

Student Debt: Where Is the Crisis?

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Widespread alarm over student debt in the United States detracts attention from the very real problems facing a subset of borrowers. The majority of students who borrow for college are making an investment that will have a high payoff. They will be able to repay their loans out of their increased earnings and still enjoy a higher standard of living than would have been possible had they not gone to college. But there is wide variation in postsecondary outcomes, and not all students succeed. In addition to improving the balance between students and taxpayers in financing public higher education, policies should provide better guidance for students in advance of enrollment and should insure borrowers against unforeseen poor outcomes.

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INTRODUCTION

Student debt is causing serious difficulties for some borrowers, but the widespread fear that this debt is crushing a generation or creating an economic crisis is grounded in misinformation. The inaccurate public discourse risks failing to address the problems facing subsets of existing debtors, failing to steer future students into productive pathways, and discouraging people from taking advantage of educational opportunities that could improve their lives.

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Much of the current conversation focuses on aggregate figures instead of information about individuals. Moreover, generalizations about student debt exaggerate the problems of some—including, for example, most bachelor's degree recipients—and shift the focus away from others who are struggling, such as those who borrow for college but never complete a credential. Correlations between student debt levels and activities such as home purchases and business start-ups are too easily viewed as cause and effect, especially during the Great Recession and its aftermath. And anecdotes about individuals in unusual circumstances are often the basis for general impressions that do not actually coincide with the realities of student debt.

The nation needs improved policies for higher education finance in general and for education borrowing in particular. But perceptions of a student loan crisis, with student debt ruining the lives of former students and having a serious negative impact on the economy, are leading to wide-ranging proposals to relieve the debt burdens of any and all students. Proposals for forgiving all outstanding student debt and for guaranteeing debt-free college for future students aim to totally eliminate the concept of borrowing for college.¹

This approach is not just overly simplistic. It is ill informed and has the potential to reduce educational opportunity in the United States. Even under the most optimistic scenario, where states increase their funding for higher education significantly and federal student aid becomes more and more generous, many people will be unable to go to college and complete degrees without borrowing. Young people from disadvantaged backgrounds and even from middle-income families, as well as older adults seeking to improve their lives, would be blocked from enrolling and succeeding without access to credit on good terms.

Student debt *is* seriously harming too many former students. Some are borrowing without guidance about promising and suitable programs and institutions. Some are borrowing more than they really need to pay their tuition and support basic lifestyles. Many aspects of the design of the allocation of student loans, as well as the repayment and collection systems, are in serious need of reform. States should revive their dwindling per-student funding to public colleges and universities, which is partially responsible for increased borrowing. At the same time, institutions should find ways to rein in costs without sacrificing quality. In addition, the federal government should impose tighter restrictions on the amounts students can borrow and on the programs that qualify for federal student aid. Combined with improved pre-college guidance, these changes could significantly reduce the problems associated with education debt.

But federal extension of credit to undergraduate students makes it possible for many individuals, particularly those with limited financial means, to go to college,

1. Jon Queally, *The Unforgiven: How College Debt Is Crushing a Generation*, COMMON DREAMS (Nov. 13, 2014), <http://www.commondreams.org/news/2014/11/13/unforgiven-how-college-debt-crushing-generation> [<https://perma.cc/D9JU-N6R7>].

to go to an appropriate college, and to succeed in college. Education borrowing is improving many more lives than it is damaging.

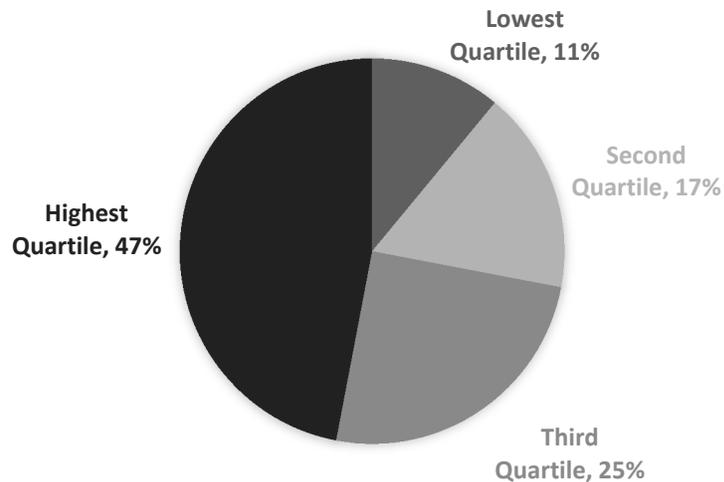
Moreover, because of the positive impact of postsecondary education on employment and earnings, relatively affluent households carry a disproportionate amount of the outstanding student debt. It is not borrowers with high levels of debt—many of whom have graduate degrees and very few of whom have less than a bachelor's degree—who are really struggling with student debt. Rather, it is those who borrowed relatively small amounts but did not emerge with educational credentials of value in the labor market. In other words, forgiving debt across the board or even lowering interest rates on that debt will provide the largest subsidies to people who do not really need the help. It will leave many who lack both the financial resources and the necessary guidance to succeed in the education system and the labor market without the support they need.

