

## “The Evolution of Student Debt in the U.S.: An Overview”

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The conversation about student debt in the United States has descended into an alarmist focus on the aggregate amount of education debt (over \$1 trillion by some estimates); on stories about individual students who borrowed excessively and are struggling to repay in a weak labor market; on a comparison between credit card debt (which has fallen quite a bit in recent years) and education debt (which has not); and on fears of a “student loan bubble” that might follow the path of the housing bubble. Secretary of Education Arne Duncan said recently that the student loan “crisis” has grown so large that it poses “a threat to the American dream.”<sup>1</sup>

It’s time to take a step back to examine the role of debt in financing postsecondary education, the path over time in postsecondary participation and the accompanying student borrowing, and the basic arguments underlying debt financing of postsecondary education and the government’s role in the system. The sections that follow examine some of the perspectives on student loan data that can alter the picture that emerges. Is outstanding debt or annual borrowing more meaningful? Should non-borrowers be included in average debt figures? Does the path of total borrowing tell the same story as the path of borrowing per student? Should we focus on all postsecondary students or only on undergraduates? The goal is not to choose the optimal data on which to rely, but to elucidate the different information emerging from different choices about what to measure.

### *Outstanding Debt*

Perhaps the most commonly cited student debt figures are those from the Federal Reserve Bank of New York. Table 1 reports outstanding household debt of various types from the second quarter of 2003 to the second quarter of 2013. Education debt grew from \$243 billion in 2003 to \$586 billion in 2008 and to \$994 billion in 2013.<sup>2</sup> There is no doubt that this represents rapid growth worthy of attention. But several other facts from these data are also relevant.

- Student debt increased from 3% to 9% of outstanding household debt over the decade. This is a significant change. But mortgage debt is 70% of the total and home equity revolving credit is another 5%. Widespread default on student loans

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<sup>1</sup> Nathan Porter (2013), “College Ranking Plan in the Works as Student Loan Crisis Poses a ‘Threat to the America Dream’,” *Washington Times*, September 20.

<sup>2</sup> The \$1 trillion estimate for student debt comes from the Consumer Financial Protection Bureau. <http://www.consumerfinance.gov/blog/a-closer-look-at-the-trillion/>

could be a real problem for many people, but even if the government did not hold the vast majority of this debt, the economic impact would obviously be on a different scale from the collapse of the housing market.

Table 1: Outstanding Household Debt, 2003:Q2 to 2013:Q2

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Mortgage	\$5.080	\$5.967	\$6.696	\$7.760	\$8.706	\$9.273	\$9.063	\$8.703	\$8.516	\$8.147	\$7.841
H Eq Rev	\$0.260	\$0.367	\$0.528	\$0.590	\$0.619	\$0.679	\$0.713	\$0.683	\$0.625	\$0.589	\$0.540
Auto	\$0.622	\$0.743	\$0.774	\$0.796	\$0.807	\$0.810	\$0.743	\$0.702	\$0.713	\$0.750	\$0.814
Credit Card	\$0.693	\$0.697	\$0.717	\$0.739	\$0.796	\$0.850	\$0.824	\$0.744	\$0.694	\$0.672	\$0.668
<b>Student</b>	\$0.243	\$0.263	\$0.374	\$0.439	\$0.514	\$0.586	\$0.675	\$0.762	\$0.851	\$0.914	\$0.994
Other	\$0.486	\$0.423	\$0.402	\$0.423	\$0.408	\$0.401	\$0.389	\$0.349	\$0.330	\$0.312	\$0.296
<b>Total</b>	<b>\$7.384</b>	<b>\$8.460</b>	<b>\$9.492</b>	<b>\$10.747</b>	<b>\$11.850</b>	<b>\$12.599</b>	<b>\$12.407</b>	<b>\$11.943</b>	<b>\$11.730</b>	<b>\$11.384</b>	<b>\$11.153</b>
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Mortgage	69%	71%	71%	72%	73%	74%	73%	73%	73%	72%	70%
H Eq Rev	4%	4%	6%	5%	5%	5%	6%	6%	5%	5%	5%
Auto	8%	9%	8%	7%	7%	6%	6%	6%	6%	7%	7%
Credit Card	9%	8%	8%	7%	7%	7%	7%	6%	6%	6%	6%
<b>Student</b>	<b>3%</b>	<b>3%</b>	<b>4%</b>	<b>4%</b>	<b>4%</b>	<b>5%</b>	<b>5%</b>	<b>6%</b>	<b>7%</b>	<b>8%</b>	<b>9%</b>
Other	7%	5%	4%	4%	3%	3%	3%	3%	3%	3%	3%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

Source: Federal Reserve Bank of New York, *Quarterly Report on Household Debt and Credit*

- Credit card debt increased by 23% between 2003 and 2008, but fell by 21% over the following five years, ending the decade \$25 billion (4%) below its 2003 level.

