Recent Developments in Student Loans

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Data sources and references are listed on the last slide

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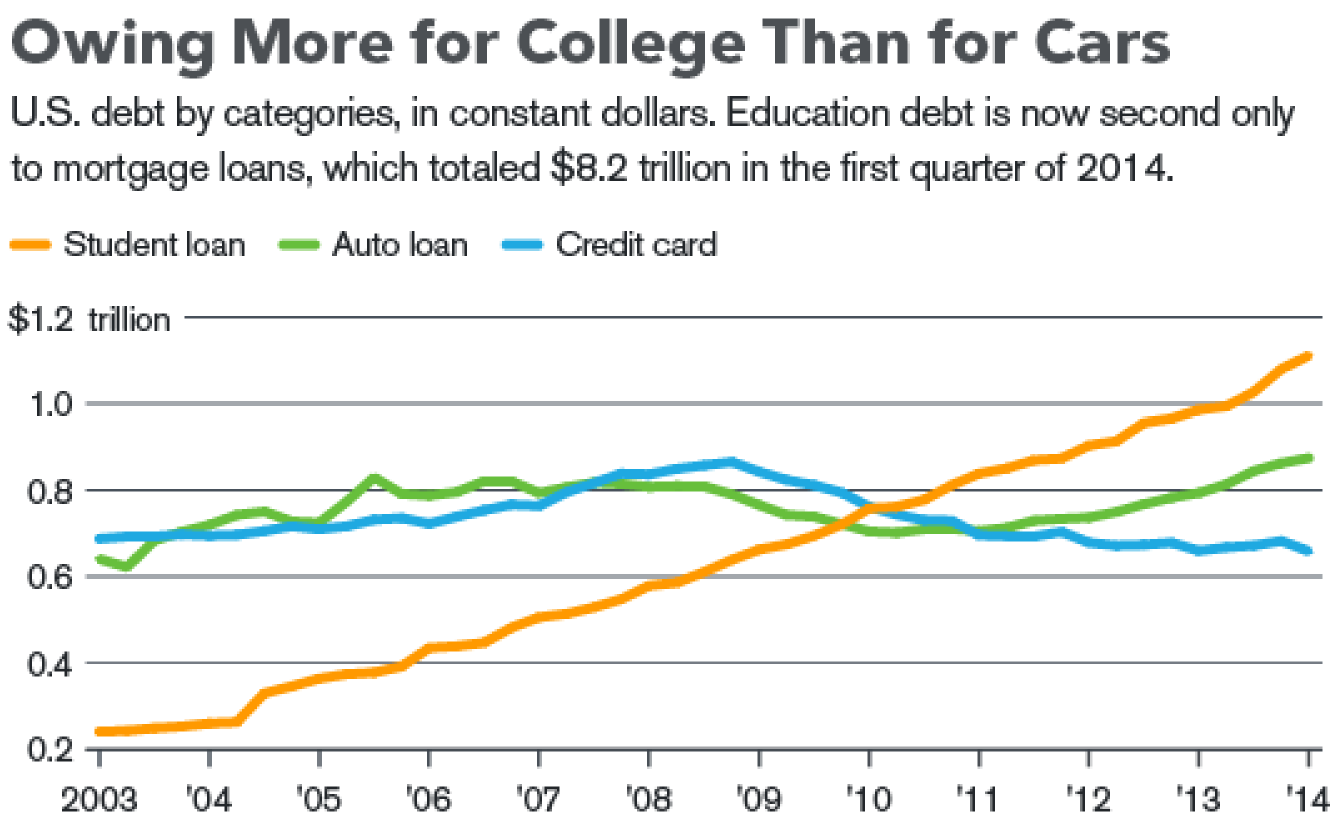
Student debt has more than quadrupled since 2002



