Achieving Success in Postsecondary Education: A Q&A on Student Loans

Rockefeller Philanthropy Advisors

TIAA Institute

About This Project

As institutions of higher education struggle with increasing costs and decreasing public funding, many students are unable to complete their degrees or are left with unsustainable amounts of debt. Rockefeller Philanthropy Advisors and the TIAA Institute partnered to look at the landscape of student debt in the U.S. as well as trends and innovative approaches in private funding of higher education. Together, we hope these resources advance the conversation on how to support college completion, avoid the burden of over-indebtedness and improve financial security for all students.

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Achieving Success in Postsecondary Education

A Q&A on Student Loans

Sandy Baum – June 2017

Widespread misperceptions underlie much of the public discourse about student debt. Reading the headlines and hearing anecdotes about individual students can easily create the impression that borrowing for college has generated a broad crisis affecting virtually all college students other than those from the wealthiest backgrounds. In reality, most students who borrow owe amounts they can reasonably repay out of future earnings. But there are serious problems in the system that public and institutional policies should address. Too many students accumulate debt but leave school without a degree. Older students and those attending for-profit institutions tend to borrow more than other undergraduates. Much of the increase in outstanding debt comes from graduate students. And the debt repayment system needs reform.

The discussion below relies on publicly available data to answer basic questions about the realities of student debt.

1. How much do students borrow?

Looking at the amount borrowers currently holding student debt owe gives a picture of overall borrowing patterns. In 2016, 42 million borrowers—including both students and parents— held an average of $30,400 in education loans. This represents an increase from $21,000 (in 2016 dollars) in 2007. However, the rate of growth in the average amount owed has slowed over time, from 15 percent between 2007 and 2010 to 13 percent between 2010 and 2013 and to 12 percent between 2013 and 2016.

Averages can hide considerable variation. Table 1 shows the distribution of borrowers (who may or may not have earned degrees) by the amount of debt they hold. In 2015, 16 percent of borrowers—including just 10 percent of those who borrowed only for undergraduate studies—held $40,000 or more in education debt.

Table 1. Distribution of Borrowers by Amount of Outstanding Education Debt, 2015

	Graduate	Undergraduate	Total
Less than $5,000	8%	21%	19%
$5,000 - $9,000	9%	21%	19%
$10,000 - $19,000	16%	25%	23%
$20,000 - $39,000	24%	22%	23%
$40,000 or More	43%	10%	16%

Note: Balances are as of June 2015. Data are separated by level of education for which loans were issued. Based on U.S. Department of Education data. Percentages may not sum to 100 because of rounding.
Source: Council of Economic Advisers, Investing in Higher Education: Benefits, Challenges, and the State of Student Debt, July 2016.

The amounts individual students borrow depend on where they enroll, how long they stay in school, and their financial circumstances. For example, among students who completed their programs in 2011–12, half of those who earned associate degrees graduated without debt, compared with 30 percent of those who earned bachelor's degrees. Eighteen percent of bachelor's degree recipients—and 47 percent of those who earned graduate degrees—had borrowed $40,000 or more (see Table 2).

Even among bachelor's degree recipients, there is considerable variation in amounts borrowed. For example, as Figure 1 shows, 48 percent of students who earned bachelor's degrees at for-profit institutions in 2011–12 had borrowed $40,000 or more. Only 12 percent of those who attended public colleges and universities borrowed this much.

Table 2. Distribution of Cumulative Debt Amounts by Type of Degree Earned, 2011–12

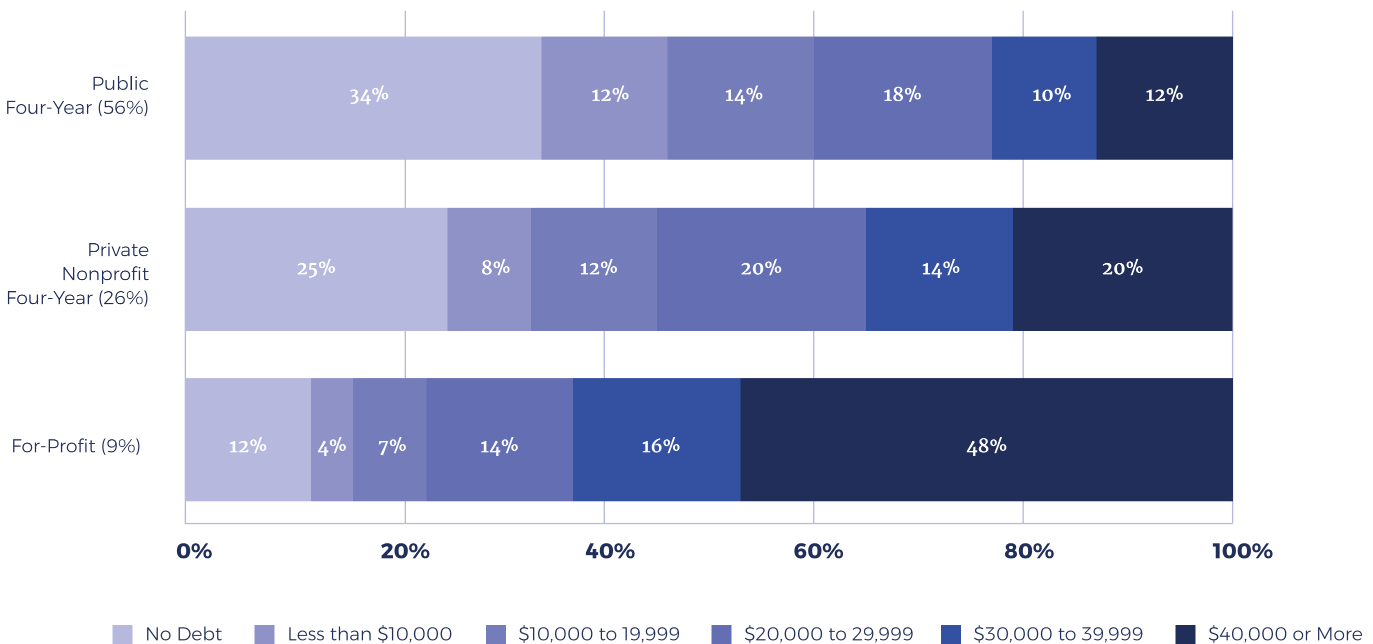
The below ranges are listed in $30,000 increments.