Table 2: Changes in Outstanding Household Debt, 2003 to 2012

	2003-2008	2008-2013
Mortgage	83%	-15%
Hone Equity Revolving	161%	-20%
Auto Loan	30%	0%
Credit Card	23%	-21%
<b>Student Loans</b>	<b>141%</b>	<b>70%</b>
Other	-18%	-26%
<b>Total</b>	<b>71%</b>	<b>-11%</b>

Source: Federal Reserve Bank of New York, *Quarterly Report on Household Debt and Credit*

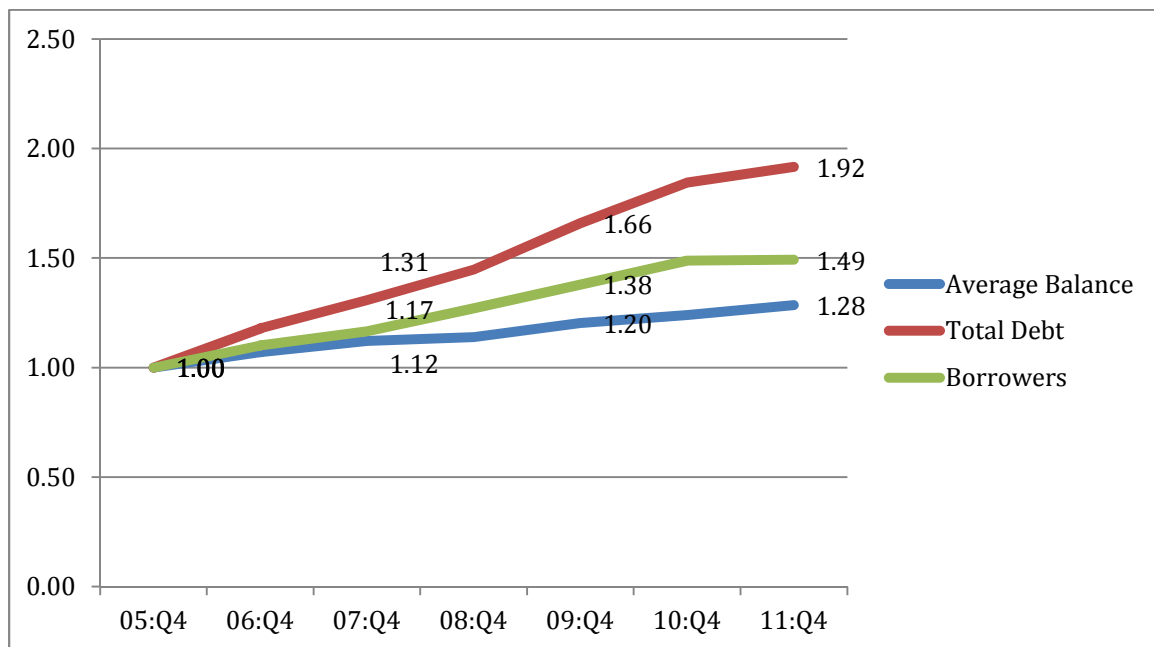
- Outstanding student loan debt increased by 70% between 2008 and 2013—only half the rate of growth over the first half of the decade.

Perhaps more fundamental is the question of whether the new focus on outstanding student loan debt is the best way to understand the risks facing credit markets, the economy, or past, current and future students.

Outstanding debt per borrower has not grown nearly as much as total outstanding debt. Enrollment in postsecondary education has increased rapidly in recent years and the number of borrowers retiring their debt each year is significantly smaller than the number incurring debt for the first time.

Figure 1 shows the growth in total outstanding student debt relative to the growth in the number of borrowers with debt and in average balances. While total debt almost doubled over these six years, average balances increased by 28% (in 2012 dollars).

Figure 1: Total Outstanding Education Debt, Total Number of Borrowers, and Average Balances Relative to 2005, 2005:Q4 to 2011:Q4, in 2012 Dollars



Source: Federal Reserve Bank of New York, *Quarterly Report on Household Debt and Credit*

Outstanding balances include debt that was incurred many years ago. They include borrowing by both students and parents, by undergraduate and graduate students. They also include the growth in balances resulting from the accrual of unpaid interest, penalties, and other charges.

Solutions for relieving the strains of student debt should certainly include borrowers with old debts who are struggling and many policy proposals ignore these people. But understanding the trajectory of student borrowing and developing strategies for the future require more information about recent student borrowing patterns. Striking a balance between concern about over-dependence on debt for financing postsecondary education and welcoming increases in borrowing as a sign of increased participation by students with limited resources requires more information about how much students on different educational paths, from different socioeconomic backgrounds, and of different ages are borrowing.

### *Annual Borrowing*

Table 3: Total Federal and Nonfederal Loans to Undergraduates, Graduate Students, and Parents of Undergraduate Students, 1970-71 to 2012-13, Selected Years