Outline of the presentation

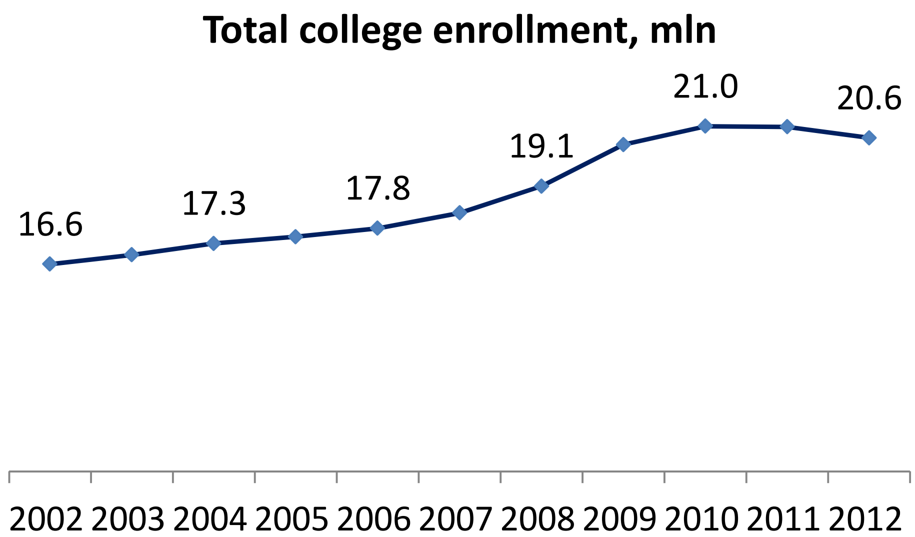
- Why has student debt increased so rapidly from 2002 to 2014?
- What is the role of for-profits?
- Is education still a good investment?
- Is debt destroying students' credit?
- Summary

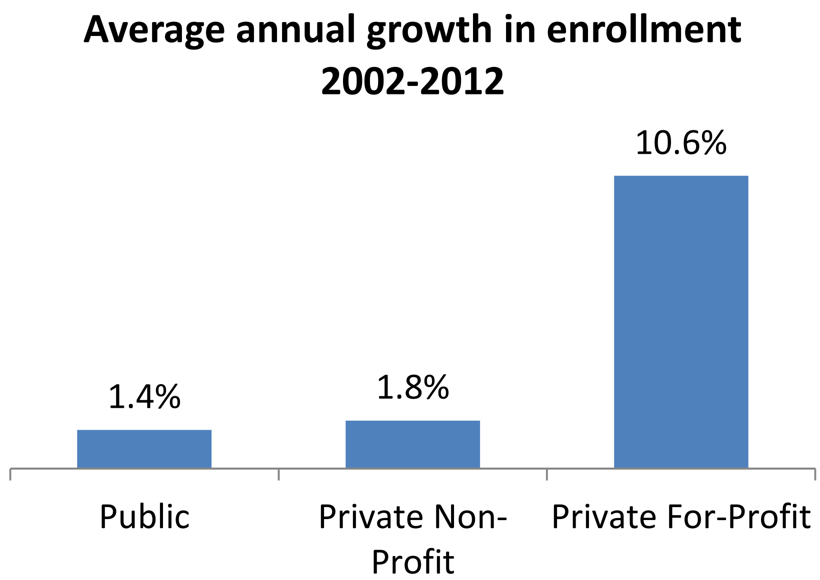
Why has aggregate student debt increased so rapidly?

- Increase in the number of borrowers
  - More students: population growth, economy
  - More likely to borrow: poorer students, poorer parents, policy
- Higher debt per student
  - Higher tuition, less aid
- Less repayment
  - More defaults: economy
  - More deferrals and longer repayment terms: economy, policy

➢ How important is each of these factors?