The problem is not borrowing per se. It is borrowing for programs of study that are unlikely to pay off. It is borrowing more than can be justified by the expected payoff. And it is the uncertainty involved in the investment, which pays off very well on average and for most people, but not for everyone. Some of the outcomes are predictable and we should work to prevent the bad ones. Others are not predictable and borrowers need good insurance to protect against them.

This paper provides an overview of data and perspectives that can put the student loan debate into a more realistic context and move the policy conversation forward in more constructive directions.

I. WHO IS IN DEBT?

Some popular policy proposals, such as forgiving all student debt, eliminating debt financing in the future, and lowering repayment expectations for all are grounded in the misperception that individuals who have borrowed for college are among the groups in society struggling most. In fact, because of the association between higher levels of education and higher incomes, education debt holders tend to be relatively well off. As data from the Survey of Consumer Finances shown in Figure 1 make clear, upper-income households carry a disproportionate amount of education debt, while lower-income households have less education debt than others. In 2013, the 25% of households with the highest incomes held 47% of all outstanding student debt. The 25% of households with the lowest incomes held 11% of the debt.

Figure 1: Distribution of Education Debt by Household Income, 2013

Source: SANDY BAUM, JENNIFER MA, MATEA PENDER, & D'WAYNE BELL, COLL. BD., TRENDS IN STUDENT AID 2015, at 3, 24 (2015), <http://trends.collegeboard.org/sites/default/files/trends-student-aid-web-final-508-2.pdf> [<https://perma.cc/F58Y-67XQ>]. Based on data from Survey of Consumer Finances.

Student debt is correlated with education and with earnings. The people who are having the most trouble making ends meet are those who have not gone to college and may not have even graduated from high school. Twelve percent of adults over the age of twenty-five do not have a high school diploma or a GED, and another 30% have no postsecondary experience.² These people have less earning power than people with college degrees, and in most cases less earning power than those with some college but no degree. If we want to target the worst-off people in society, it will not be through student debt relief.

II. FOR WHICH PROGRAMS DID BORROWERS ACCRUE DEBT?

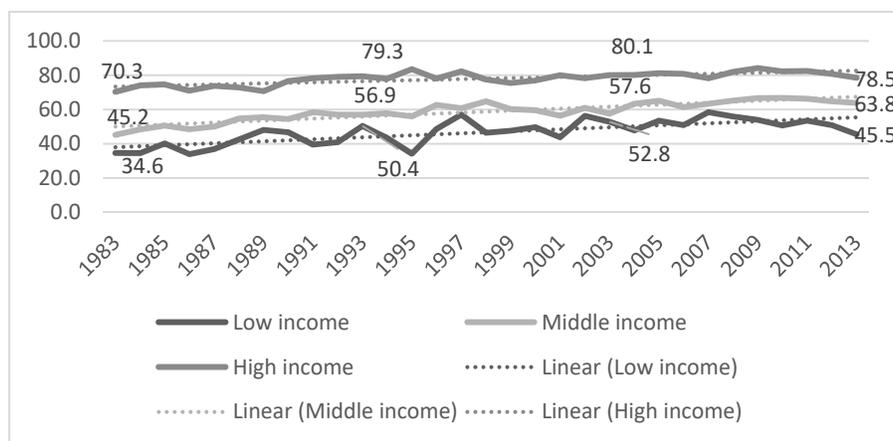
The population of college students has changed over time, along with the characteristics of the students borrowing to pay for college. It is not the population most casual observers would describe. While there are people who could have gone to college ten or twenty years ago without borrowing, but now find no other way to finance their education, it is also true that many more people now go to college than was the case a decade ago and certainly a generation ago. In particular, more

2. See *Educational Attainment in the United States: 2014 – Detailed Tables*, U.S. CENSUS BUREAU tbl.1, <http://www.census.gov/hhes/socdemo/education/data/cps/2014/tables.html> [<https://perma.cc/8GRY-PDQT>] (last updated Jan. 5, 2015).

students and more borrowers are from disadvantaged backgrounds and are older than recent high school graduates.³ More and more of these students began enrolling in for-profit institutions in the early 2000s.⁴ While this sector has shrunk dramatically since 2010,⁵ its growth over the preceding decade is an important component of the student debt story.

In the late 1970s, less than one-third of high school graduates from the lowest family income quintile went straight to college. In the twenty-first century, more than half of this group starts college right after high school. (The share of high school graduates from the highest family income quintile enrolling immediately in college also increased over this time period, from about two-thirds to over 80%.⁶)

Figure 2: Percentage of Recent High School Completers Enrolled in 2-Year and 4-Year Colleges, by Income Level: 1983³ Through 2013⁴



Note: Low income refers to the bottom 20% of families, high income refers to the top 20%, and middle income refers to those in between. Source: Institute of Education Sciences, Digest of Education Statistics 2015, at 452 302.30 (Dec. 2016) [hereinafter Digest 2015], <https://nces.ed.gov/pubs2016/2016006.pdf>.

During difficult economic times, when it is not easy to find a job, many people who would otherwise have gone straight to the labor force from high school, or who have been working for a while without a college degree, decide that the best option is to go back to school to strengthen their skills and increase their labor

3. Institute of Education Sciences, Digest of Education Statistics 2015, at 711 tbl.331.35 (Dec. 2016) [hereinafter Institution of Education Sciences, Digest], <https://nces.ed.gov/pubs2016/2016014.pdf> [https://perma.cc/F3EU-ALGH].