	Total Borrowing in Millions of 2012 Dollars			Postsecondary Enrollment (FTEs)	Total Borrowing per FTE Student
	Federal Loans	Non-Federal Loans	Total		
<b>1970-71</b>	\$7,622		\$7,622	7,148,575	\$1,066
<b>1975-76</b>	\$7,490	\$0	\$7,490	8,479,688	\$883
<b>1980-81</b>	\$19,276	\$0	\$19,276	8,819,013	\$2,186
<b>1985-86</b>	\$21,071	\$0	\$21,071	8,943,433	\$2,356
<b>1990-91</b>	\$24,403	\$0	\$24,403	9,820,205	\$2,485
<b>1995-96</b>	\$39,364	\$2,000	\$41,364	10,172,987	\$4,066
<b>2000-01</b>	\$45,664	\$6,750	\$52,414	11,427,001	\$4,587
<b>2005-06</b>	\$67,984	\$20,860	\$88,844	13,408,264	\$6,626
<b>2006-07</b>	\$69,083	\$23,750	\$92,833	13,612,494	\$6,820
<b>2007-08</b>	\$75,638	\$25,530	\$101,168	13,960,922	\$7,247
<b>2008-09</b>	\$90,144	\$12,390	\$102,534	14,608,127	\$7,019
<b>2009-10</b>	\$106,648	\$9,040	\$115,688	15,764,432	\$7,339
<b>2010-11</b>	\$112,037	\$8,110	\$120,147	16,220,701	\$7,407
<b>2011-12</b>	\$109,814	\$8,130	\$117,944	16,143,133	\$7,306
<b>2012-13</b>	\$101,469	\$8,810	\$110,279	15,918,548	\$6,928

Source: The College Board, *Trends in Student Aid 2013*

The year-by-year data on federal students loans are more accurate than either estimates of outstanding debt or the data on the total debt levels of students who graduate with different credentials or who leave school without credentials. Those data are based either on samples of students from surveys conducted every four years or on surveys with disappointing response rates completed every year by colleges and universities.

Total borrowing has increased dramatically since 1970-71, when students borrowed \$7.6 billion through education loan programs. Thirty years later, in 2000-01, total borrowing through these programs had reached \$52.4 billion and it more than doubled, to \$120.1 billion over the next decade. As of 2012-13, however, annual borrowing had fallen from its 2010-11 peak.

Some of the borrowing changes are due to policy changes. For example, the increase from \$24 billion in 1990-91 to \$41 billion in 1995-96 was to a significant extent the result of the introduction of the unsubsidized Stafford Loan program, which expanded the federal program from one designed only for students with documented financial need to one including all students.

Enrollment growth is another issue. While total borrowing between 2000-01 and 2012-13 increased by 110%, from \$52.4 billion to \$110.3 billion, borrowing per FTE student increased by 51%, from \$4,587 to \$6,928.

The decline in both total borrowing and borrowing per student over the last two years may or may not signal a longer-term trend. But these data should serve as a caution to those who have a tendency to predict that when a trend is unfavorable it is likely to continue to be more and more unfavorable. Predictions of doom based on temporary circumstances generate attention-grabbing headlines. But as the economy rises from the depths of the Great Recession, fewer students will enroll in college because of the lack of reasonable alternatives in the labor market and state tax revenues, incomes, and savings will recover at least to some extent, easing both the upward pressure on tuition prices and the financing strains on families and students.

### *Debt per Student versus Debt per Borrower*

Most discussions of average debt levels focus on debt per borrower, setting aside the significant number of college students who do not borrow at all, or at least do not rely on education loans. In 2007-08, 34% of bachelor's degree recipients, 52% of associate degree recipients, and 37% of those who earned postsecondary certificates did not have education debt. Including these students may obscure some of the potential problems facing borrowers, but it paints a clearer picture of how students finance their education. For example, in 2007-08, median debt for bachelor's degree recipients who borrowed was \$20,000 and 10% borrowed more than \$44,500. The median for all bachelor's degree recipients was \$11,000 and the 90<sup>th</sup> percentile was \$39,300.<sup>3</sup>

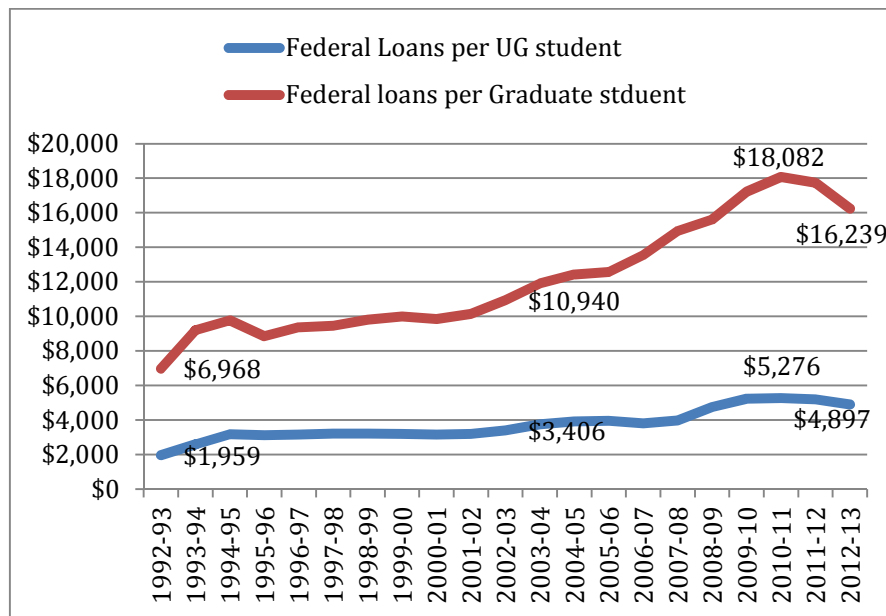
### *Undergraduate and Graduate Students*

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<sup>3</sup> Sandy Baum and Patricia Steele (2010), *Who Borrows Most? Bachelor's Degree Recipients with High Levels of Student Debt*, The College Board.