<table>
<tr><th></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 to $79,999</th><th>$80,000 to $119,999</th><th>$120,000 or More</th></tr>
<tr><td>Certificate</td><td>34%</td><td>30%</td><td>25%</td><td>6%</td><td colspan="4">4%</td></tr>
<tr><td>Associate</td><td>50%</td><td>19%</td><td>14%</td><td>9%</td><td colspan="4">8%</td></tr>
<tr><td>Bachelor's</td><td>30%</td><td>10%</td><td>13%</td><td>18%</td><td>12%</td><td colspan="3">18%</td></tr>
<tr><td>Graduate</td><td>27%</td><td colspan="4">26%</td><td>24%</td><td>12%</td><td>11%</td></tr>
</table>

Source: Baum et al, Trends in Student Aid 2014, The College Board. Retrieved from trends.collegeboard.org

There are other significant differences in borrowing patterns. Students who complete bachelor's degrees in four years tend to borrow much less than those who enroll for longer periods of time. Older students borrow more than younger students, black graduates have accumulated more debt on average than those from other racial and ethnic groups, and those from families in the upper quarter of the family income distribution borrow less than those from the lower three quarters.

Figure 1. Distribution of Cumulative Debt Levels of 2011-12 Bachelor's Degree Recipients by Sector



Source: Baum et al, Trends in Student Aid 2015, The College Board. Retrieved from trends.collegeboard.org

2. Who borrows the most?

Most people with very high levels of debt have gone to graduate school. Although only 16 percent of all borrowers took loans for graduate school, 44 percent of those with debt of $40,000 or more borrowed for graduate school.[1]

Only 1 percent of students who completed undergraduate credentials in 2011-12—including 2 percent of those who completed bachelor's degrees—had borrowed $75,000 or more. In contrast, 11 percent of those who completed graduate degrees—including 54 percent of those who earned professional degrees in fields such as law and medicine—borrowed $120,000 or more.[2]

As Table 3 reports, among bachelor's degree recipients, those who attended for-profit institutions, those who stayed in school for a longer time, independent students (whose parents are not considered in determining their financial aid eligibility), older students, and black students borrowed more than others.

1 Council of Economic Advisers analysis of data from Department of Education, 2016.
2 NCES, National Postsecondary Student Aid Study 2012, Power Stats.

Table 3. Distribution of Cumulative Debt Among 2011-12 Bachelor's Degree Recipients, by Selected Characteristics

	No Debt	Less than $10,000	$10,000 to $19,999	$20,000 to $29,999	$30,000 to $39,999	$40,000 or More
Sector						
Total	30%	10%	13%	18%	12%	Total
Age at Completion						
For-Profit	12%	4%	7%	14%	16%	48%
Private Non-Profit Four Year	25%	8%	12%	20%	14%	20%
Public Four-Year	34%	12%	14%	18%	10%	12%
Number of Years Elapsed Since Enrollment						
Within 4 Years (39%)	36%	11%	15%	19%	9%	10%
5 Years (21%)	29%	11%	12%	19%	13%	15%
6 Years (10%)	25%	11%	12%	19%	16%	17%
7 Years or Longer	24%	8%	11%	14%	13%	30%
Dependency Status						
Dependent	34%	12%	14%	19%	10%	11%
Independent	24%	9%	11%	15%	14%	27%

	No Debt	Less than $10,000	$10,000 to $19,999	$20,000 to $29,999	$30,000 to $39,999	$40,000 or More
Dependent Students' Family Income						
Lowest (16%)	21%	15%	21%	20%	12%	11%
Second (22%)	21%	12%	15%	27%	13%	12%
Third (27%)	38%	11%	12%	16%	10%	13%
Highest (36%)	45%	10%	11%	17%	8%	8%
Age at Completion						
23 or Yourger (60%)	34%	12%	14%	19%	11%	11%
24 to 29 (20%)	21%	12%	12%	15%	14%	25%
30 or Older (36%)	25%	5%	11%	14%	13%	32%
Race/Ethnicity						
Asian (6%)	43%	12%	14%	17%	7%	7%
Black (12%)	14%	11%	12%	16%	15%	32%
Hispanic (12%)	27%	11%	14%	17%	14%	17%
White (66%)	32%	10%	13%	18%	12%	16%

Source: Baum et al, Trends in Student Aid 2015, The College Board.

3. How much and why has borrowing gone up?

Average debt levels of college graduates have risen considerably over time. In recent years, they have risen more rapidly for bachelor's degree recipients from public than from private colleges.