4. *Id.* at 460 tbl.303.10.

5. *Id.*

6. *Id.* at 452 tbl.302.30.

market opportunities. At least a portion of the decline in enrollments since 2010 can be explained by people having a choice to get a decent job instead of going to college.

A. Postsecondary Sectors

Total postsecondary enrollment increased by 15% between 2007 and 2010.⁷ Of the 2.8 million new students, 837,000—30% of these new students—were enrolled in for-profit institutions.⁸ This sector accounted for about 7% of students in 2007 and 10% in 2010.⁹ Students in this sector borrow significantly more than those with similar levels of education in the public and private nonprofit sectors.¹⁰ Typically, they are from lower-income backgrounds, are older when they enroll, are disproportionately black and Hispanic, and have relatively low completion rates and weak labor market outcomes.¹¹

In 2000, only one of the twenty-five postsecondary institutions whose students held the largest amounts of outstanding debt was in the for-profit sector. At the top of the list were New York University (NYU; a private nonprofit university) with \$2.2 billion, the University of Phoenix (a for-profit university), with \$2.1 billion, and Nova Southeastern (a private nonprofit university) with \$1.7 billion. Fast forward to 2014. Thirteen of the top twenty-five schools were in the for-profit sector. The University of Phoenix topped the list with \$35.5 billion in outstanding debt among students who last attended that institution. Walden University (for-profit) was second with \$9.8 billion, followed by Nova Southeastern at \$8.7 billion. NYU, at \$6.3 billion, had fallen to eighth place. The percentage of the total outstanding debt of the twenty-five highest-debt institutions held by the University of Phoenix jumped from 6% in 2000 to 21% in 2014. At seven of the twenty-five highest-debt institutions—all in the for-profit sector—more than 40% of those who were supposed to begin repaying in 2009 had defaulted on their loans within five years. Nova Southeastern and NYU, in contrast, had 6% default rates.¹²

As Table 1 reports, in 2003–04, borrowers who had attended public or private nonprofit four-year colleges and universities held 81% of outstanding federal student loan debt. Borrowers from the for-profit sector held 13% of the debt. Ten years later, the share held by the four-year sectors had declined to 71%, and borrowers from for-profit institutions held 21% of outstanding student debt.

7. *Id.* at 463 tbl.303.25.

8. *Id.*

9. *Id.*

10. *See id.* at 717 tbl.331.50.

11. SANDY BAUM, JENNIFER MA, MATEA PENDER, & D'WAYNE BELL, COLL. BD., TRENDS IN STUDENT AID 2015, at 3, 24 (2015), <http://trends.collegeboard.org/sites/default/files/trends-student-aid-web-final-508-2.pdf> [<https://perma.cc/F58Y-67XQ>].

12. *See* Adam Looney & Constantine Yannelis, *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 ECON. ACTIVITY, Sept. 10–11, 2015, at 28–29.

Table 1
Aggregate Outstanding Federal Student Loan Balances by Sector,
2003–04, 2008–09, and 2013–14

	Public Two-Year	Public Four-Year	Private Four-Year	For-Profit
2003–04	4%	43%	38%	13%
2008–09	5%	40%	36%	18%
2013–14	6%	37%	34%	21%

Note: Based on the sector in which students were enrolled at the time the first federal student loan was issued. Does not include Perkins or Parent PLUS Loan balances. Percentages may not sum to 100 due to rounding.

Source: BAUM ET AL., *supra* note 11, at 23 fig.14B. Based on Department of Treasury calculations, which in turn are derived from National Student Loan Data System.

In other words, the increase in student borrowing is not just about people who would have gone to college without borrowing thirty years ago now having to borrow. A significant part of the story is about new subgroups of the population going to college and about a new set of institutions enrolling many of these students. A large number of these people come from middle- or lower-income families. Many are adults who are supporting themselves and sometimes their families. In fall 2013, 38% of all postsecondary students—and 31% of undergraduates—were age twenty-five or older.¹³ A generation ago, many of these people would not have gone to college at all. There were jobs available to high school graduates that provided living wages and job security. As that opportunity has faded, more and more people who would have gotten on-the-job training now enroll in postsecondary institutions that participate in college financial aid programs, which include student loans.

The student debt picture would look quite different if the only people at issue were the relatively privileged, mostly young people drawn from traditional college-going populations who went to college in the 1950s and 1960s.

B. Undergraduate and Graduate Students

Despite frequent stories in the popular press about individual students whose debts for their bachelor's degree work are in the \$100,000 range, very few students accumulate this level of debt for undergraduate study.¹⁴

13. Institution of Education Sciences, Digest, *supra* note 3, at 467 tbl.303.45.

14. See Institution of Education Sciences, 2011–12 National Postsecondary Student Aid Study (PowerStats Calculation) B-27 tbl.B–9 (Aug. 2013) [hereinafter National Postsecondary Student Aid Study (PowerStats Calculation)], <https://nces.ed.gov/pubs2013/2013165.pdf> [<https://perma.cc/85ZV-JXN2>]; *infra* Table 2.

