Comments on "The Evolution of Student Debt in the U.S.: An Overview"

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Summary

- This mainly descriptive paper provides a helpful overview of the current concerns over the student loan "crisis",
- presents recent trends in cumulative and annual student borrowing,
- discusses differences in total and average borrowing, and
- discusses policy recommendations.

The main take-away

- Despite the alarming reports in the media, the "student loan crisis" is not a threat to the American dream; there are, however, concerns that some students do "over-borrow."
- The increase in aggregate debt is mainly due to the increase in the number of borrowers.
- Aggregate outstanding student debt makes up a relatively small fraction of overall household debt.
- The increase in the number of borrowers correlates with increase in enrollment--some of the enrollment increases are due to a slack labor market during the downturn.
- An average borrower will not have problems repaying the loans, as the value of post-secondary education has not gone down.
- The problems are concentrated to students from low income families, non-traditional students, and students at for-profit institutions.
- The low completion rates in for-profit institutions and student borrowing at these institutions is worrying.

Comments

- When reading Sandy's paper, I wished to learn more about the institutions participating in the student loans market, what products they offer, and a rationale for why this market is organized the way it is:
  - Federal loans—types; repayment terms; when is a loan considered in default; is there a default option for repayment of these loans (should that default be changed)?
  - Private market loans—what products do they offer, what repayment terms?
  - Interaction between loans and other forms of student aid
- It was a bit hard to follow some of the policy recommendations without a background on what the status quo is.

Comments

- I think Sandy convincingly shows that the problem of over-borrowing is concentrated among certain groups of students.
- The average college graduate will be able to pay off student loans.
- It is crucial to understand *which* students are taking on such big loans and *why* they have such difficulties in repaying the loans.
- Here is where a theoretical framework might be helpful.

Why do some students borrow unwisely?

- Is it an issue of financial literacy or lack of information or both?
  – Perhaps the procedure for applying for federal loans/aid can be improved?
  – Do students forego federal aid when they apply for private student loans because, in comparison, it is easy to apply for private student loans?
  – If so, we may want to provide students with better information.

Why do some students borrow unwisely?

- Is it an issue of high subjective discount rate or myopia ?
  - Sandy suggests that some students are not rational in that their demand for loans does not react to the price of borrowing.
  - This problem seems focused around high-interest rate private student loans.

Comments

- Are there insights from behavior economics that might be of help?
- Can default repayment options be altered to “nudge” such individuals in the desired direction?
- If some students cannot repay their loans, because they live “hand to mouth,” or are very myopic, then perhaps structuring the repayments to come at a finer frequency, with smaller amounts would be desirable?
- Could the amounts in the repayment plan vary over time with earnings?
- Again, knowing how the repayment plans typically look today would be helpful to this discussion.

Comments

- Alternatively, is there is the "Bennett hypothesis."
- Colleges systematically increase their pricing in response to more generous loans/aid terms and this may lead students to borrow more.
- Is additional aid captured by the type of institutions which attract students that "over-borrow"?
- A side effect of a college-for-all approach?