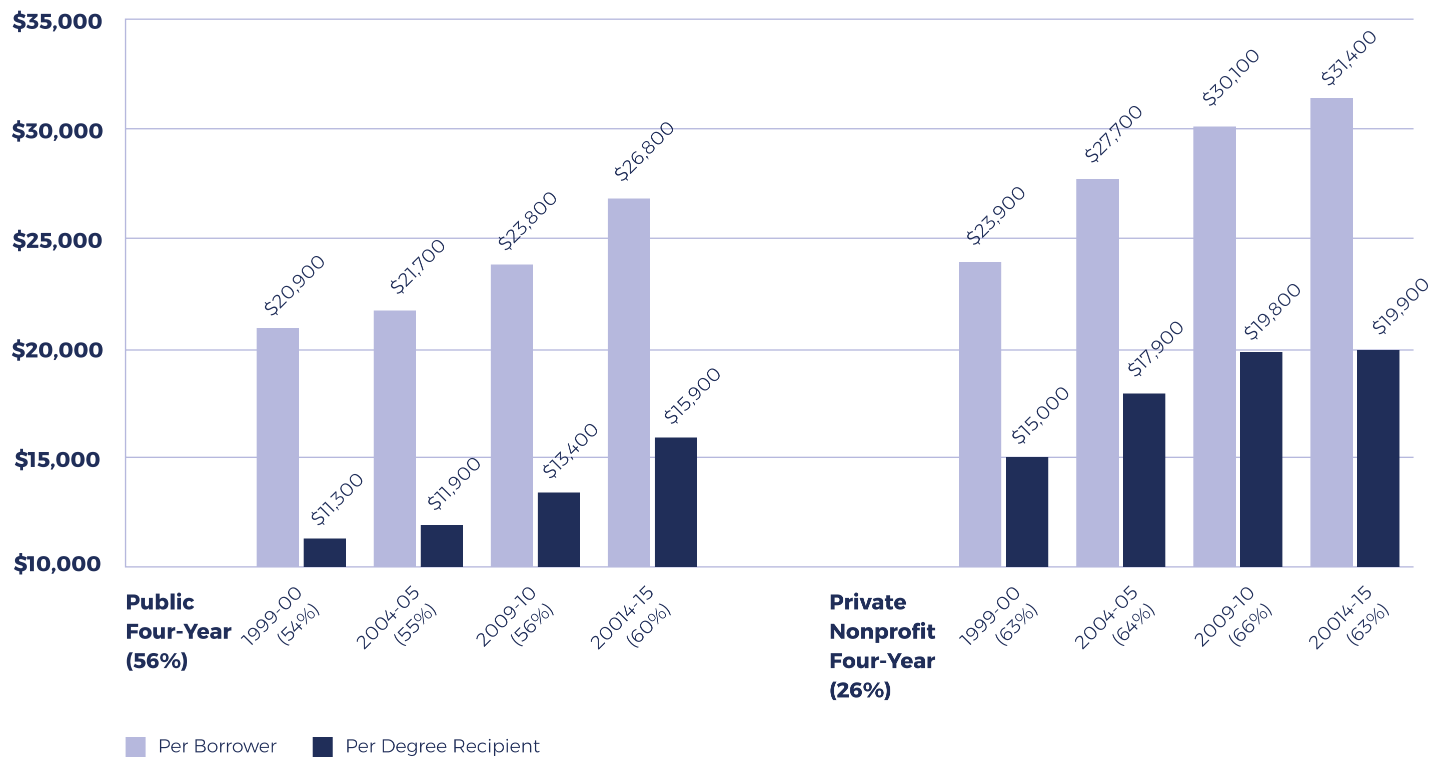
The percentage of public college graduates leaving school with debt rose from 54 percent in 1999-2000 to 60 percent in 2014-15. Figure 2 shows that among borrowers, average debt rose by 28 percent over these 15 years, from $20,900 (in 2015 dollars) to $26,800. This amount has been rising at an increasing rate—by 4 percent over the 5 years from 1999-2000 to 2004-05, by 10 percent over the next five years, and by 13 percent between 2009-10 and 2014-15.

Because many students do not borrow at all, average debt per graduate is much lower. But among public college graduates, this amount rose by 41 percent, from $11,300 in 1999-2000 to $15,900 in 2014-15, because it is affected by both the share of students who borrow and the debt levels of those students.

The percentage of private nonprofit college graduates leaving school with debt ranged between 63 percent and 66 percent over the 15 years from 1999-2000 to 2014-15. Among borrowers, average debt rose by 31 percent, from $23,900 (in 2015 dollars) in 1999-2000 to $31,400 in 2014-15. The rate of increase in this amount has been declining—from 16 percent over the 5 years from 1999-2000 to 2004-05 to 9 percent over the next five years, and to 4 percent between 2009-10 and 2014-15.

Average debt per private nonprofit college graduate, including non-borrowers, rose by 33 percent, from $15,000 in 1999-2000 to $19,900 in 2014-15.

Figure 2. Average Cumulative Debt of Bachelor's Degree Recipients from Public and Private Nonprofit Colleges and Universities, 1999-00 to 2014-15 (in 2015 dollars)



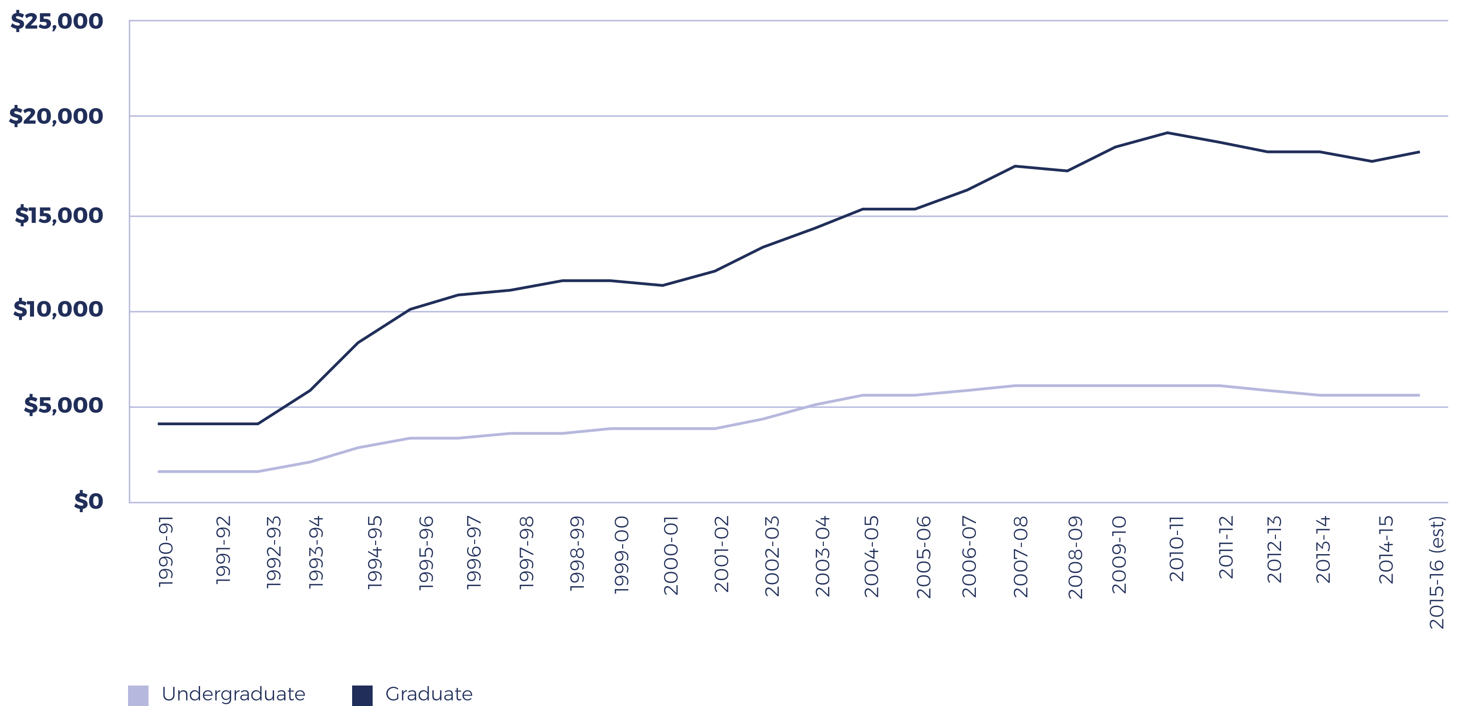
Source: Baum et al, Trends in Student Aid 2016, The College Board

