Financing Higher Education with Student Loans

Adam Looney, The Brookings Institution
A pathway to the middle class?

Lifetime earnings by attainment

Source: March CPS 2007-2010.
Or financial ruin?

Mike Meru Has $1 Million in Student Loans. How Did That Happen?
Escalating tuition and easy credit have yielded a class of student-loan borrowers with spectacular debt they may never pay back.

Forbes
Student Loan Debt Statistics In 2019: A $1.5 Trillion Crisis

BuzzFeed News
“I’m Doing Great”: A Black Millennial On His $100,000 Student Debt

The Financial Crisis Isn't Over for Students

DeVos decries student-loan program as a ‘looming crisis’
Federal loans play a central role in access.

**College Attendance by Parent Income**

By age 22

By age 32

Source: Mobility Report Cards (Chetty et al. 2017)
Federal policy: Make loans cheap and broadly available

Source: Akers and Chingos (2016)
Student loans went from being rare and modest…

Student debt per household in 2001

- 0
- 2,000
- 4,000
- 6,000
- 8,000
- 10,000
- 12,000
- 14,000

Average debt per borrower

Income percentile

Source: Survey of Consumer Finances 2001
...to widespread and significant

[Graph showing student debt per household by income percentile from 2001 to 2016.]

We make loans we know can’t be repaid

Five-Year Repayment Rates by Repayment Decile (2009)

Source: FSA
We make loans to low-quality schools

Earnings: Certificate in Radiologic Technology

We make uncapped loans to parents and grads

Average Annual Borrowing for Active Borrowers

2014 Dollars


Graduate Parent
But most undergraduates borrow modestly-
Most undergrads graduate with little or no debt.

**Cumulative Debt of Bachelor's Degree Recipients, 2011-2012**

- 30% No Debt
- 10% $20,000 to $29,999
- 13% $10,000 to $19,999
- 18% $30,000 to $39,999
- 12% $40,000 or More
- 18% Total

Source: NCES, National Postsecondary Student Aid Study, 2012.
Especially at public and private non-profits

Cumulative Debt of Bachelor's Degree Recipients, 2011-2012

<table>
<thead>
<tr>
<th>Source: NCES, National Postsecondary Student Aid Study, 2012.</th>
<th>No Debt</th>
<th>Less than $10,000</th>
<th>$10,000 to $19,999</th>
<th>$20,000 to $29,999</th>
<th>$30,000 to $39,999</th>
<th>$40,000 or More</th>
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</thead>
<tbody>
<tr>
<td>Total</td>
<td>30%</td>
<td>10%</td>
<td>13%</td>
<td>18%</td>
<td>12%</td>
<td>18%</td>
</tr>
<tr>
<td>Public Four-Year</td>
<td>34%</td>
<td>12%</td>
<td>14%</td>
<td>18%</td>
<td>10%</td>
<td>12%</td>
</tr>
<tr>
<td>Private Nonprofit Four-Year</td>
<td>25%</td>
<td>8%</td>
<td>12%</td>
<td>20%</td>
<td>14%</td>
<td>20%</td>
</tr>
<tr>
<td>For-Profit</td>
<td>12%</td>
<td>4%</td>
<td>7%</td>
<td>14%</td>
<td>16%</td>
<td>48%</td>
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</tbody>
</table>
Income-based plans now offer substantial relief

### Monthly debt payments of student loan borrowers

<table>
<thead>
<tr>
<th>Income percentile</th>
<th>Average monthly loan payment (2001)</th>
<th>Average monthly loan payment (2016)</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;20</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td>20-39.9</td>
<td>$100</td>
<td>$100</td>
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<tr>
<td>40-59.9</td>
<td>$200</td>
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<td>60-79.9</td>
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<tr>
<td>80-89.9</td>
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<td>$400</td>
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<tr>
<td>90-100</td>
<td>$500</td>
<td>$500</td>
</tr>
</tbody>
</table>
It’s a system worth saving

- Only lend when borrowers are expected to repay
- Restore accountability
- Reinstate loan limits
- Assess parent’s ability to pay
- Encourage state reinvestment
- Expand income-based repayment