About 87% of all postsecondary students are undergraduate students, while the other 13% are graduate students who have already completed bachelor's degrees. While graduate students may sometimes make unwise choices about education financing, the policy questions surrounding graduate debt are quite different from those surrounding undergraduate debt.

Figure 2: Federal Loans per FTE Undergraduate and per FTE Graduate Student in 2012 Dollars, 1992-93 to 2012-13



Source: The College Board, Trends in Student Aid 2013, Figure 3B

Table 4: Average Federal Loans per FTE Students, Undergraduate and Graduate Students, 1992-93 to 2012-13

	Federal Loans per FTE postsecondary student	Federal Loans per UG student	Federal loans per Graduate Student
1992-93	\$2,574	\$1,959	\$6,968
1997-98	\$4,007	\$3,216	\$9,465
2002-03	\$4,364	\$3,406	\$10,940
2007-08	\$5,418	\$3,978	\$14,937
2012-13	\$6,374	\$4,897	\$16,239

Source: The College Board, *Trends in Student Aid 2013*

In 2012-13, federal loans per postsecondary student were \$6,374. But focusing only on undergraduate students yields an average of \$4,897, while graduates students borrowed over three times as much.

Graduate student debt may be an increasing problem as the gap in earnings between individuals whose highest degree is a bachelor's degree and those with advanced degrees grows, leading more students to continue their studies.<sup>4</sup> But policy responses should likely be quite different to this issue than to the undergraduate debt issue. Subsidies for undergraduate students are critical from the perspectives of both equity and efficiency. Some postsecondary education is a virtual necessity for earnings that support a secure lifestyle. There is broad consensus that accidents of birth should not prevent people from having the opportunity to access this education. Failing to provide access also leads to a less productive labor force and to greater reliance on publicly funded income support programs.

The role of public subsidies for graduate education is less clear-cut. Certainly there are social benefits to increased educational attainment at this level, but anyone undertaking graduate study is already a four-year college graduate and public subsidies come largely from taxpayers with lower incomes at the time students are enrolling, and even more so after they have completed their advanced degrees. Arguments for investing in education only if the financial returns are likely to be high enough to justify the expenditure are stronger in the case of graduate education than in the case of undergraduate education.

There are certainly exceptions and sound arguments for some level of subsidy. But the idea that graduate student debt, which is held by individuals who have the highest earnings potential of any segment of the population, is a problem to be addressed by public policy, are much weaker than similar arguments about undergraduate debt.

### *Nonfederal Loans*

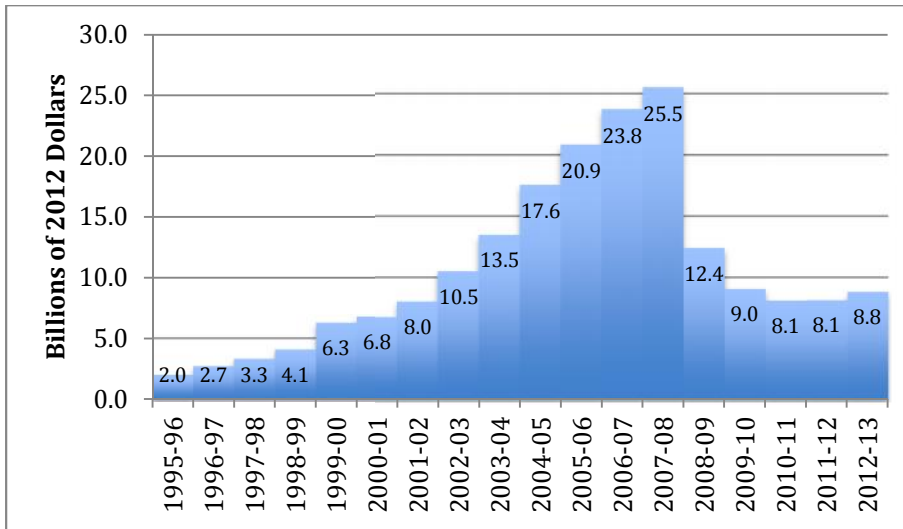
Nonfederal loans, from banks and other private lenders and to a lesser extent from states and from colleges and universities, may be a particular concern because they do not come with the repayment protections attached to federal loans.

Nonfederal borrowing almost doubled, from about \$10.5 billion in 2002-03 to \$25.5 billion in 2007-08. As was the case in other credit markets, lending standards were less than rigorous. Many of the loans made during this period have not yet been repaid and concerns over this outstanding debt are probably well placed. But the market collapsed in 2008-09, and total nonfederal borrowing has been in the \$8 to \$9 billion range since 2009-10.

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<sup>4</sup> Between 2001 and 2011, the gap in median earnings between full-time working males ages 25 to 34 whose highest degree was a bachelor's degree and those with only a high school diploma fell from 57% to 56%. For those with a master's degree or higher, the gap grew from 94% to 112% (U.S. Census Bureau).