Table 2 shows the distribution of debt among undergraduate and graduate students who completed their programs in 2011–12. Among bachelor’s degree recipients, 18% had borrowed \$40,000 or more. In contrast, over half of all graduate degree recipients had accumulated this much debt, and 16% had borrowed \$100,000 or more for their undergraduate and graduate studies combined. In other words, in 2011–12, when 20% of the degrees conferred were graduate degrees and 80% were undergraduate degrees or certificates, about 53% of students who graduated with \$40,000 or more in debt had earned graduate degrees, 39% had bachelor’s degrees, and 7% had completed associate degrees or short-term certificates. Less than 1% of bachelor’s degree recipients had as much as \$100,000 in debt.¹⁵

Table 2
Cumulative Education Debt of 2011–12 Graduates, by Type of Degree

	BA (48%)	AA (36%)	Certificate (16%)	All Graduate Degrees	
No debt	30%	50%	34%	No debt	27%
Less than \$10,000	10%	19%	30%		
\$10,000 to \$19,999	13%	14%	25%	\$1–\$19,999	12%
\$20,000 to \$29,999	18%	9%	6%		
\$30,000 to \$39,999	12%	4%	3%	\$20,000– \$39,999	14%
\$40,000 or more	18%	4%	2%	\$40,000– \$59,999	12%
Source: Institute of Education Sciences, 2011–12 National Postsecondary Student Aid Study (PowerStats Calculation) B-27 tbl.B-9 (Aug. 2013), https://nces.ed.gov/pubs2013/2013165.pdf [https://perma.cc/85ZV-JXN2].				\$60,000– \$79,999	11%
				\$80,000– \$99,999	8%
				\$100,000 or more	16%

III. DEFAULT

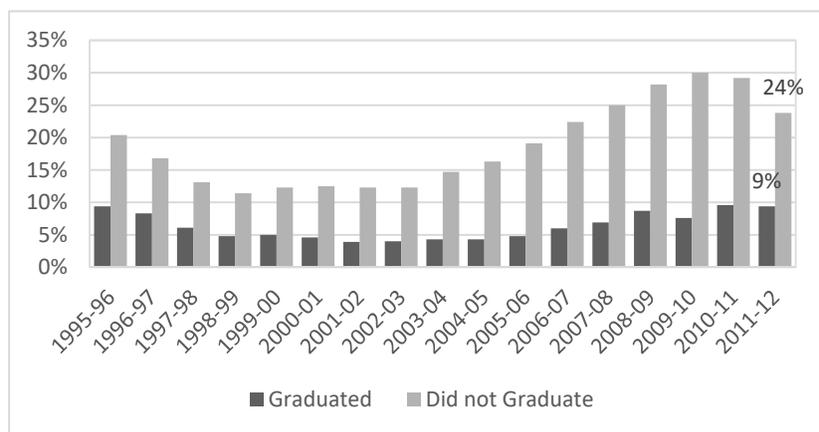
Instead of sweeping and simplistic policy proposals, we should be focusing on the individuals and groups of individuals who are being harmed by our current student loan system. We know that high-risk students who enroll in for-profit institutions are much more likely to end up with unmanageable debt than are academically prepared students who enroll in public four-year colleges. We know that students who borrow for programs they are unlikely to complete are most likely to default on their debts. We know that too many graduate students are borrowing very large sums to pursue occupations that will not generate the earnings required to comfortably repay their loans, while those who borrow even more for

15. *Id.*

professional school are likely to successfully repay. We know that people who have experienced serious medical problems or who have trained for occupations later decimated by technology or by outsourcing are likely to struggle, despite having made apparently good decisions about financing postsecondary education.

Among borrowers who were supposed to begin repaying in 2011–2012, 9% of those who completed a degree or certificate defaulted within two years. But the 24% default rate among those who left school without a credential, shown in Figure 3, brought the overall default rate up to 14%—a number that is rarely broken down in general discussions of the problem.

Figure 3: Two-Year Student Loan Default Rates by Degree Completion Status, Cohorts Entering Repayment 1995–96 to 2011–12



Source: BAUM ET AL., *supra* note 11, at 23 fig.14A. Based on Department of Treasury calculations, which in turn were based on the National Student Loan Data System.