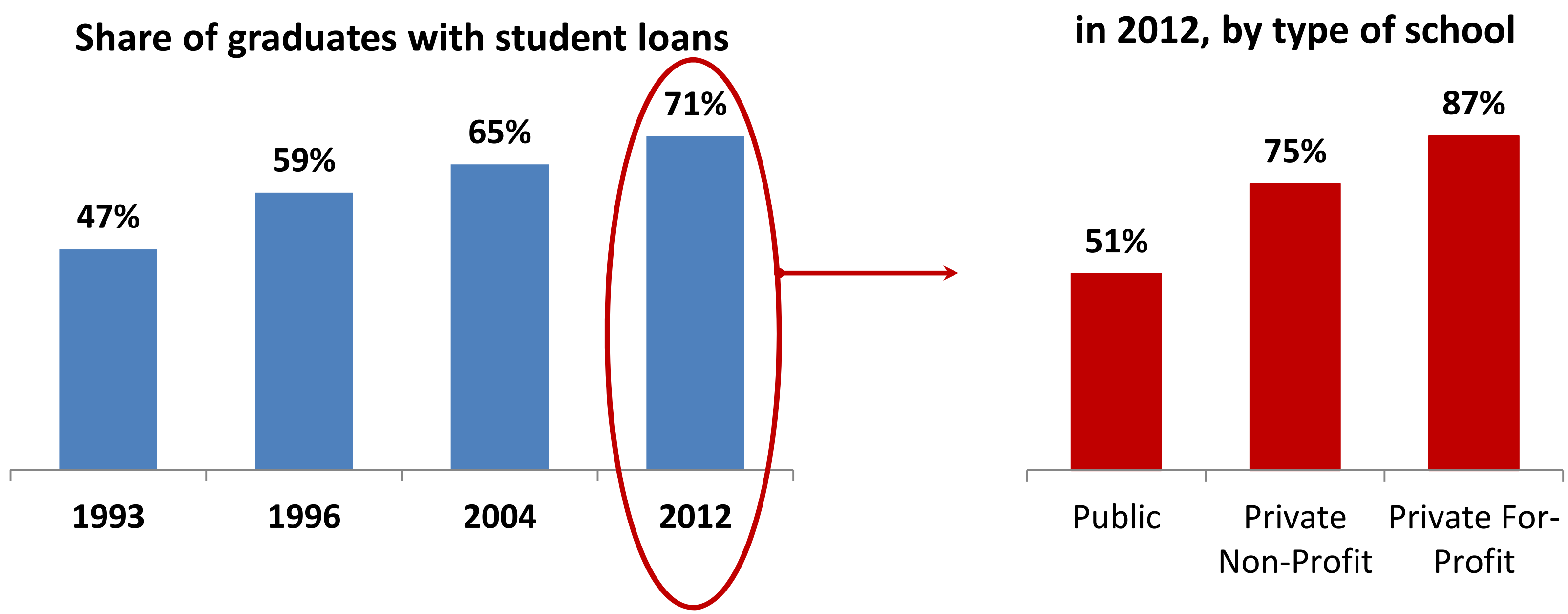
More students





- 4 million increase in enrollment since 2002, 1.5 million (38%) at for-profit schools

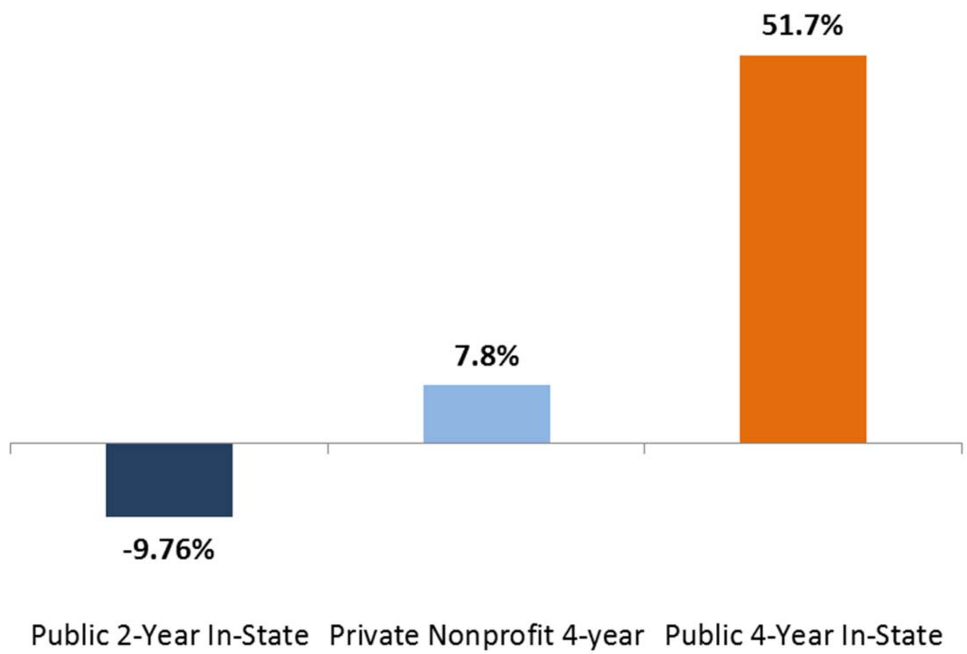
Students are more likely to borrow



- … especially students at for-profit schools that come from low-income families and have little by way of non-loan assistance

