The emerging student loan default crisis is worse than we thought : A Brief Study and A Solution

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Contents

The Study Report on Student Loan Default Crisis

Introduction

This report analyzes new data on student debt and repayment, released by the U.S. Department of Education in October 2017. Previously available data have been limited to borrowers only, follow students for a relatively short period (3-5 years) after entering repayment, and had only limited information on student characteristics and experiences. The new data allow for the most comprehensive assessment to date of student debt and default from the moment students first enter college, to when they are repaying loans up to 20 years later, for two cohorts of first-time entrants (in 1995-96 and 2003-04). This report provides a broader perspective on student debt and default that considers all college entrants rather than just borrowers, provides substantially longer follow-up, and enables a more detailed analysis of trends over time and heterogeneity across subgroups than previously possible.

Key findings from new analysis of these data include:

- Trends for the 1996 entry cohort show that cumulative default rates continue to rise between 12 and 20 years after initial entry. Applying these trends to the 2004 entry cohort suggests that nearly 40 percent may default on their student loans by 2023.
- The new data show the importance of examining outcomes for all entrants, not just borrowers, since borrowing rates differ substantially across groups and over time. For example, for-profit borrowers default at twice the rate of public two-year borrowers (52 versus 26 percent after 12 years), but because for-profit students are more likely to borrow, the rate of default among all for-profit entrants is nearly four times that of public two-year entrants (47 percent versus 13 percent).
- The new data underscore that default rates depend more on student and institutional factors than on average levels of debt. For example, only 4 percent of white graduates who never attended a for-profit defaulted within 12 years of entry, compared to 67 percent of black dropouts who ever attended a for-profit. And while average debt per student has risen over time, defaults are highest among those who borrow relatively small amounts.
- Debt and default among black college students is at crisis levels, and even a bachelor's degree is no guarantee of security: black BA graduates default at five times the rate of white BA graduates (21 versus 4 percent), and are more likely to default than white dropouts. Trends over time are most alarming among for-profit colleges; out of 100 students who ever attended a for-profit, 23 defaulted within 12 years of starting college in the 1996 cohort compared to 43 in the 2004 cohort (compared to an increase from just 8 to 11 students among entrants who never attended a for-profit).

The results suggest that diffuse concern with rising levels of average debt is misplaced. Rather, the results provide support for robust efforts to regulate the for-profit sector, to improve degree attainment and promote income-contingent loan repayment options for all students, and to more fully address the particular challenges faced by college students of color.

Background and data

Until recently, the dominant focus of public concern around student loans has been simply how much of it there is, and how rapidly it has been growing over time. At nearly $1.4 trillion in loans outstanding, student debt is now the second-largest source of household debt (after housing) and is the only form of consumer debt that continued to grow in the wake of the Great Recession.[1]

But as many observers have noted, these aggregate statistics tell us little about the student-level experience with college debt. About one-quarter of the aggregate increase in student loans since 1989 is due to more students enrolling in college.[2] More recent work that tracks debt outcomes for individual borrowers documents that the main problem is not high levels of debt per student (in fact, defaults are lower among those who borrow more, since this typically indicates higher levels of college attainment), but rather the low earnings of dropout and for-profit students, who have high rates of default even on relatively small debts.[3]

This study utilizes new data, released by the U.S. Department of Education in October 2017, linking two waves of the Beginning Postsecondary Student (BPS) survey, a nationally-representative survey of first-time college beginners, to administrative data on debt and defaults.[4] This allows for the most comprehensive assessment yet of student debt and default from the moment students first enter college, to when they are repaying loans up to 20 years later, for two cohorts of first-time entrants (1995-96 and 2003-04 entrants, which I refer to as the BPS-96 and BPS-04 as shorthand).[5]

This allows for a broader perspective that considers all first-time college entrants rather than just borrowers, provides substantially longer follow-up than other data sources, and enables a more detailed analysis of trends over time and heterogeneity across subgroups.[6]

How default evolve over time, by entry Cohort

The best prior estimates of overall default rates come from Looney and Yannelis (2015), who examine defaults up to five years after entering repayment, and Miller (2017), who uses the new BPS-04 data to examine default rates within 12 years of college entry. These two sources provide similar estimates: about 28 to 29 percent of all borrowers ultimately default.

But even 12 years may not be long enough to get a complete picture of defaults. The new data also allow loan outcomes to be tracked for a full 20 years after initial college entry, though only for the 1996 entry cohort. Still, examining patterns of default over a longer period for the 1996 cohort can help us estimate what to expect in the coming years for the more recent cohort.