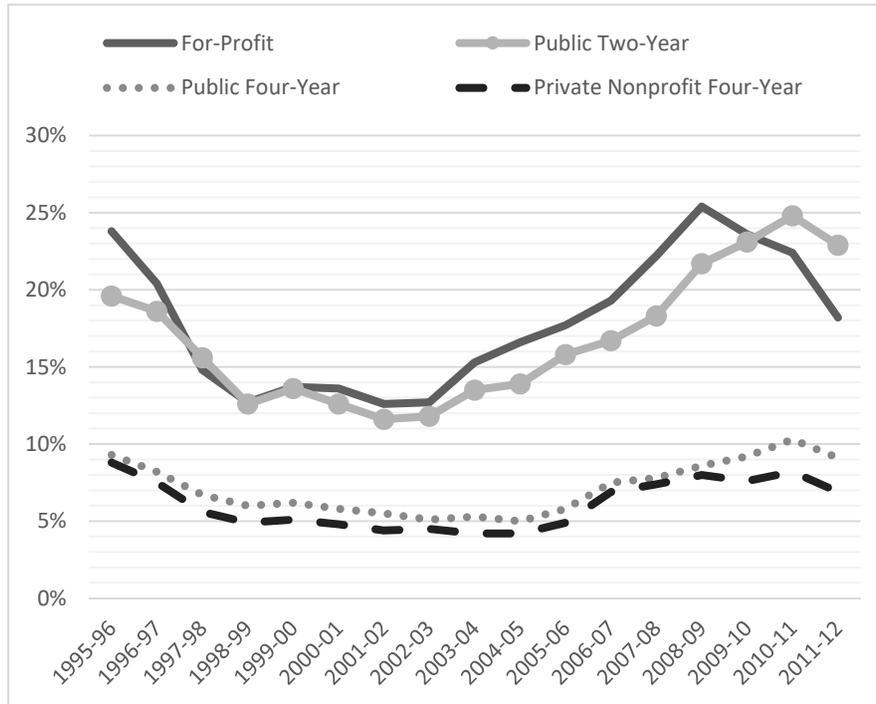
Figure 4 focuses on the differences in default rates across postsecondary sectors. Default rates among students who borrowed to attend public and private nonprofit four-year colleges were about eight percent for the 2011–12 cohort—compared to about 20% for those who borrowed to attend for-profit and public two-year institutions.

As Figure 4 indicates, default rates are consistently much higher in the for-profit and two-year public sectors than among students who attended public and private nonprofit four-year institutions. Because a relatively small percentage of public two-year college students borrow, this sector accounts for a small share of outstanding debt and explains little of the overall default problem. Among 2011–12 undergraduate students, 37% of those enrolled in public two-year colleges had accumulated debt, compared with 85% of those in the for-profit sector.¹⁶

16. *Id.*

Default is a separate problem from high levels of debt. Most of the 4% of borrowers carrying debts of \$100,000 or higher will repay those debts—they have graduate degrees and relatively high earnings.¹⁷

Figure 4: Federal Student Loan Default Rates After Two Calendar Years, Borrowers Entering Repayment, 1995–96 to 2011–12



Source: BAUM ET AL., *supra* note 11, at 22 fig.12. Based on Department of Treasury calculations, which in turn are based on the National Student Loan Data System.

The typical borrower struggling with student debt is not the twenty-two-year-old recent bachelor's degree recipient frequently pictured in news coverage. Rather, she is an older adult who either left school without completing her program or graduated with a short-term degree or certificate that may improve her circumstances, but not enough to provide a middle-class lifestyle.

The combination of this shift in the profile of borrowers and the impact of the Great Recession makes the increase in the percentage of borrowers defaulting on their loans unsurprising.

The fact that only a small share of undergraduate students are among the borrowers with high overall levels of debt does not mean that this group does not

17. BAUM ET AL., *supra* note 11, at 23 fig.14A.

struggle with their obligations. Graduate borrowers repay their loans at high rates because of their strong earnings.¹⁸ It is borrowers with lower levels of debt—many of whom left school without earning a degree or credential—who are most likely to default on their student loans.

IV. BORROWING AND DEBT LEVELS

Cumulative debt levels represent the accumulation of annual borrowing. Both the total amount borrowed for postsecondary education and borrowing per student peaked in 2010–11 and have declined each year since then, as the economy has recovered from the recession.¹⁹

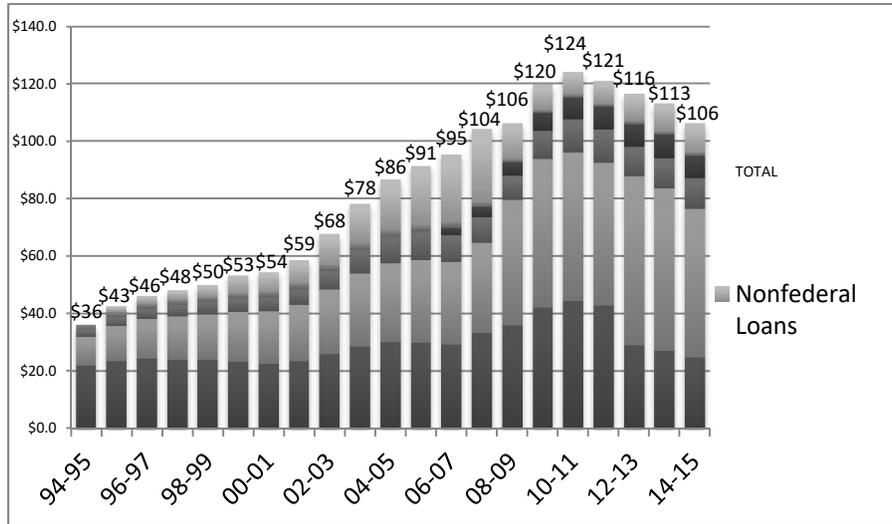
Figure 5 shows the dramatic rise in annual education borrowing over the past twenty years. Contrary to popular impression, the fastest growth came between the mid-1990s and the mid-2000s—not over the most recent decade. Total borrowing increased by 48% in inflation-adjusted dollars, from \$36.0 billion (in 2014 dollars) in 1994–95 to \$53.3 billion in 1999–2000, and by 62%, to \$86.5 billion in 2004–05. Borrowing increased by 38% between 2004–05 and 2009–10, before peaking at \$124.0 billion in 2010–11. In 2014–15, postsecondary students borrowed a total of \$106.1 billion—a decline of 11% over five years and of 14% from the 2010–11 peak.²⁰

18. Twenty-eight percent of borrowers entering repayment in 2009 defaulted within five years. Among undergraduate borrowers, these rates ranged from 10% for selective institutions to 47% for for-profit students. Only 5% of those who borrowed only for graduate studies defaulted on their loan. See Looney & Yannelis, *supra* note 12, at 48–49.