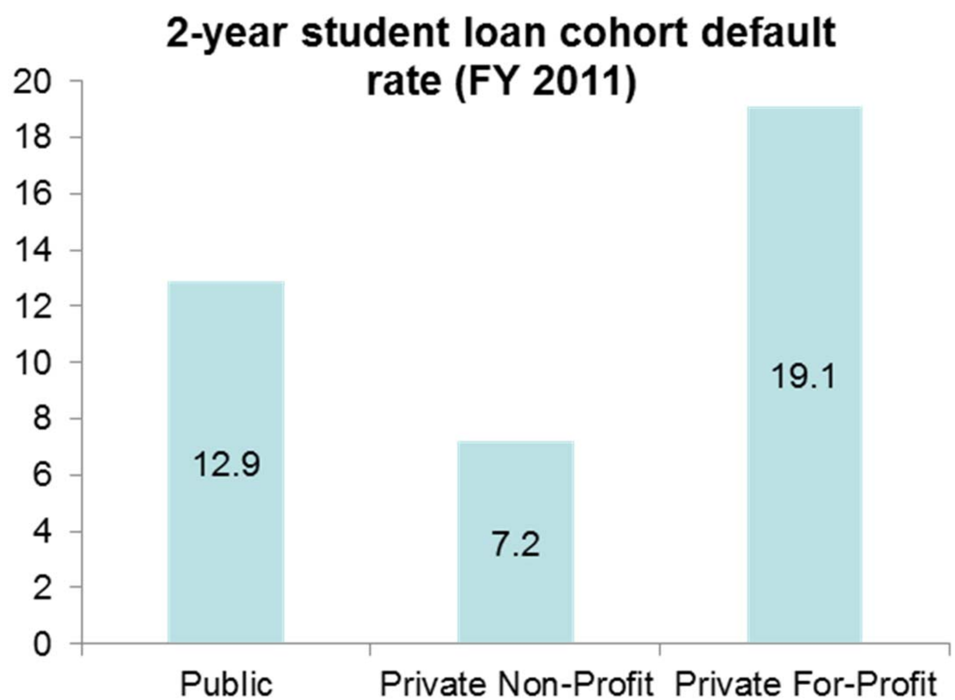
More debt per student

Net tuition growth between 2002 and 2014



- Net costs still grew substantially at 4-year public schools, which account for the largest share of students. The share of costs covered by loans remained steady.
- At for-profits tuition increases translate directly to higher loan amounts.