Figure 3: Total Nonfederal Education Loans, 1995-96 to 2012-13, in 2012 Dollars



Source: The College Board, Trends in Student Aid 2013, Table 1

In 2007-08, 14% of undergraduates and 11% of graduate students relied on the private loan market. By 2011-12, those percentages had declined to 6% and 4%, respectively. Both supply and demand forces contributed to this change. The tightening of credit markets is evidenced in the decline from 39% to 12% in the percentage of undergraduates and from 29% to 5% in the percentage of graduate students in for-profit postsecondary institutions taking private loans. But at the same time, federal loan limits for undergraduates have increased and federal GradPLUS loans have become available to graduate students.

Table 5: Percentages of Undergraduate and Graduate Students Taking Private Loans, 2007-08 and 2011-12 by Sector

	2007-08	2011-12
<b>Undergraduate Students</b>		
Private for profit	39%	12%
Private nonprofit 4-year	25%	12%
Public 4-year	14%	7%
Public 2-year	4%	2%
Total	14%	6%
<b>Graduate Students</b>		
Private for profit	29%	5%
Private nonprofit 4-year	12%	5%
Public 4-year	6%	3%
Total	11%	4%

Source: NCES, National Postsecondary Student Aid Study; Calculations by the author



## *Evaluating Education Borrowing*

People tend to compare individuals with student loan obligations to those with similar earnings who do not have the same debt. It's not a surprise that the consumption options of former students who borrowed are more limited than those whose parents paid their way. But what if those students hadn't borrowed? Chances are they would not have had the same education, job, or earnings. The more important comparison is between the students' opportunities with a college education and some debt and their opportunities if they did not attend college at all.

The fact that students borrow to fund postsecondary education is not in and of itself a problem. The arguments for debt financing for investments with high expected rates of return are straightforward. Between 2008 and 2011, the gap between the median earnings of high school graduates ages 25 to 34 and those □ in the same age range with a bachelor's degree or higher declined from 74% to 69% for men and from 79% to 70% for women, but the long-term trend is upward. The earnings premium for men rose from 25% in 1971 to 56% in 1991 and to 69% in 2011. For women it rose from 43% in 1971 to 56% in 1991 and to 70% in 2011.<sup>5</sup> Moreover, the earnings gap is larger for workers at older ages.<sup>6</sup>

Average debt levels are not alarming. The popular press notwithstanding, the typical bachelor's degree recipient entering the labor market with as much as \$30,000 in debt will not have undue difficulty repaying that debt out of the earnings premium from his or her education.

## *The Federal Role*

The logic of education debt and the manageability of average debt levels for typical college graduates do not diminish the very real problems facing a minority of students either because they made unwise decisions about their investments in education or because their labor market outcomes have been less favorable than anticipated. As long as there is a public interest in promoting educational opportunities and attainment and as long as the federal government is, as it should be, the primary source of student loans, public policy must address these issues constructively.

Some of the concerns about levels of student debt are voiced in the form of recommendations to scale back federal student loan programs. One argument is that the availability of easy credit gives colleges and universities more leeway to raise their prices. This position also reflects the idea that the federal government is inappropriately encouraging students to over-borrow.

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<sup>5</sup> Sandy Baum, Jennifer Ma, & Kathleen Payea (2013), *Education Pays: The Benefits of Higher Education for Individuals and Society*, The College Board, Figure 1.6.

<sup>6</sup> Sandy Baum, Charles Kurose & Jennifer Ma (2013), *How College Shapes Lives: Understanding the Issues*, The College Board, Section 6.

The private market is likely to offer reasonable terms to students with financially secure co-signers enrolled in bachelor's degree programs at selective colleges. It is less likely to provide favorable terms to the students from low-income, first-generation families borrowing to finance enrollment in community colleges or to low-income adults seeking credentials that will make them, for the first time, eligible for jobs paying a living wage. Federal education policy is (or should be) designed to provide opportunities to those students who would otherwise fall through the cracks.

The challenges presented by the prevalence of private student loans between 2002-03 and 2007-08 provide a reminder about why the federal government is involved in this market. The private market relies on credit histories and collateral in determining its lending terms. Students tend to have limited credit histories, low incomes, and minimal assets. Many students, including many with weak future prospects, took private loans with high interest rates. When sufficient federal loans were not available to meet their needs, or when they didn't understand their options, they looked elsewhere.

In the current belt-tightening environment, suggestions about risk rating of federal student loans have become surprisingly common. The National Association of Student Financial Aid Administrators (NASFAA) floated the idea in a recent report.<sup>7</sup> Other observers have promoted programs that would modify loan terms based either on the institutions in which students enroll or on the characteristics of the students themselves. Some of the suggestions are designed to protect the federal budget.<sup>8</sup> But others are designed to protect students against over-borrowing.