19. See BAUM ET AL., *supra* note 11, at 16 fig.5; *infra* Figure 5.

20. BAUM ET AL., *supra* note 11, at 16 fig.5.

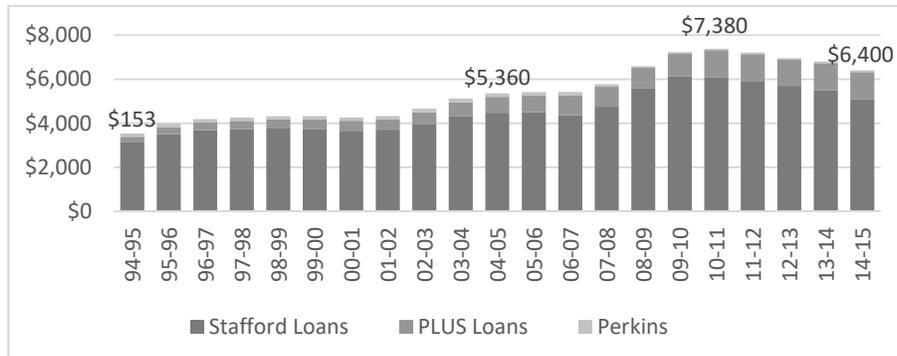
Figure 5: Total Federal and Nonfederal Loan Dollars in 2014 Dollars, 1994–95 to 2014–15



Source: BAUM ET AL., *supra* note 11, at 16 fig.5.

A portion of this decline is the result of declining postsecondary enrollments in the post-recession years, but borrowing per student has also declined, as Figure 6 shows.

Figure 6: Total Federal Loans per Full-Time Equivalent Student in 2014 Dollars, 1994–95 to 2014–15



Source: BAUM ET AL., *supra* note 11, at 17 fig.6.

V. WHO BORROWS MOST?

Debt levels vary quite a bit among students with similar levels of educational attainment. Focusing only on bachelor's degree recipients sheds light on some of the characteristics of students and institutions that increase the probability of high debt levels.

According to the federal student aid regulations, undergraduate students are considered to be dependents of their parents unless they are age twenty-four or older; are married; have dependents of their own; are either on active duty or veterans of the military; or are foster children, homeless, or wards of the court.²¹ In 2011–12, 51% of undergraduate students were independent and 85% of those students were age twenty-four or older.²² For dependent students, financial aid eligibility depends on their parents' financial circumstances, as well as their own.²³ For independent students, parents' income and assets are not relevant, and eligibility for financial aid depends only on their own resources and those of their spouses, if applicable.²⁴ Independent students are allowed to borrow more from the federal student loan program. The current undergraduate limits are \$31,000 for dependent students and \$57,500 for independent students.²⁵ (Dependent students whose parents are not eligible to borrow federal parent loans can borrow at the independent student level.)

Table 3 reports the cumulative debt levels of 2011–12 bachelor's degree recipients by dependency status. Higher levels of borrowing are most prevalent among independent students with dependents of their own and least prevalent among dependent students. In other words, it is not students who go straight from high school to college who are most likely to accumulate large amounts of debt.

21. 20 U.S.C. § 1087vv(d)(1) (2012).

22. NAT'L CTR. FOR EDUC. STATISTICS, DEP'T OF EDUC., NAT'L CTR. FOR EDUC. STATISTICS POWERSTATS—ALL UNDERGRADUATES: 2012, at 232 (2016) [hereinafter POWERSTATS—ALL UNDERGRADUATES], https://nces.ed.gov/datalab/powerstats/pdf/npsas2012ug_subject.pdf [<https://perma.cc/N3UR-DT57>].

23. 20 U.S.C. §§ 1087kk, 1087nn(b) (2012).

24. *Id.*

25. *Subsidized and Unsubsidized Loans*, FED. STUDENT AID, U.S. DEP'T OF EDUC., <https://studentaid.ed.gov/sa/types/loans/subsidized-unsubsidized> [<https://perma.cc/6FEQ-LDZZ>] (last updated 2016).

Table 3
 Cumulative Debt of 2011-2012 Bachelor's Degree Recipients
 by Dependency Status

Dependency Status	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 (56%)	34%	12%	14%	19%	10%	11%
Independent Without Dependents (25%)	25%	9%	12%	15%	13%	25%
Independent with Dependents (19%)	23%	8%	10%	15%	15%	29%

Note: Includes: (1) 2011–12 bachelor's degree recipients regardless of when they first enrolled, (2) students who were U.S. citizens or permanent residents, and (3) both federal and nonfederal borrowing. Percentages may not sum to 100 because of rounding.

Source: BAUM ET AL., *supra* note 11, at 25 fig.16B. Based on National Postsecondary Student Aid Study (PowerStats Calculation), *supra* note 14.