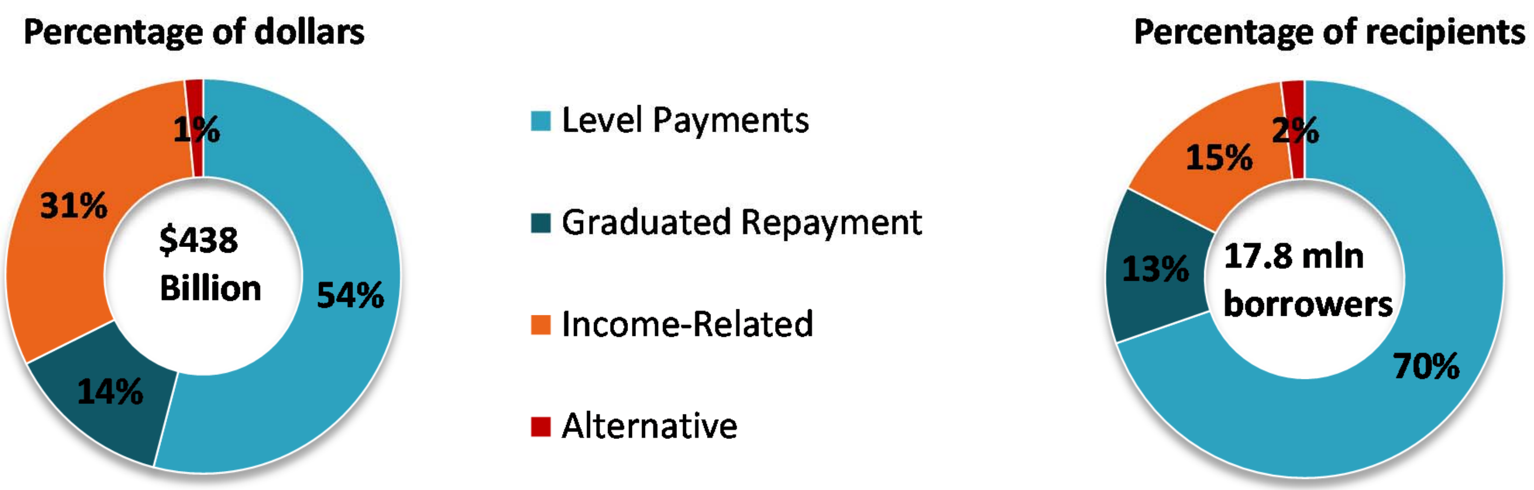
Less repayment: higher defaults



- Defaulted student loan debt does not get written off
- Defaults much higher in for-profit sector

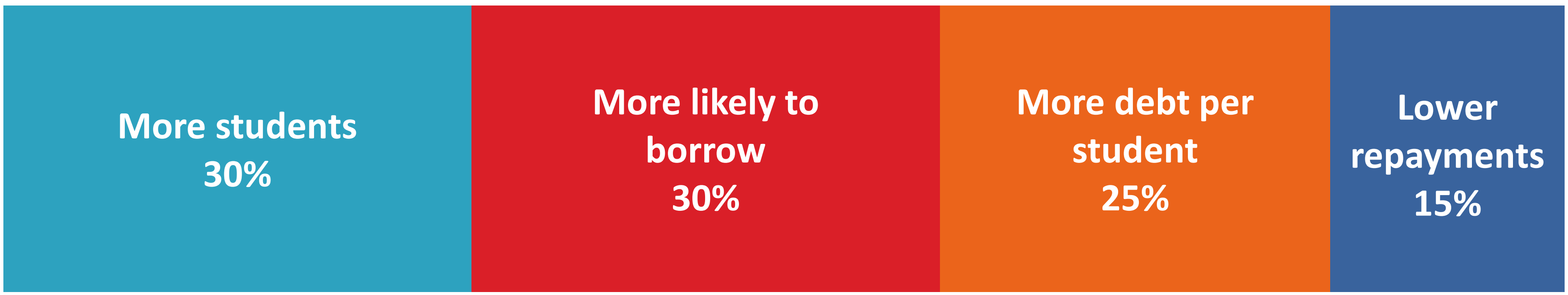
Less repayment: deferrals and Pay-As-You-Earn

- 28% of loans were in deferral in 2002 vs. 52% in 2014
- Expansion of income-based repayment plans



- As of 2014:Q4, 15% of borrowers but 31% of borrowed funds are being repaid through income-related plans