The idea that offering high-risk students loans with higher interest rates is the best public policy for helping them make wise decisions about their educational paths and how to finance those paths is unrealistic. The national priority on assuring that students with limited means can participate in postsecondary education requires that we make reasonable financing options available to them. Suggestions about incorporating risk-rating into the federal loan system generally rely on the assumption that students will respond to market signals and either forego college or choose alternative programs and institutions when presented with unfavorable loan terms. Both history and the insights of behavioral economics make this seem unlikely.<sup>9</sup> And while there are surely students who would be better off not pursuing further education than following some of the paths they take, dismantling the system that allows students with limited financial means and uncertain academic futures the chance to improve their prospects is not a prescription for a healthy economy or an equitable society.

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<sup>7</sup> National Association of Student Financial Aid Administrators (NASFAA) (2013), *Reimagining Financial Aid to Improve Student Access and Outcomes*, Washington, DC: NASFAA.

<sup>8</sup> Michael Simkovic (2011), "Risk-Based Student Loans," *Washington and Lee Law Review*, Vol 70, No. 1, p. 527.

<sup>9</sup> For a discussion of the implications of the insights from behavioral economics for the design of the student aid system, see Sandy Baum and Saul Schwartz (2013), "Student Aid, Student Behavior, and Educational Attainment," *Understanding Student Behaviors: A Prerequisite to Supporting College Enrollment and Success*. George Washington University Graduate School of Education and Human Development

### *Who is Borrowing Too Much?*

Central questions are who the students with the highest debt levels are and who the students with the least manageable debt burdens are. These questions are not the same, since students who are in school for a longer time and earn higher degrees are most likely to accumulate the most debt—and to have the earnings to repay that debt. Those who enroll for short periods of time and never earn credentials borrow relatively small amounts, but also have weak labor market outcomes.

The most recent available data on aggregate debt by demographic and educational characteristics are for 2007-08. That year, 25% of bachelor's degree recipients *with debt* had borrowed \$30,500 or more. The percentage with no education debt at all was 36%. But 53% of bachelor's degree recipients from for-profit institutions graduated with \$30,500 or more in debt, compared to 25% of those from the private nonprofit sector and 12% from public institutions. Student loan default patterns also direct attention to the for-profit sector, with 43% of FY2011 defaulters coming from these institutions.<sup>10</sup> The for-profit sector is, and should be, a particular focus of concerns over student borrowing.

Comparisons of the debt levels of bachelor's degree recipients with different demographic characteristics give some indication of where the problems lie. Independent students borrow more than dependent students. Federal loan limits are higher for independent students, who can now borrow up to \$57,500 in Direct Loans for undergraduate study, compared to \$31,000 for dependent students whose parents qualify for PLUS Loans. Independent students are also more likely to have responsibilities for supporting families and less likely to have parental support on which to fall back.

Among 2007-08 bachelor's degree recipients, 17% of dependent students and 24% of independent students accumulated \$30,500 or more in education debt, with single independent students and those with dependents more likely to fall into this category than those who were married without dependents.

Among dependent students, the patterns by family income level are not so clear. Students from higher-income families were more likely not to borrow at all. But among dependent student from all families with incomes below \$100,000, 12% to 14% of graduates had borrowed as much as \$30,500.

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<sup>10</sup> U.S. Department of Education ([www2.ed.gov/offices/OSFAP/defaultmanagement/cdrschooldtype2yr.pdf](http://www2.ed.gov/offices/OSFAP/defaultmanagement/cdrschooldtype2yr.pdf)).

Table 6: Aggregate Debt Levels of Bachelor's Degree Recipients by Dependency Status and Dependent Student Family Income, 2007-08

	No Debt	<\$20,500	≥\$30,500
<b>All Bachelor's Degree Recipients</b>	<b>34%</b>	<b>50%</b>	<b>17%</b>
<b>Dependent</b>	<b>39%</b>	<b>50%</b>	<b>12%</b>
Less than \$30,000	27%	61%	13%
\$30,000 to \$59,999	25%	61%	14%
\$60,000 to \$99,999	36%	52%	12%
\$100,000 or more	52%	39%	9%
<b>Independent</b>	<b>27%</b>	<b>49%</b>	<b>24%</b>
No dependents unmarried	24%	52%	25%
No dependents, married	35%	47%	18%
With dependents	28%	47%	25%
<b>Note:</b> Loan debt includes total undergraduate student loans (excluding PLUS Loans, credit cards or home equity loans).			
<b>Source:</b> Baum & Patricia Steele (2010), <i>Who Borrows Most? Bachelor's Degree Recipients with High Levels of Student Debt</i> , The College Board. Based on NPSAS 2008			

When graduates are broken down by sector, it becomes clearer that it is not the students from the lowest-income families, but those from lower-middle income families, with 2006 incomes between \$30,000 and \$60,000, who were most likely to have high debt levels.