Debt levels have risen for a number of reasons. An obvious one is that tuition prices have been rising. Average tuition and fees for public four-year colleges rose from $4,850 (in 2016 dollars) in 1999-2000 to $9,240 in 2014-15 (and to $9,650 in 2016-17). At private nonprofit institutions, the increase was from $22,400 (in 2016 dollars) in 1999-2000 to $31,600 in 2014-15 (and to $33,480 in 2016-17).

But rising tuition is not the only explanation. The Great Recession took a serious toll on both incomes and savings. Families would have been less able to pay the bills for their children's college education even if those bills had not grown. Moreover, figures on student debt don't include the amount families borrow through home equity to help pay for college. Since the collapse of the housing market between 2006 and 2012, it has become much more difficult to obtain home equity loans. It is not clear precisely what the impact on education borrowing has been, but some of the increase in student debt actually reflects a shift in the form of borrowing from home equity to student loans.

It is interesting to note, however, that annual borrowing levels have been declining since 2010-11. Figure 3 shows that, on average, borrowing per undergraduate—including both federal and non-federal loans— fell from $6,200 (in 2015 dollars) in 2010-11 to $5,500 in 2015-16. Average per-student borrowing for graduate students fell from $19,300 to $18,200 over these five years.

Figure 3. Annual Borrowing per Full-Time Equivalent Undergraduate and Graduate Student, 1990-91 to 2015-16 (in 2015 dollars)



Source: Baum et al, Trends in Student Aid 2016, The College Board

Changes in student borrowing levels depend both on changes in the amounts that similar types of students borrow over time and in the characteristics of the students going to college. For example, the percentage of postsecondary students enrolling in for-profit institutions increased from 3 percent in fall 2000 to 10 percent in fall 2010, and declined to 8 percent in 2014.[3] Because for-profit students borrow more than similar students enrolled in other sectors, these enrollment patterns have a measurable impact on student debt levels.

During the recession, when job opportunities were very limited, many adults went back to school to try to improve their labor market options. This group of students is very dependent on loans to finance their education, so this change put upward pressure on borrowing. As the economy has recovered and enrollments in for-profit and community colleges have declined, average annual borrowing levels have declined.

It is too soon to know whether these changes will lead to declines in the average debt of bachelor's degree recipients. Very small percentages of bachelor's degree recipients are older or attended for-profit institutions, so cumulative debt levels for degree recipients may not decline, despite the overall reduction in borrowing. The most promising strategy for reducing bachelor's degree recipients' debt levels in the short run is probably reducing the time it takes students to earn their degrees.

4. Are tuition prices rising because of the availability of student loans?

The idea that the availability of federal student aid could explain rising tuition prices has captured attention since William Bennett, then Secretary of Education, wrote a 1987 op-ed in the New York Times arguing that "increases in financial aid in recent years have enabled colleges and universities blithely to raise their tuitions, confident that Federal loan subsidies would help cushion the increase."[4]

Numerous statistical studies have attempted to test the "Bennett hypothesis" and the overwhelming consensus is that while for-profit colleges do raise their tuition in response to increases in federal student loan limits, this does not appear to be the case for public and private nonprofit institutions.[5]

This conclusion does not mean that the availability of loans has no impact on tuition prices. The purpose of the federal student loan program is to increase demand for higher education by providing a broader segment of the population with the means to pay for college. It is logical that this increase in demand puts upward pressure on both sticker prices and the quantity of higher education available.

3 NCES , Digest of Education Statistics 2015, Table 303.10..

But many institutions discount their prices for a high percentage of their students—offering institutional grant aid that makes the net prices students pay considerably lower than the sticker prices. And students use federal and state grant aid to reduce their net prices even farther.

In other words, if the question is whether students in general are paying more because of the availability of student loans, the answer is almost certainly no. Some individual students may in fact be paying more than they otherwise might. Students not eligible for any grant aid may face higher tuition prices than they would if their institutions enrolled fewer low- and moderate-income students. But overall, financial aid—including loans—allows many more students to go to college.

The main explanation for rising tuition prices in the public institutions, in which about three-quarters of postsecondary students enroll, is that state funding levels have not kept up with rising enrollments. As taxpayers cover a diminishing fraction of the total cost of education, tuition must cover an increasing percentage of those costs.

The relevant question is what would happen in the absence of federal student loans. There is a private student loan market and as recently as 2007-08, a quarter of all education loans came from nonfederal sources. So it is reasonable to believe that if federal loans were nonexistent or much harder to come by, private loans would take up some of the slack. But because private loans generally carry much less favorable terms than federal loans, at-risk students—those from low-income backgrounds, enrolled in less-selective institutions, or with weak credit ratings—would pay more for their loans than others. If credit for college were, in general, less available, some students would simply be unable to enroll. Some would have to enroll in lower-price two-year colleges instead of four-year institutions or in public rather than private institutions. Sticker prices at some institutions might fall. Some might go out of business entirely. But it is unlikely that many students would have more affordable educational opportunities.

