Recent Developments in Student Loans

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Data sources and references are listed on the last slide
Student debt has more than quadrupled since 2002

Owing More for College Than for Cars

U.S. debt by categories, in constant dollars. Education debt is now second only to mortgage loans, which totaled $8.2 trillion in the first quarter of 2014.
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?

- More students: 30%
- More likely to borrow: 30%
- More debt per student: 25%
- Lower repayments: 15%
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

Debt at graduation, 2012 BA cohort

- For-Profit: 12% No Debt, 25% Less than $20,000, 34% $20,000 to $39,999, 48% $40,000 or More
- Private Nonprofit Four-Year: 25% No Debt, 20% Less than $20,000, 34% $20,000 to $39,999, 20% $40,000 or More
- Public Four-Year: 34% No Debt, 12% Less than $20,000, 12% $20,000 to $39,999, 12% $40,000 or More

- 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)

- Idleness rate: 5.8%
- Unemployed > 3 mo after leaving school: 8.4%
- Earnings less than gainful employment standard: 14.7%

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 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](http://www2.ed.gov/offices/OSFAP/defaultmanagement/schooltyperates.pdf)
- Slide 9, repayment plans: National Student Loan Data System (NSLDS)
- Slide 14, returns: Cellini and Chaudhary, 2013, “The Labor Market Returns to a For-Profit College Education”, mimeo, George Washington University