Table 7: Table 6: Aggregate Debt Levels of Bachelor's Degree Recipients by Dependency Status and Dependent Student Family Income, and Sector, 2007-08

	No Debt	<\$20,500	≥\$30,500
<b>Public Four-Year</b>	<b>38%</b>	<b>51%</b>	<b>12%</b>
Dependent			
< \$30,000	31%	62%	7%
\$30,000-\$59,999	29%	62%	9%
\$60,000-\$99,999	40%	53%	7%
\$100,000 or more	55%	50%	5%
Independent	31%	50%	19%
<b>Private Nonprofit Four-Year</b>	<b>28%</b>	<b>48%</b>	<b>24%</b>
Dependent			
< \$30,000	15%	60%	25%
\$30,000-\$59,999	15%	57%	28%
\$60,000-\$99,999	25%	50%	24%
\$100,000 or more	44%	40%	16%
Independent	24%	48%	28%
<b>For-Profit</b>	<b>4%</b>	<b>43%</b>	<b>53%</b>
Dependent			
< \$30,000	0%	47%	52%
\$30,000-\$59,999	0%	63%	37%
\$60,000-\$99,999	1%	34%	64%
\$100,000 or more	0%	47%	52%
Independent	4%	42%	53%
<b>Source:</b> Baum & Steele (2010), <i>Who Borrows Most? Bachelor's Degree Recipients with High Levels of Student Debt</i> , The College Board. Based on NPSAS 2008.			

Table 8: Aggregate Debt Levels of Bachelor’s Degree Recipients by Dependency Status and Dependent Student Family Income, and Race/Ethnicity, 2007-08

	<b>No Debt</b>	<b>&lt;\$20,500</b>	<b>≥\$30,500</b>
<b>White</b>	<b>36%</b>	<b>48%</b>	<b>16%</b>
<i>Dependent Students by Parent Income</i>			
Less than \$30,000	26%	60%	14%
\$30,000 to \$59,999	24%	60%	16%
\$60,000 to \$99,999	36%	51%	13%
\$100,000 or More	52%	39%	9%
<i>Independent Students</i>	29%	48%	23%
<b>Black</b>	<b>19%</b>	<b>54%</b>	<b>27%</b>
<i>Dependent Students by Parent Income</i>			
Less than \$30,000	16%	66%	19%
\$30,000 to \$59,999	17%	62%	21%
\$60,000 to \$99,999	24%	60%	16%
\$100,000 or More	42%	47%	11%
<i>Independent Students</i>	16%	49%	34%
<b>Hispanic</b>	<b>33%</b>	<b>53%</b>	<b>14%</b>
<i>Dependent Students by Parent Income</i>			
Less than \$30,000	33%	59%	8%
\$30,000 to \$59,999	28%	64%	7%
\$60,000 to \$99,999	34%	56%	10%
\$100,000 or More	47%	43%	10%
<i>Independent Students</i>	30%	51%	19%
<b>Asian</b>	<b>40%</b>	<b>51%</b>	<b>9%</b>
<i>Dependent Students by Parent Income</i>			
Less than \$30,000	37%	60%	3%
\$30,000 to \$59,999	37%	57%	6%
\$60,000 to \$99,999	41%	54%	5%
\$100,000 or More	61%	33%	5%
<i>Independent Students</i>	32%	52%	16%
Source: Baum & Steele (2010), <i>Who Borrows Most? Bachelor’s Degree Recipients with High Levels of Student Debt</i> , The College Board. Based on NPSAS 2008.			

It is also notable that within income groups, there are differences in debt levels by racial /ethnic groups. Small sample sizes make it difficult to include breakdowns by sector, race, and income, but black students are disproportionately likely to enroll in the for-profit sector, while Hispanic students are over-represented in community colleges.<sup>11</sup> Among 2007-08 black bachelor’s degree recipients, 27% had at least \$30,500 in debt.

<sup>11</sup> Hispanic students constitute 18% of the students at community colleges, but only 13% of all students at degree-granting institutions. In 2010, almost half of all Hispanic students across the country were enrolled at community colleges. Black students enroll in disproportionate numbers at for-profit institutions. The share of black students in total enrollment at for-profit institutions (29%) was nearly twice as high as the share of black students in total postsecondary enrollment (14%) in 2010 (Sandy Baum and Charlie Kurose (2013), “Community Colleges in Context: Exploring Financing of Two- and Four-Year Institutions,” *Bridging the Higher Education Divide*, The Century Foundation.

This compares to 16% of white graduates, 14% of Hispanic graduates, and 9% of Asian graduates. Percentages with high debt were higher for independent students, but highest for black students in this category as well.

Both differences in enrollment patterns and the reality that black families tend to have lower asset levels than other families with similar incomes make it unsurprising that even within income categories, black bachelor's degree recipients have higher debt levels than members of other racial/ethnic groups.<sup>12</sup> With the exception of Hispanics, high debt levels are most common among lower-middle income students.

High debt levels don't tell the whole story of at-risk borrowers because for students who don't earn bachelor's degrees, leaving school either with associate degrees or certificates or with no postsecondary credentials, earnings tend to be lower and lower levels of debt can lead to unmanageable payment requirements. The 85% of 2007-08 bachelor's degree recipients who borrowed \$30,000 or less are not likely to be at risk, except under unusual circumstances, and as Table 9 indicates, only 1% of certificate holders and 2% of those who left school without a credential accumulated this much debt. But we know that those who do not complete their credentials are disproportionately likely to default. This pattern may be a function of factors other than debt to earnings ratios, including a reluctance to prioritize the repayment of loans that did not serve their intended purpose. But targeted efforts to diminish student debt problems should certainly include a focus on students with debt levels that do not exceed the overall average.