Another factor associated with higher levels of debt among bachelor's degree recipients is the amount of time that elapses from the time they first enroll to the time they receive their degrees. Students are not necessarily enrolled continuously over these time periods, but there is likely to be a correlation between time elapsed and terms of enrollment. Moreover, the annual loan limits are the same whether a student is enrolled full time or part time.²⁶ In fact, a dependent student can only borrow \$27,000 over four years,²⁷ so the student would have to be in school for at least a fifth year to reach the \$31,000 limit. An independent student can borrow up to \$45,000 over the first four years of college, and would need a fifth year to reach the \$57,500 limit.

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26. *Id.*

27. *Subsidized and Unsubsidized Loans, supra* note 25.

borrow \$27,000 over four years, so the student would have to be in school for at least a fifth year to reach the \$31,000 limit. An independent student can borrow up to \$45,000 over the first four years of college, and would need a fifth year to reach the \$57,500 limit.

As Table 4 reports, only 10% of 2011–12 bachelor’s degree recipients who graduated within four years had borrowed \$40,000 or more. In contrast, 27% of those who completed their degrees more than five years after first enrolling accumulated this much debt.²⁸

Table 4
Cumulative Debt of 2011–12 Bachelor’s Degree Recipients
by Time Elapsed Since First Enrollment

	No debt	\$1–\$39,999	\$40,000 or more
4 years or less	36%	54%	10%
5 years	29%	56%	15%
More than 5 years	22%	51%	27%

Note: Includes students who were U.S. citizens or permanent residents. Includes federal and nonfederal debt.

Source: POWERSTATS—ALL UNDERGRADUATES, *supra* note 22.

As discussed above, students who enroll in for-profit institutions are more likely than those in other sectors to borrow and accumulate higher levels of debt. As Table 5 indicates, only 12% of 2011–12 bachelor’s degree recipients who earned their degrees at for-profit institutions graduated without debt, compared with 26% of those from private nonprofit colleges and universities and 56% of those who attended public institutions. Among for-profit bachelor’s degree recipients, 48% had borrowed \$40,000 or more to fund their undergraduate education. Only 20% of graduates of private nonprofit institutions and 12% of those from the public sector borrowed this much.²⁹

28. BAUM ET AL., *supra* note 11, at 26 fig.17A.

29. *Id.*

Table 5
Cumulative Debt of 2011–12 Bachelor's Degree Recipients by Sector

Sector	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
Public Four-Year (56%)	34%	12%	14%	17%	10%	12%
Private Nonprofit Four-Year (26%)	25%	8%	12%	20%	14%	20%
For-Profit (9%)	12%	4%	7%	14%	16%	48%
Other (8%)	28%	11%	14%	16%	11%	20%

Note: Includes: (1) 2011–12 bachelor's degree recipients regardless of when they first enrolled, (2) students who were U.S. citizens or permanent residents, and (3) both federal and nonfederal borrowing. Percentages may not sum to 100 because of rounding.

Source: BAUM ET AL., *supra* note 11, at 25 fig.17B. Based on National Postsecondary Student Aid Study (PowerStats Calculation), *supra* note 14.

Finally, black students graduate with significantly more debt than students from other racial and ethnic groups. A number of factors likely contribute to this reality. For example, 19% of 2011–12 black bachelor's degree recipients earned their degrees at for-profit institutions, compared with 5% of Asians, 7% of whites, and 11% of Hispanic graduates. Thirty-five percent of black graduates were age thirty or older when they earned their degrees, compared with 20% overall. Sixty-four percent of black graduates were independent students, compared with 34% of Asians, 50% of Hispanics, and 40% of white 2011–12 bachelor's degree recipients. And a lower percentage of blacks than of graduates from other racial and ethnic groups earned their degrees within four years.³⁰ In other words, all of the characteristics described above as correlated with higher debt levels appear disproportionately among black graduates.

30. BAUM ET AL., *supra* note 11, at 27 fig.18; see *infra* Table 6.

Table 6
Cumulative Debt of 2011–12 Bachelor's Degree Recipients
by Race/Ethnicity

Race/Ethnicity	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
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%
Total	30%	10%	13%	18%	12%	18%

Note: Includes: (1) 2011–12 bachelor's degree recipients regardless of when they first enrolled, (2) students who were U.S. citizens or permanent residents, and (3) both federal and nonfederal borrowing. Percentages may not sum to 100 due to rounding.

Source: BAUM ET AL., *supra* note 11, at 27 fig.18. Based on National Postsecondary Student Aid Study (PowerStats Calculation), *supra* note 14.

But family financial circumstances surely also matter, particularly for dependent students. Among dependent black students who earned bachelor's degrees in 2011–12, 34% were from families with incomes under \$30,000. Only 16% of dependent graduates overall came from families in this income bracket. Only 18% of dependent black graduates came from families with incomes of \$106,000 or higher, compared with 36% overall. All other groups, including Hispanic graduates, came from more affluent families than black graduates. Moreover, it is well established that black families have lower levels of wealth than other families with similar incomes.³¹

Whatever the weight of these or other factors leading to higher debt levels for black students, this issue deserves further study and should be high on the list of issues that public and institutional policies should address.