If we assume that the cumulative defaults grow at the same rate (in percentage terms) for the 2004 cohort as for the earlier cohort, we can project how defaults are likely to increase beyond year 12 for the 2004 cohort. To compute these projections, I first use the 1996 cohort to calculate the cumulative default rates in years 13-20 as a percentage of year 12 cumulative default rates. I then take this percentage for years 13-20 and apply it to the 12-year rate observed for the 2004 cohort. So, for example, since the 20-year rate was 41 percent higher than the 12-year rate for the 1996 cohort, I project the Year 20 cumulative default rate for the 2004 cohort is projected to be 41 percent higher than its 12-year rate.

Default: By school type, attainment and Race/Ethnicity

In their analysis of three-year cohort default rates, Looney and Yannelis (2015) highlight the rapid increases in defaults among borrowers in the for-profit sector, and to a lesser extent among community college borrowers. I cut the data by institution type as well as by attainment status and race/ethnicity, two important variables that are unavailable in the Looney and Yannelis (2015) analysis. Table 2 shows 12-year borrowing rates, average amounts owed, and default rates among all first-time students, by each of these subgroups.

The table confirms that the growth in default rates across cohorts has been remarkably concentrated among for-profit entrants. In fact, the trends here are even more stark than found by Looney and Yannelis (2015), due in part to the large and rapidly growing differences in borrowing rates across sectors. Among all new students entering the for-profit sector in 2004, nearly half had defaulted within 12 years (47 percent), compared to "just" 24 percent in the 1996 cohort. The default rate for for-profit entrants is nearly four times the rate seen in other sectors, where only 12 to 13 out of every 100 entrants default. Figure 2, which focuses on borrowers only and projects default rates out to year 20, suggests that default rates in the for-profit sector could ultimately approach 70 percent.

The world outside the For-Profits

The high concentration of defaults in the for-profit sector raises the question: how different would the overall patterns look, if we set aside the for-profits? In Table 4, I split the sample into those who never attended, versus ever attended a for-profit college.[10] Doing so shows that outside the for-profit sector, the changes over time have been much more modest. Default rates overall increased by just 3 students out of every 100 (from 8 to 11) outside the for-profit sector. Among black students, default rates increased by 8 students per 100 (from 20 to 28) outside the for-profit sector, compared to an increase of 21 students per 100 among those who ever attended a for-profit college.

For-profit enrollment contributes to defaults even among students initially starting at community colleges, due to subsequent transfers. If not for students later attending for-profits, community college entrants would have lower default rates than public four-year entrants.

Conclusion

The analyses presented above highlight the value of tracking individual students from the beginning of their college trajectory for many years beyond when they leave school, and the importance of disaggregating trends by student and institutional characteristics. Key findings include:

- Trends for the 1996 entry cohort show that cumulative default rates continue to rise between 12 and 20 years after initial entry. Applying these trends to the 2004 entry cohort suggests that nearly 40 percent may default on their student loans by 2023.
- The new data show the importance of examining outcomes for all entrants, not just borrowers, since borrowing rates differ substantially across groups and over time. For example, for-profit borrowers default at twice the rate of public two-year borrowers (52 versus 26 percent after 12 years), the rate of default among all for-profit entrants is nearly four times that of public two-year entrants (47 percent versus 13 percent).
- The new data underscore that default rates depend more on student and institutional factors than on average levels of debt. For example, only 4 percent of white graduates who never attended a for-profit defaulted within 12 years of entry, compared to 67 percent of black dropouts who ever attended a for-profit. And while average debt per student has risen over time, defaults are highest among those who borrow relatively small amounts.
- Debt and default among black or African-American college students is at crisis levels, and even a bachelor's degree is no guarantee of security: black BA graduates default at five times the rate of white BA graduates (21 versus 4 percent), and are more likely to default than white dropouts.
- Trends over time are most alarming among for-profit colleges; out of 100 students who started college at a for-profit, 23 defaulted within 12 years of starting college in the 1996 cohort compared to 43 in the 2004 cohort (compared to an increase from just 8 to 11 students among entrants who never attended a for-profit).

The Solution: Educational Loan Assistant

Summary

This report analyzes new data on student debt and repayment, released by the U.S. Department of Education in October 2017. Previously available data have been limited to borrowers only, follow students for a relatively short period (3-5 years) after entering repayment, and had only limited information on student characteristics and experiences. The new data allow for the most comprehensive assessment to date of student debt and default from the moment students first enter college, to when they are repaying loans up to 20 years later, for

two cohorts of first-time entrants (in 1995-96 and 2003-04). This report provides a broader perspective on student debt and default that considers all college entrants rather than just borrowers, provides substantially longer follow-up, and enables a more detailed analysis of trends over time and heterogeneity across subgroups than previously possible.

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How it works

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Benefits from the solution

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Who are going to use this solution

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Timelines of the solution development

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Risks Involved (estimated)

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Solution deployment, post production maintenance and reports

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Conclusion

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