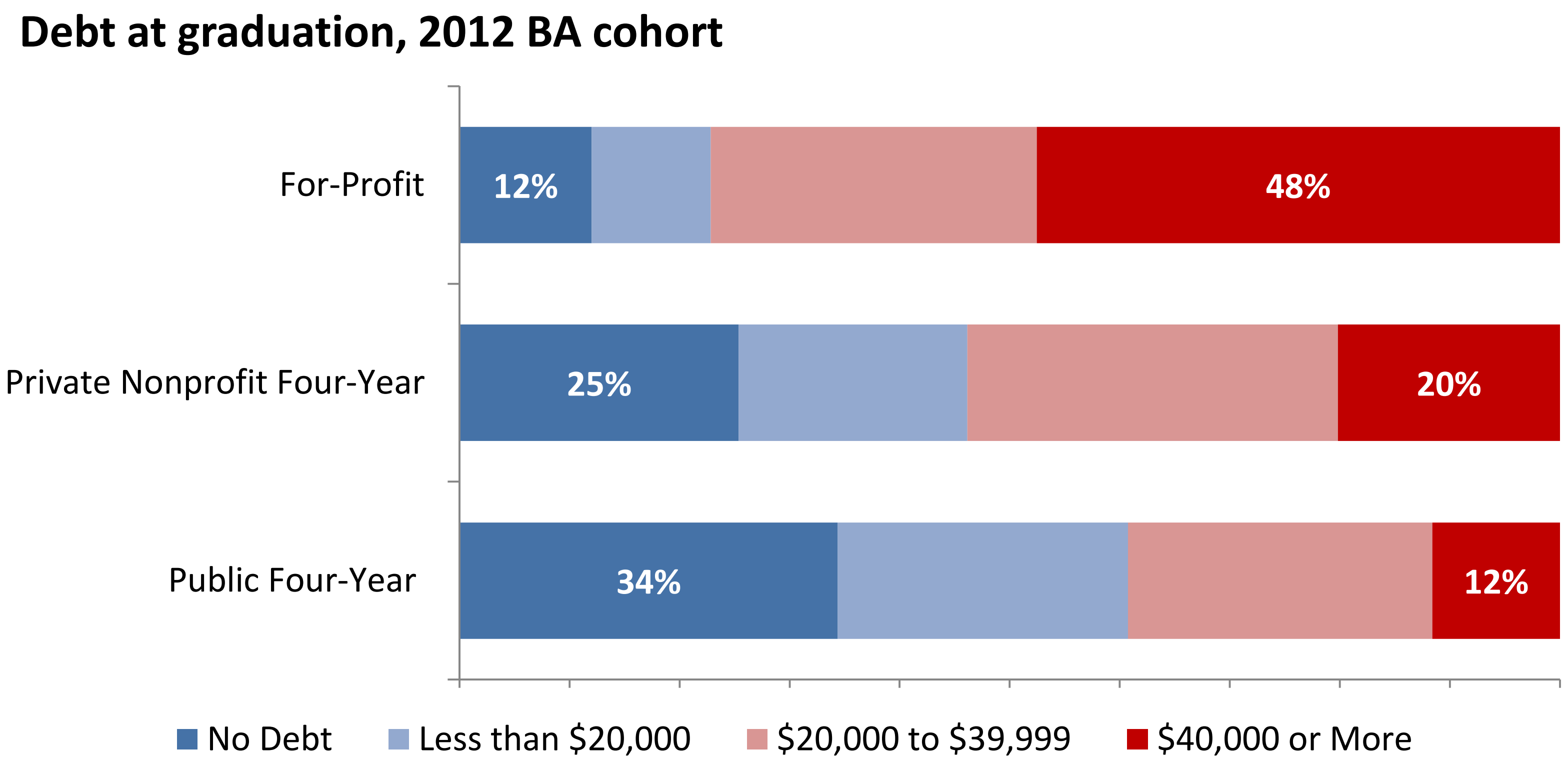
Why did student debt increase between 2002 and 2014?



Why did student debt increase? Role of for-profits

- For-profit enrollment has been growing very rapidly
  - For-profit students are more likely to borrow, borrow more and default more frequently.
- I estimate that student debt would have been about $60 billion lower if students enrolled at private for-profits had gone to 2- and 4-year public schools instead.
- For-profits do not appear to provide any return on average on the investment students and their families are making.

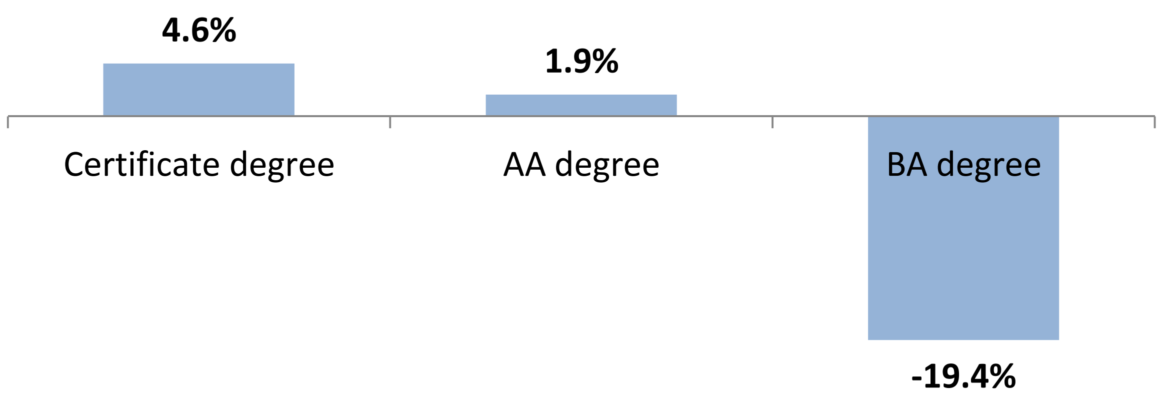
Returns to investment in education: costs