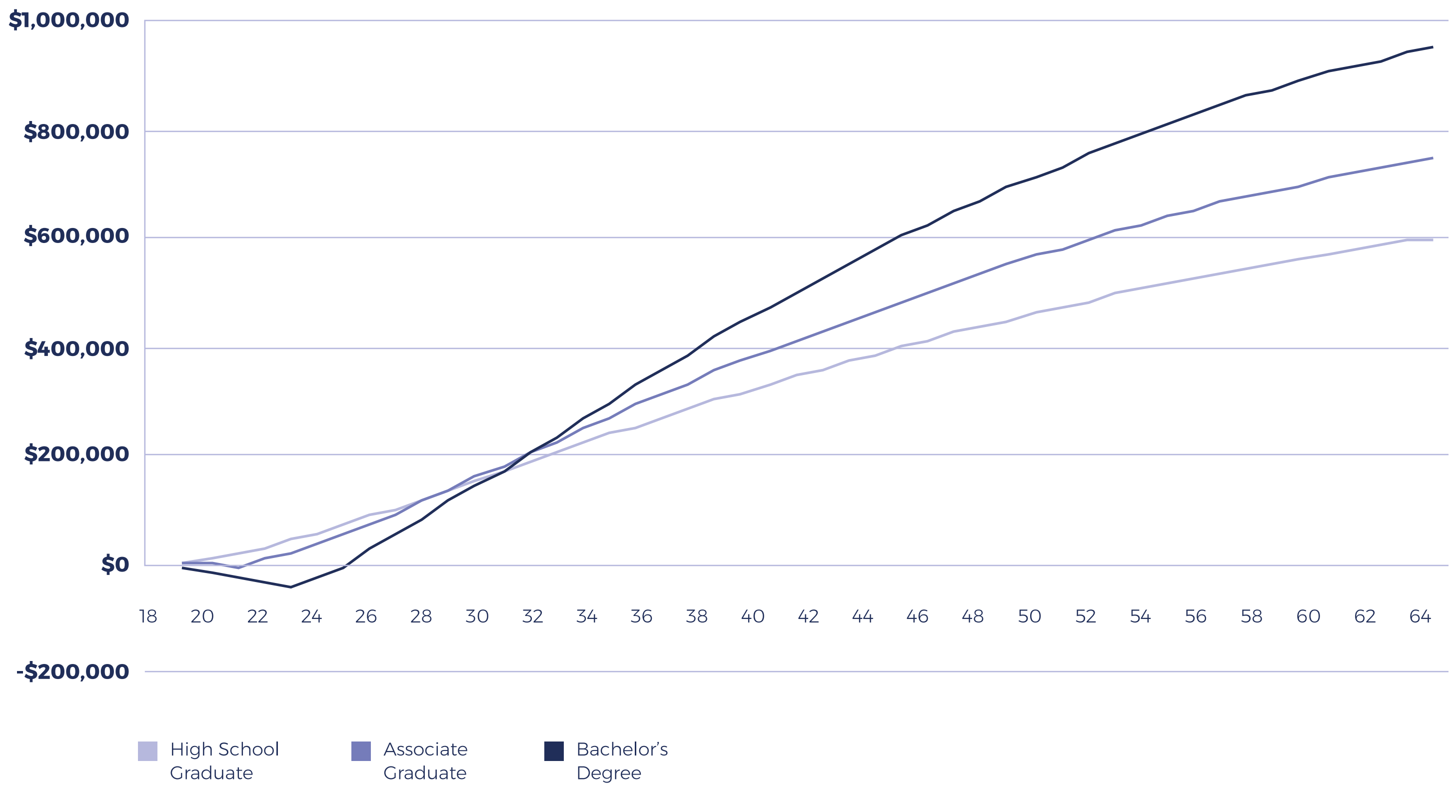
4 William J. Bennett (1987, February 18), “Our Greedy Colleges,” New York Times.
5 Adam Stoll, David Bradley, and Shannon Mahan (2014), Overview of the Relationship between Federal Student Aid and Increases in College Prices, Congressional Research Servixce (http://c.ymcdn.com/sites/www.ncher.us/resource/collection/1CFB07FA-74C6-4F0A-8E79-3ADB2C453546/R43692.pdf).

5. Is college still worth it?

The question of whether going to college is "worth it" is not just about money. Getting a good job and making a good salary is of course important. But the benefits of college are not all financial. College graduates are healthier than others. They have lower smoking rates and exercise more often. They are more likely to have children who succeed in school, and are more likely to vote and to volunteer in their communities. Many occupations are open only to college graduates.

Yet the question of the financial payoff is important and it is true that college prices have continued to rise even as earnings levels have stagnated. But the reality is that the earnings gap between typical high school graduates and typical four-year college graduates is far larger than it would have to be to make going to college a good investment. Figure 4 shows that by about age 30, a student who enrolls in college immediately after high school and pays tuition at a four-year college for five years before entering the labor market will make up for both forgone earnings and tuition payments and have higher cumulative net earnings than a high school graduate who went straight to work at about age 18. Each year after that, college graduates will increase the gap between their earnings and where they would have been without going to college.

Figure 4. Breaking Even: Cumulative Net Earnings of High School and College Graduates over Time



Source: Urban Institute (2017), Understanding College Affordability, collegeaffordability.urban.org.

People sometimes worry that if the gap between the earnings of college graduates and the earnings of high school graduates does not continue to increase, college will no longer be worth it. In fact, the earnings premium is higher for both men and women than it was a decade ago—largely because of the increasing difficulty high school graduates have finding jobs that pay well.

But the most relevant question is the size of the earnings premium—not whether it is continually increasing. In 2015, median earnings for male bachelor's degree recipients between the ages of 25 and 34 working full-time were 75 percent ($26,200) higher than the median for male high school graduates. For women the gap was 84 percent ($23,200). Even taking taxes into consideration, the typical graduate could pay off his or her student debt within a couple of years with this earnings differential.[6]

6 U.S. Census Bureau (2016), Current Population Survey

6. Is borrowing holding back young people from buying homes?

Probably the most commonly cited concern about the impact of student debt relates to whether it prevents young people from being able to buy houses. It seems quite logical that people would either postpone the purchase of a home or buy a cheaper house than they would if they had the same income but no education debt. But we have to know what individuals' circumstances would be if they had not borrowed and how their education may have affected them beyond the debt they incurred. Perhaps education makes people more aware of the recent financial crisis and the risks involved in home ownership. Perhaps it leads them to postpone marriage, childbearing, and the concomitant desire to buy a house.

