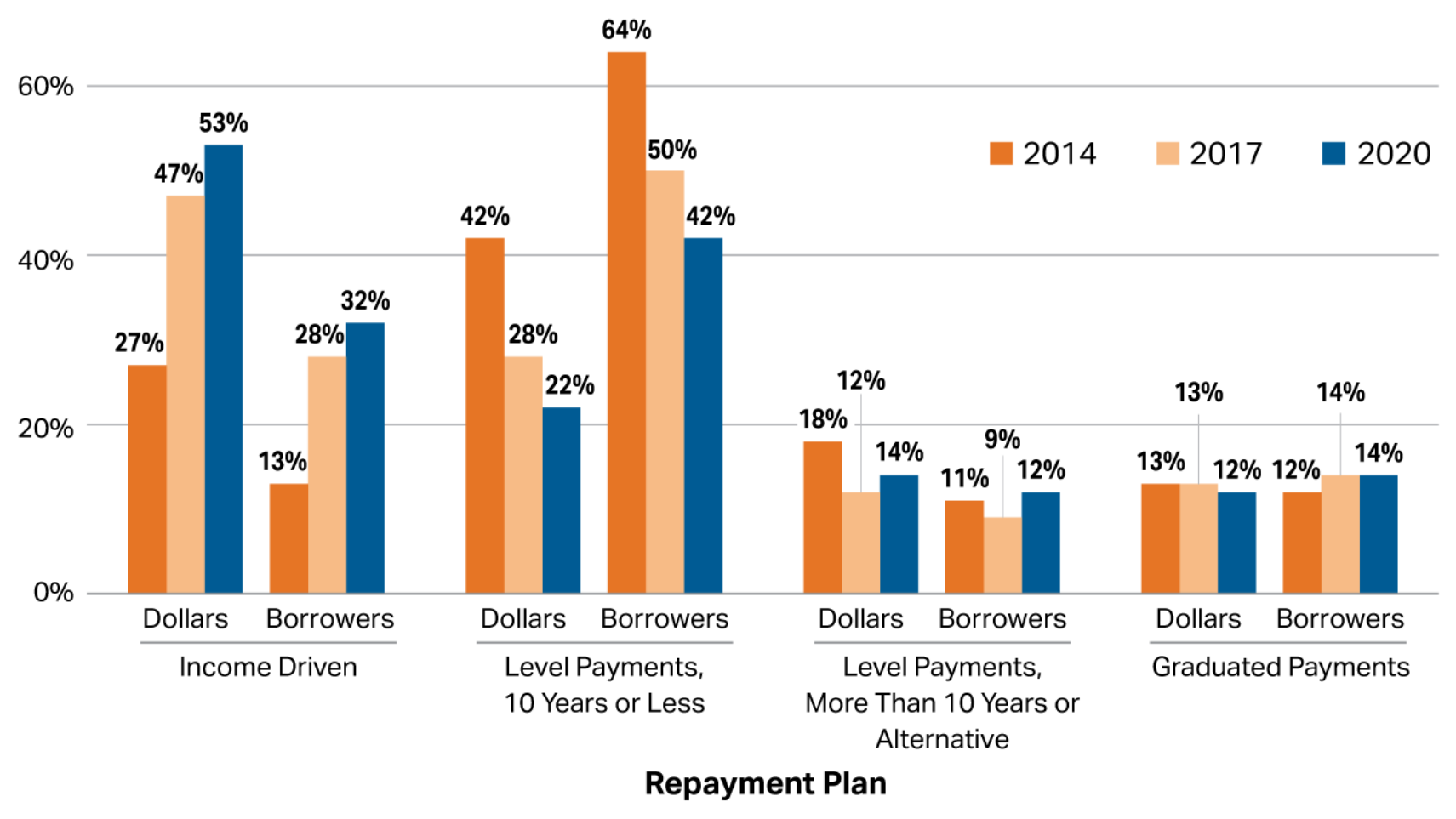
- No collection on delinquent loans
- No payments required
- No interest accrues
- Policy disproportionately benefits higher-income households.
 - Payment pause doesn't affect those in IDR with low payments
 - Zero percent interest helps those with large debts most

Some protection should be extended.