- For-profit BA graduates have much more debt
- … and poorer career prospects

Returns to education: graduation rates

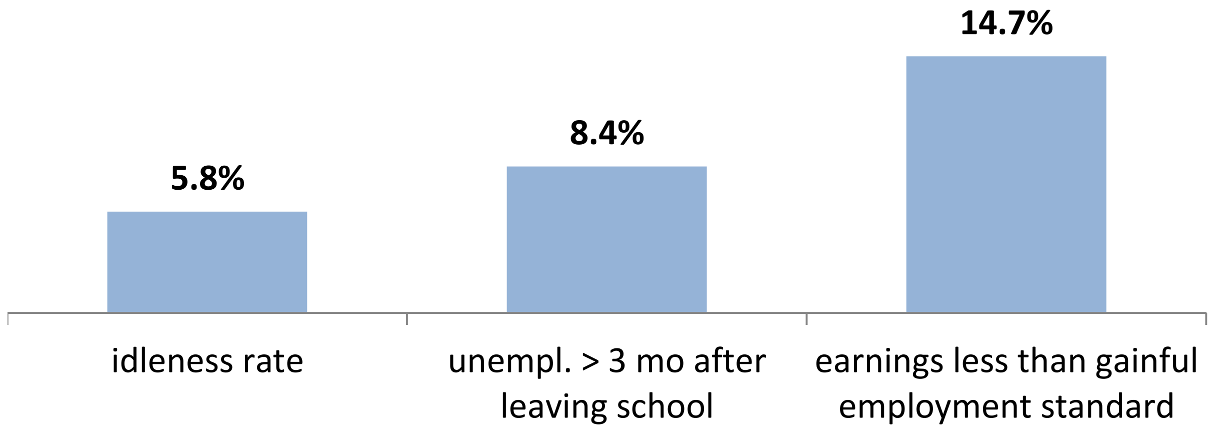
Differences in graduation rates (for-profit – non-profit schools)



Note: all estimates are corrected for differences in student characteristics

Returns to education: labor market outcomes

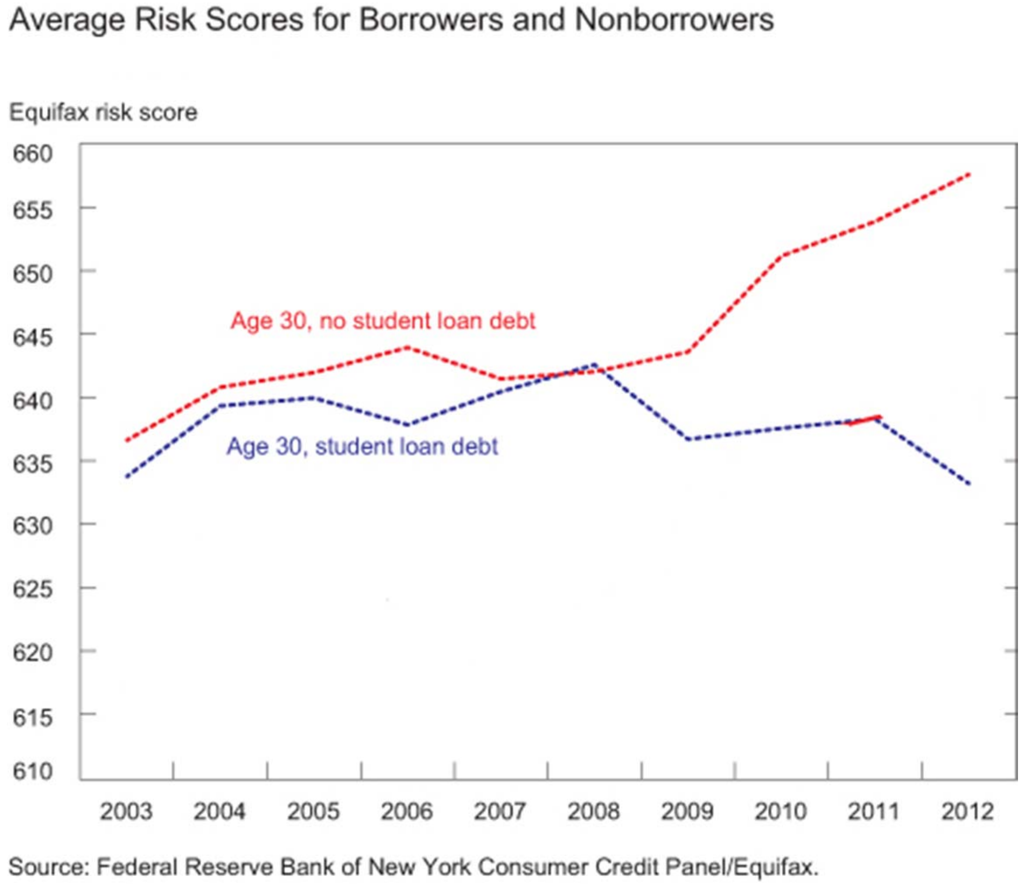
Differences in labor market outcomes (for-profit – non-profit schools)