If students graduated from college debt-free, they would almost certainly be a bigger presence in the housing market over the decade following their graduation than they are now. But if the absence of debt meant lower levels of educational attainment, this group of young people would have lower incomes and diminished wherewithal to finance home purchases.

If lower education debt burdens emerged from more generous public funding of education, then higher tax payments would probably also be part of the scenario, partially counteracting the increases in disposable income among former students. In other words, the question is not what home purchases

would look like if there were more money all around, but what they would look like if there were transfers to students from someone else.

Researchers at the Federal Reserve Bank of New York have attempted to document the relationship between home purchases and student debt.[7] They suggest a relationship between declining home ownership and increases in student debt, but do not show that increases in student loan debt actually caused the change in home purchases. It is possible that the recession reduced expected earnings and led to a decline in home purchases. Other researchers have challenged their findings, arguing that the lowest home ownership rates are among students who borrow for college and don't graduate, and among those with no college education. Those who earn bachelor's degrees are better able than other adults to buy houses. Graduates with advanced degrees are the most likely to own a home, even if they accumulated a lot of student debt.[8]

There is a consensus that household structure and income are very important determinants of home ownership. According to the U.S. Census, 72 percent of families (households with two or more related people) are homeowners, compared with 50 percent of non-family households. Further, 75 percent of households with incomes at or above the median own their homes, compared with 49 percent of those below the median; and 70 percent of households headed by 45- to 54-year-olds own homes, compared with 36 percent of those under the age of 35.[9]

Some comparisons ignore changes in the pattern of who has student debt and who does not. If we see that people with student debt are less likely to buy houses in 2013 than they were in 2003, and we also see that average student debt balances are higher, we might conclude that it is the rise in student debt that caused the decline in home ownership. But many more people now have student debt than in the past, and a whole segment of people who were in the non-borrower category before have shifted to the borrower category—and these new borrowers are not in a strong position to buy houses. It may not be that people who would have bought houses before are no longer buying them because they have debt. Rather, many people who are not likely homeowners did not go to college at all in the past, but because of the increasing difficulty of getting a good job without any postsecondary education, as well as the wide

7 Meta Brown and Sydnee Caldwell, "Young Adult Student Loan Borrowers Retreat from Housing and Auto Markets," (New York: Federal Reserve Bank of New York, 2013), http://libertystreeteconomics.newyorkfed.org/2013/04/young-student-loan-borrowers-retreat-from-housing-and-auto-markets.html#.VbpQIipViko.
8 Beth Akers, "Reconsidering the Conventional Wisdom on Student Debt and Home Ownership," Brookings Institution, Brown Center Chalkboard, May 8, 2014, http://www.brookings.edu/research/papers/2014/05/08-student-loan-debt-and-home-ownership-akers; Jason Houle and Lawrence Berger, The End of the American Dream? Student Loan Debt and Home Ownership Among Young Adults (Washington, DC: Third Way, 2015), http://www.thirdway.org/report/the-end-of-the-american-dream-student-loan-debt-and-homeownership-among-young-adults; Jamie Anderson, "Yes, First-Time Buyer Demand is Weak. But Stop Blaming Student Debt." Zillow Real Estate Research, September 16, 2015, http://www.zillow.com/research/student-debt-homeownership-10563/; Melissa Allison, "Student Debt has Minor Effect on Homeownership—As Long As You Get a Four-Year Degree," September 16, 2015, http://www.zillow.com/blog/student-debt-effect-homeownership-182547/.
9 Jonathan Vespa, Jamie Lewis and Rose Kreider, America's Families and Living Arrangements, 2012, (Washington, DC: U.S. Census Bureau, 2013), P20-570; Robert Callis and Melssa Kresin, Residential Vacancies and Homeownership in the Third Quarter 2015, U.S. Census Bureau News, October 27, 2015.

availability of student loans, they now go to college and have student debt. Thus they are now on the side with debt when we compare those with student debt to those without.

Young people are postponing many decisions about marriage, children, and settling down—whether or not they have student loans. Typical monthly payments on student loans surely make a difference, but they pale next to mortgage obligations—and next to the earnings premium resulting from a college education. Rising student loan debt may be a problem, but it is not the cause of the weak housing market.

7. Which borrowers have the most difficulty repaying their education debts?

It is not borrowers who have the highest debt levels who struggle most to repay their loans, but rather those who do not have jobs that pay well. Since most of the people with very high levels of debt have graduate degrees, they are usually well-positioned to meet their repayment obligations (see Table 1).

Table 4. Share of Defaulters and Three-Year Federal Student Loan Default Rate Among Borrowers Entering Repayment in 2010-11, by Loan Balance