- Payment pause could be extended without 0% interest and forgiveness provisions.
- Benefits could be limited to borrowers with the lowest incomes
- Congress could automatically provide forbearance to borrowers who miss payments so they don't end up delinquent; automatically rehabilitate all defaulted loans when crisis ends.

More than of the dollars and 32% of the borrowers in repayment are in income-based repayment plans.

Distribution of Outstanding Federal Direct Loan Dollars and Borrowers by Repayment Plans



Source: Trends in Student Aid 2020.

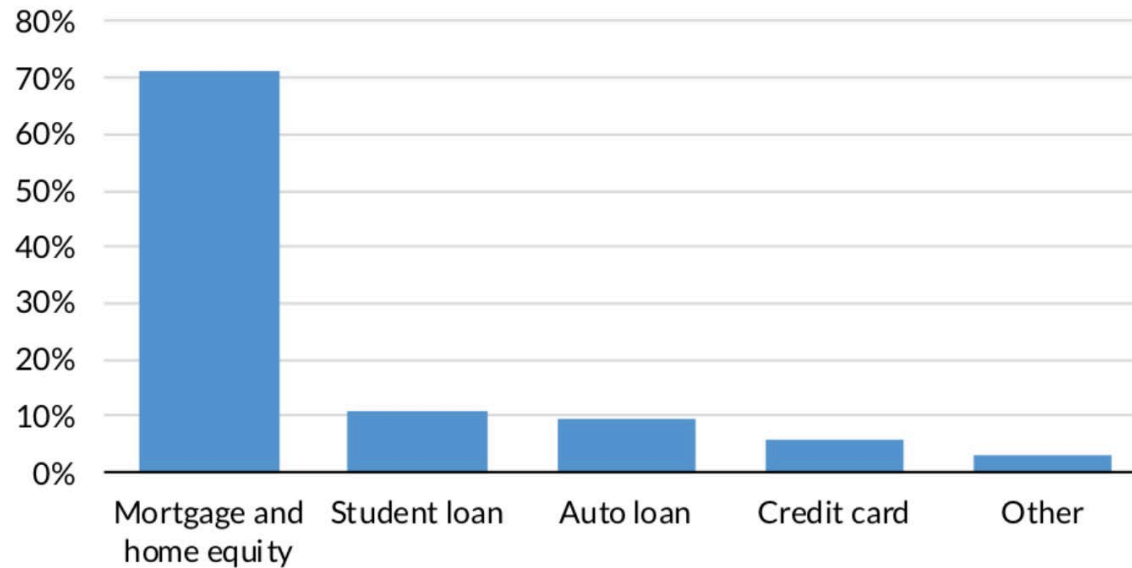
Strengthening income-based repayment is a long-term solution

- Automatic enrollment
- Payroll withholding
- Number of payments linked to amount borrowed
- Limits on interest and penalties accruing

Student debt is a small piece of the story.

How is Debt Distributed?

Breakdown of total outstanding household debt



Source: Federal Reserve Bank of New York, *Quarterly Report on Household Debt and Credit*, updated June 30, 2020, figure 3.

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Other forms of debt deserve attention.

- What about auto debt, medical debt, payday loans, rent payments?
- 7 million Americans were at least three months behind on their car payments even before Covid crisis. Most in low-income, majority Black or Hispanic neighborhoods.
- A quarter of adults ages 18 to 64—and 37% of those with household incomes under \$40,000—report problems with medical debt.
- 12 million American take out payday loans each year. The average interest rate on a payday loan is 391%.
- Tenants will have to pay postponed rent payments

What can institutions do?

- Focus on student success
- Rein in costs and moderate prices—understanding that living expenses account for a significant share of student borrowing
- Reduce time to degree
- Increase need-based student aid
- Strengthen advising about both academics and finances

What should public policy do?

- Focus on targeted solutions
- Protect vulnerable borrowers
- Minimize future debt
- Don't forgive all student debt!
 - Almost 60% of debt held by households in the top 40% of the income distribution
 - Forgiving all outstanding debt could pay for 20 years of free public college tuition or 50 years of Pell Grants at current levels.
- Focus on:
 - Non-completers
 - For-profit institutions
 - Black students