Table 9: Total Student Debt Levels of 2003-04 Beginning Postsecondary Students by Credentials Earned by 2009

	No debt	\$1 - \$10,000	\$10,001 - \$20,000	\$20,001 - \$30,000	\$30,001 - \$50,000	\$50,001 or more
TOTAL	43%	25%	16%	8%	5%	2%
Bachelor's degree (31%)	36%	12%	22%	14%	10%	5%
Associate degree (9%)	42%	24%	18%	9%	7%	1%
Certificate (9%)	39%	45%	12%	2%	1%	0%
No degree, still enrolled (15%)	39%	27%	18%	9%	5%	2%
No degree, not enrolled (35%)	52%	30%	11%	4%	2%	0%

Source: The College Board, *Trends in Student Aid 2013*, Figure 11C

### *Enrollment Patterns*

Tuition and fees, as well as living costs for college students, have risen relative to family incomes over time, even after taking the role of financial aid in reducing the net price students actually pay into consideration. It is not surprising that students are relying more

<sup>12</sup>Thomas Shapiro, Tatjana Meschede & Sam Orsoro (2013), *The Roots of the Widening Racial Wealth Gap: Explaining the Black-White Economic Divide*, Institute on Assets and Social Policy, Brandeis University, Research and Policy Brief, February.

heavily on borrowing than they did a generation ago. Student loans have become more easily available and parents seem more willing to shift the responsibility for paying for college onto their children. But the increase in postsecondary participation rates across the population also plays a role.

Between 2001 and 2011, the total number of postsecondary grew by 32%, from 15.9 million to 21 million. Each student is borrowing more on average, but the growth in debt per student has been much slower than the growth in the number of students borrowing. In recent years, because of rapid enrollment growth, total federal loans have grown about twice as fast as federal loans per student. In other words, it isn't so much that students are borrowing more; it's that more students are enrolling and borrowing.

Over the decade from 1983 to 1992, about 30% of recent high school graduates enrolling immediately in college were from families in the bottom 40% of the income distribution. This percentage increased to an average of about 32% from 1993 to 2002 and to 34% from 2003 to 2012. The percentage of the new college students whose families were in the highest fifth of the income distribution fell from about 28% between 1983 and 1992, to 25% from 1993 to 2002, and to 24% over the most recent decade.<sup>13</sup> While more analysis would be required to determine the role of the changing economic circumstances of college students, the idea that understanding of borrowing patterns over time should include consideration of the demographic characteristics of students seems clear.

## **Conclusion**

More students are borrowing to finance their education today than was the case a generation ago or even a decade ago. More students are borrowing amounts of money that have the potential to cause them long-term financial difficulties.

But this reality does not define a “crisis.” In order to address the very real problems of students with unmanageable levels of education debt, it is necessary to put that debt into the context of the investment it is financing and the payoff of that investment.

Much of the hand wringing about student debt stops short of proposing solutions. The idea that student debt will disappear, or even that it will decline dramatically in the aggregate, is both unrealistic and irrational. Nonetheless, there are very real problems that public policy should address. Addressing those problems requires both a clear understanding of who faces difficulties and why those difficulties arise. Viable policy solutions for these particular problems are much more feasible than attempts to have taxpayers cover the entire cost of postsecondary education or scenarios in which the cost of providing quality education plummets.

Headline-grabbing statements about high aggregate loan debt don't help the students who need our attention. We should focus on the debt levels of individual students. We should improve the policies in place to protect them against circumstances beyond their control

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<sup>13</sup> Calculations by the author based on NCES, *Condition of Education*, 2013.

that lead to repayment problems. And we should provide incoming students with better information and advice so they don't make poor education and career decisions or borrow excessive amounts.

The recent focus on potential improvements to the Income-Based Repayment (IBR) program is welcome, but some of the changes that have been made to make the program more generous have not been constructive. Lowering the percentage of discretionary income required from 15% to 10% of income exceeding 150% of the poverty line was not a move in the right direction. This change provides significant savings only to borrowers with incomes high enough for 5% of discretionary income to be a measurable amount.

As has been widely noted, limiting required payments in this way and forgiving outstanding debt after 20 years, when combined with the availability for GradPLUS loans up to the cost of attendance, creates an unintended windfall for graduate students with very high debt levels, even if their earnings are far above the average for the taxpayers providing the subsidies.<sup>14</sup>

But making IBR the default option, so that students would not have to have an unusual amount of information, complete a complicated application process, or overcome a series of bureaucratic hurdles in order to benefit, could solve much of the student loan problem. If eligibility were extended to students with longstanding debts and if the amount of unpaid interest allowed to accrue were limited, this system could solve a significant portion of the current student loan problems.

But such a system will not be feasible if the goal is to prevent students from bearing a reasonable share of the costs of their own education. The system must be carefully designed to target subsidies at students for whom unforeseen outcomes create unmanageable difficulties. It must also be combined with more effective information and guidance in advance of student enrollment and borrowing. Shifting the burden of repaying loans from students to taxpayers does not diminish the importance of the choices students make about postsecondary study or the support they get in attaining their goals.

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<sup>14</sup> See Jason Delisle and Alex Hope (2012), "Safety Net or Windfall? Examining Changes to Income-Based Repayment for Federal Student Loans," New America Foundation.