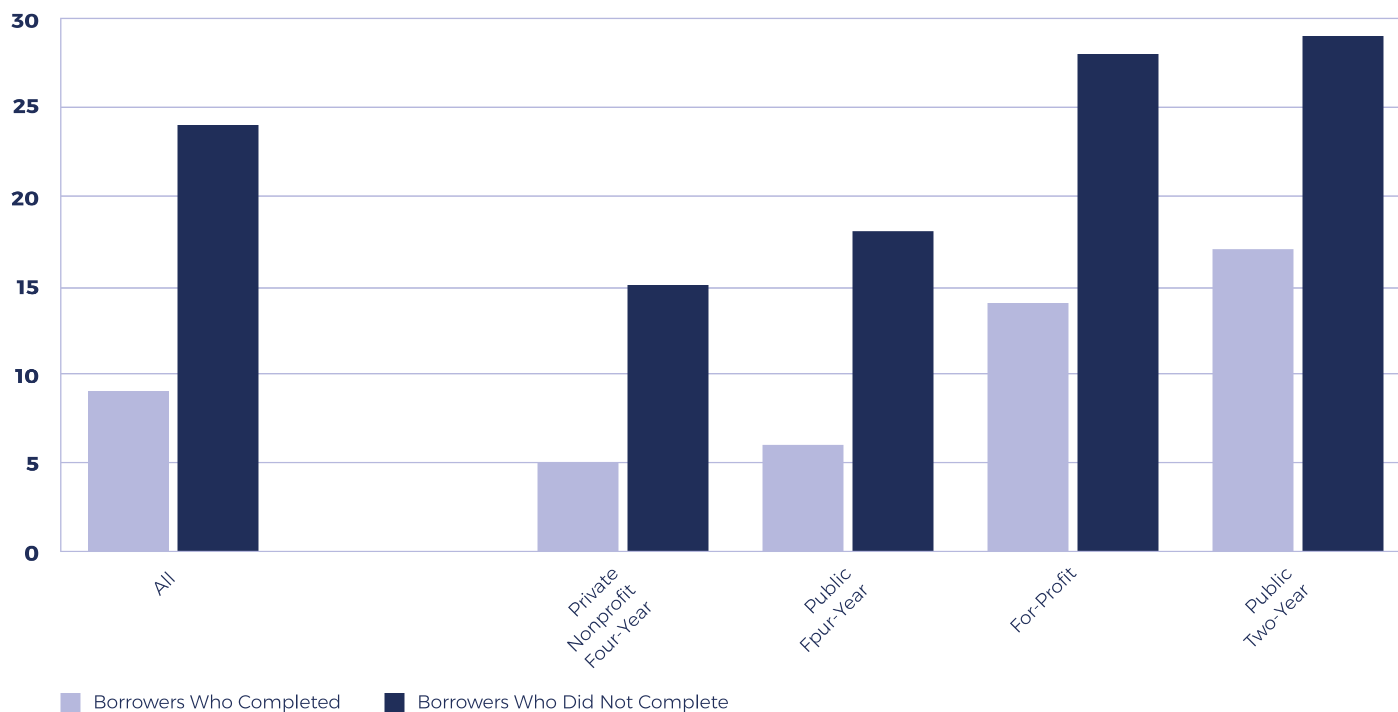
Loan Balance	Share of Defaulters	Default Rate
Less than $5,000	35%	24%
$5,001 to $10,000	31%	19%
$10,001 to $20,000	18%	12%
$20,001 to $40,000	11%	8%
More than $40,000	4%	7%

Note: Loan balance is measured at the time the borrower entered repayment.
Source: Council of Economic Advisers (2016), Investing in Higher Education: Benefits, Challenges, and the State of Student Debt, Figure 27.

Default rates on student loans are inversely related to the amount owed. Among borrowers who entered repayment in 2010-11, 24 percent of those who owed less than $5,000 defaulted within three years, compared with 12 percent who owed between $10,000 and $20,000 and 7 percent of those who owed more than $40,000. More than one third of defaulters had balances lower than $5,000, and only 4 percent had balances exceeding $40,000.

A recent study combining data from the U.S. Treasury on earnings with data from the Department Education on student debt provided powerful new insights into loan repayment patterns. Looney and Yannelis (2015) found that most of the increase in default rates is associated with the rise in the number of borrowers attending for-profit schools and, to a lesser extent, two-year institutions.

Figure 5. Two-Year Federal Student Loan Default Rate Among Borrowers Entering Repayment in 2011-12, by Sector and Degree Completion Status



Source: Baum et al, Trends in Student Aid 2016. The College Board. Based on data from Looney and Yannelis (2015), "A Crisis in Student Loans? How Changes in the Characteristics of Borrowers and in the Institutions They Attended Contributed to Rising Loan Defaults," Brookings Papers on Economic Activities

Overall default rates doubled between 2000 and 2011, but default rates remained low for borrowers from public and private nonprofit four-year institutions. The increase in the share of borrowers attending postsecondary institutions with relatively weak educational outcomes and experiencing poor labor market outcomes after leaving school explains most of the increase.

Particularly dramatic is the difference between students who complete their programs, earning either certificates, associate degrees, or bachelor's degrees, and those who leave school without a credential (figure 5). Among those entering repayment in 2011-12, 24 percent of those who dropped out had defaulted within two years, compared with just 9 percent of those who graduated

But the differences across sectors are also stark. The default rates for completers in the for-profit and two-year public sectors are similar to those for non-completers in public and private nonprofit four-year institutions. In sum, the failure to repay student loans is not associated with high debt levels. Rather, it is borrowers who do not complete their studies and those who have weak labor market outcomes who struggle—even with relatively small amounts of debt.

8. What is the federal government doing to make it easier for students to repay their loans?

The federal government has implemented policies that should prevent most borrowers from having to default on their federal student loans. Widely-available income-driven repayment plans have been available since 2009 and have gradually become more generous to borrowers.

The array of programs can be confusing. In addition to the standard 10-year repayment plan, under which borrowers make fixed monthly payments and pay off their debts in no more than 10 years, there is an extended plan that allows the payments to be spread over more years, and a graduated payment plan under which payments automatically grow over time, based on the idea that most borrowers will see their incomes growing. And there are now four different income-driven repayment plans that base monthly payments on the borrower's income.

The most recent plan is Revised Pay as you Earn (RePAYE). This plan is available to borrowers regardless of when they took out their loans and caps borrowers' monthly payments at 10 percent of their discretionary income (income exceeding 150 percent of the poverty level). Any remaining loan balance is forgiven after 20 years of qualifying payments for undergraduate students or after 25 years for students who borrowed for graduate school.

In addition, the Public Service Loan Forgiveness (PSLF) program forgives remaining debt for borrowers who work for nonprofits or governments or in certain specified occupations if they have made regular payments under an income-driven plan for 10 years.

The share of borrowers enrolled in income-driven plans has increased rapidly, growing from 11 percent in 2013 to 25 percent in 2016. The fraction of outstanding federal student debt held by these borrowers rose from 23 percent to 43 percent over these three years.[10]

10 U.S. Department of Education, Federal Student Aid Data Center, Federal Student Loan Portfolio.

9. What different kinds of loans are available to students?

Most education loans come from the federal government. Until 2010, there was a program through which the federal government guaranteed the loans banks and other private lenders made to students, but now federal student loans all come directly from the government.

There are several different types of Federal Direct Loans. Some undergraduate students receive subsidized loans, on which the government pays the interest while the student is in school. Only students with documented financial need are eligible for this program. All undergraduates, as well as graduate students, are eligible for unsubsidized loans. The interest accrues on these loans from the time they are issued. The subsidized and unsubsidized loans are sometimes called by their former official name—Stafford Loans.

The Perkins Loan program is a small program available to undergraduate and graduate students with financial need who are enrolled in participating institutions.