Note: all estimates are corrected for differences in student characteristics

- Same likelihood of callback for interview as public or no college at all
- Earnings gains relative to community college graduates are same or slightly lower
- Once costs are added in, returns to for-profit education are likely to be negative

Does student debt cause bad credit scores?



- Much of this can be explained by changes in the composition of who is taking out student loans.

Another explanation: change in borrower composition

- As college enrollment increased, more students from low socioeconomic backgrounds (low-SES)
  - Their FICO scores are much lower, on average
  - If go to for-profit schools, they end up taking out student loans
  - Share of low-SES graduates among 30-year olds *with* student debt rises → FICO scores for this group decline
  - Conversely, there are fewer low-SES graduates among 30-year olds *without* student debt → FICO scores for the no-debt group increase
- And if returns to education are low, FICO scores are not likely to increase in the future
- Credit bureau data for Cook County corroborate this story

Conclusions

- Rising enrollment and greater propensity to borrow are the main factors behind strong growth in aggregate student debt.
- Heavy debt burdens remain relatively rare. Loan affordability has remained fairly constant, helped by low interest rates and extended repayment plans.
- Debt is good if it is used to finance valuable investments. Returns to college education continue to increase, on average.
  - Much depends on the type of institution and field of study. For-profit colleges have lowest return to education.
- Claims that student debt causes lower FICO scores, home ownership rates, etc. have likely been overstated.

Sources and References

- Slide 5,enrollment: http://nces.ed.gov/programs/digest/d13/tables/dt13_303.10.asp
- Slide 6, propensity to borrow: The College Board, Trends in Student Aid 2014, Figures 14A, 15A, 15B; Digest of Education Statistics 2013, Table 318.40
- Slide 7, tuition growth: The College Board, Trends in Student Aid 2013, Table 7
- Slide 8, default rates: http://www2.ed.gov/offices/OSFAP/defaultmanagement/schooltyperates.pdf
- Slide 9, repayment plans: National Student Loan Data System (NSLDS)
- Slide 12, debt at graduation: College Board http://trends.collegeboard.org/student-aid/figures-tables/cumulative-debt-bachelors-recipients-sector-time
- Slide 13, differences in graduation rates and Slide 14, differences in labor market outcomes: Table 3 in Deming, Goldin, and Katz, 2012, The for-profit postsecondary school sector: nimble critters or agile predators?“, Journal of Economic Perspectives 26:139-164
- Slide 14, likelihood of callback: Darolia, Koedel, Martorell, Wilson, and Perez-Arce ,2014, “Do Employers Prefer Workers Who Attend For-Profit Colleges? Evidence from a Field Experiment”, mimeo, University of Missouri
- Slide 14, earnings gains: Cellini, 2012, “For-Profit Higher Education: An Assessment of Costs and Benefits” *National Tax Journal, 65 (1): 153–180*
- Slide 14, returns: Cellini and Chaudhary, 2013, “The Labor Market Returns to a For-Profit College Education”, mimeo, George Washington University
- Slide 15, FICO scores: Brown and Caldwell, 2013, Liberty Street Economics blog, April 17, 2013 http://libertystreeteconomics.newyorkfed.org/2013/04/young-student-loan-borrowers-retreat-from-housing-and-auto-markets.html