Graduate students can also borrow through the Grad PLUS program. Unlike the Stafford Loan programs, which place clear limits on how much individual students can borrow, the Grad PLUS program allows students to borrow up to the full cost of attendance (tuition, fees, room, board, books and supplies, and other living expenses) less other financial aid.

The federal government also has a loan program for parents of undergraduate students. Unless they have adverse credit ratings, parents can borrow up to the cost of attendance less other financial aid through this program.

Some students also borrow private loans, through banks or other private lenders and sometimes through state governments. In 2015-16, about 10 percent of education loans were nonfederal.[11] The distinction is very important. The federal government legislates the interest rates on federal loans. In 2016-17, subsidized and unsubsidized loans for undergraduate students carry a rate of 3.76 percent. Direct Loans for graduate students charge 5.31 percent and PLUS loans for both parents and graduate students charge 6.31 percent.

Interest rates on private student loans are not regulated. They may depend on the borrower's credit rating or other factors. They may be either fixed or variable. And of particular importance, the repayment protections accompanying federal student loans do not apply to private loans. Income-driven repayment, where monthly payments are linked to the borrower's income, and deferment of payments while a borrower is in school or facing financial difficulties, are benefits available only in

11 Baum et al, Trends in Student Aid 2016, The College Board, Table 1.

the federal loan programs. The same is true of loan forgiveness programs.

Both federal and private student loans are much more difficult to discharge in bankruptcy proceedings than other forms of personal credit.

10. How should we think about the fact that there is more than $1 trillion in outstanding student debt?

Discussions of a student debt "crisis" have become much more widespread since the amount of outstanding debt passed the $1 trillion mark in 2013. According to the Federal Reserve Bank of New York, the total is now $1.3 trillion.[12] Clearly that's a lot of money. But what does it mean?

The total amount of outstanding debt includes loans that students and parents took many years ago and have not paid off. Some of those loans will never be paid off. The amounts owed by some borrowers increase over time because their payments don't cover the interest that is accruing. Each year, the amount of outstanding debt increases by the amount that new loans issued plus accruing charges exceed the debt that is paid off.

Part of the explanation for the growth in outstanding debt is that individual students are borrowing more. But growth in the number of students and in the percentage of students who borrow are also major factors putting upward pressure on the total outstanding debt. Moreover, in a weak economy, fewer students pay off their loans—especially now that so many are in income-driven repayment plans that limit required payments to affordable amounts.

In 2015-16, when there were 14.8 million postsecondary students, 8.6 million students took federal loans—an increase from 7.2 million in 2005-06. The average amount borrowed increased from $8,200 (in 2015 dollars) to $8,600 over the decade, after peaking at $9,200 in 2009-10.

Students and their parents borrowed $107 billion in 2015-16—all of which was added to outstanding debt. In 2010-11, students and parents borrowed $124 billion. But even with this decline in annual borrowing, the total outstanding debt increases each year.

One trillion dollars sounds dramatic. But it pales next to the $8.8 trillion dollars in housing debt. Concern should focus on the amounts individual students borrow and whether they can reasonably repay their loans. If outstanding student debt increases because more students go to college, or because more low- and moderate-income students go to college, that is promising for their futures and for the nation's future. But if the average amount they borrow increases every year and their prospective

12 Federal Reserve Bank of New York (2016) Household Debt and Credit. Retrieved from https://www.newyorkfed.org/microeconomics/data.html.

earnings do not, that is cause for concern. And if many of them leave college with debt but no degree, that is the most serious problem.

11. Why do we hear so much about a student debt "crisis"?

Total outstanding student debt is growing as more people with limited resources go to college and as fewer people retire their debts quickly. Average debt levels are growing as college prices rise and as more people with limited resources go to college. Default rates are disturbingly high, particularly when the economy is weak. And too many students are borrowing for degrees that they never complete.

But the student loan "crisis" is a narrow one. As indicated in figure 1 and table 3, it is concentrated among those who enroll in for-profit institutions where students pay high prices and have high debt levels. Moreover, as figure 5 shows, borrowers who do not complete their programs struggle much more with their student debt than those who have achieved their goals.

Young people who enroll in four-year colleges and earn bachelor's degrees within four or five years are borrowing more than they did a decade ago, but the earnings premium associated with their degrees has also grown. Relatively few of these students are experiencing a "crisis."

Stories of individual students who are struggling with their student loans are very compelling. There are, in fact, too many students who have borrowed for college but have not completed degrees. And there are too many who did graduate, but did so at the height of the recession when finding good jobs was difficult even for the most qualified applicants.

Journalists tend to look for dramatic stories. Just as they don't write about planes that land safely, they are not so interested in students who went to college, borrowed typical amounts—$25,000 to $35,000 for a bachelor's degree—and quickly found jobs that used their skills and paid them well. Instead, journalists find those few individuals who borrowed $100,000 to finance their undergraduate education, majoring in a field with weak job prospects at a college with a weak reputation. We hear these stories and worry.

But the bigger problem is that just over half of students who enroll in college earn any sort of credential within six years.[13] Whether or not they have borrowed, students who spend time, energy, and money on college and have little to show for it may well question whether it was worth it.

13 Shapiro, D., Dundar, A., Wakhungu, P.K., Yuan, X., Nathan, A. & Hwang, Y. (2016, November). Completing College: A National View of Student Attainment Rates – Fall 2010 Cohort (Signature Report No. 12). Herndon, VA: National Student Clearinghouse Research Center.

Moreover, some credentials do not pay off well in the labor market. Men ages 25 to 34 with some college or an associate degree had median earnings of $41,000 in 2015, compared with $34,800 for high school graduates of the same age with no college experience.[14] However, there is considerable variation in earnings among individuals with different kinds of associate degrees. Those in technical fields pay off much better than those in general studies, which frequently have little labor market value.

It is also instructive to think about what the median earnings of $41,000 can buy. Certainly the extra $6,200 helps. But even so, there is not a lot of leeway after paying for basic necessities. So although individuals are better off even considering monthly loan payments, they are likely to be struggling to make ends meet. The student loan payments will loom large in considering barriers to a secure lifestyle, whereas the reality of the lower alternative earnings if they hadn't gone to college is likely to be much more abstract.

14 U.S. Census Bureau (2016), Current Population Survey

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