VI. REPAYING STUDENT LOANS

Borrowing for college need not be a problem. Of course, everyone would rather have someone else pay. Students whose parents pay the full tuition and fees and all living expenses do not have to worry about long hours of employment while they are in college or about repaying loans after they graduate. These students have

31. Laura Sullivan, Tatjana Meschede, Lars Dietrich, & Thomas Shapiro, *The Racial Wealth Gap: Why Policy Matters*, DEMOS (2015), http://www.demos.org/sites/default/files/publications/RacialWealthGap_1.pdf [<https://perma.cc/47UL-K4WS>].

what might well be considered an unfair advantage over those from less-privileged backgrounds who must fund all or part of their education on their own.

But borrowing for college is, in most cases, a wise investment. College graduates earn considerably more than those with lower levels of education and, despite rapid increases over time in tuition levels, the average earnings premium is well above the levels required to generate a high rate of return. The majority of graduates—especially those with at least a bachelor's degree—can use a portion of their earnings to repay education debt and still live at a higher standard of living than would have been possible without a college education.

Many discussions of the plight of student borrowers abstract from the value of the investment. They compare college graduates with student debt to those with similar earnings and no debt. Obviously, debt payments divert funds from other potential expenditures. But the real questions are whether borrowers are better off than they would have been without going to college and whether debt payments leave enough income to cover other necessities.

For typical college graduates, repaying debts may be unpleasant, but it is not unmanageable. However, there is considerable variation in the returns to a college education. Even among those who earn bachelor's degrees, earnings vary widely across and even within occupations. For example, in 2014, median earnings for adults ages twenty-five to thirty-four whose highest degree was a bachelor's degree were \$44,200. But 13% of this group had no earnings, and 17% earned less than \$25,000. At the other end of the spectrum, 16% earned \$75,000 or more.³² For those who earn associate degrees or certificates—or who borrowed but never earned a credential at all—the situation can be much bleaker. The data cited above on student loan defaults provide striking confirmation of this reality.

Because of the combination of a high average rate of return to postsecondary education with uncertainty about outcomes for many students, the idea of income-driven repayment plans has gained wide support. Borrowers are expected to repay their debts, but their monthly payments are limited to an affordable percentage of their disposable incomes. While many political candidates propose this idea as though it were an innovative suggestion that would represent a transformation of the current system, the option of repaying loans based on current income levels has been part of the federal student loan system since 1993, and a broad-based program has been in effect since 2009. The Obama administration has made a number of modifications, each making the provisions more and more generous to borrowers. As Table 7 reports, as of the end of 2015, 21% of borrowers with Federal Direct

32. *Current Population Survey Tables for Personal Income*, U.S. CENSUS BUREAU tbl.PINC-03, http://www.census.gov/data/tables/time-series/demo/income-poverty/cps-pinc/pinc-03.2014.html#par_textimage_10 [<https://perma.cc/75KJ-R7QW>] (last visited Mar. 7, 2016).

Loans were enrolled in income-driven repayment plans. These borrowers accounted for 36% of the outstanding student debt borrowed directly from the government.³³

Table 7
Federal Direct Loan Portfolio by Repayment Plan, 2013 to 2015

Federal Fiscal Year	Dollars Outstanding (in billions)	Recipients (in millions)
2013Q4	21%	11%
2014Q4	28%	15%
2015Q4	36%	21%

Source: *Federal Student Loan Portfolio: Loan Portfolio by Repayment Plan*, FED. STUDENT AID, U.S. DEP'T OF EDUC., <https://studentaid.ed.gov/sa/about/data-center/student/portfolio> [https://perma.cc/3Z4H-LDTR] (last visited Feb. 28, 2016).

CONCLUSION

It is a problem that students are borrowing to enroll in colleges and programs from which they are unlikely to graduate and which, even for graduates, rarely to lead to positive labor market outcomes.

It is a problem that many recent college graduates (and non-graduates) have entered the labor force while the economy is weak, unemployment is high, and opportunities are scarce.

It is a problem that state disinvestment in higher education has led to rapidly rising tuition levels in public colleges at a time when families are struggling to make ends meet and are not in a good position to pay for their children's education. The combination of higher tuition and diminished family support has contributed to rapid increases in borrowing.

It is a problem that the United States has not created or funded a strong workforce development system. Too many adults find that their only hope for finding a good job is to go back to school. These adult students borrow large amounts, partly because they enroll disproportionately in expensive for-profit colleges, and partly because they are borrowing to support themselves and their families while they are in school. In the absence of strong apprenticeship or workplace-based training programs, reasonable support for job training that does not involve borrowing, and a strong safety net for individuals and families with

33. *Federal Student Loan Portfolio: Loan Portfolio by Repayment Plan*, FED. STUDENT AID, U.S. DEP'T OF EDUC., <https://studentaid.ed.gov/sa/about/data-center/student/portfolio> [https://perma.cc/3Z4H-LDTR] (last visited Feb. 28, 2016).

inadequate labor market earnings, too many people are making questionable decisions about borrowing money to go back to school.

It is also a problem that the federal student loan system does not place reasonable limits on the amounts graduate students and parents of dependent students can borrow.

These problems involve student debt. But they do not imply that the majority of people who have gone to college are suffering “crushing” student debt. They do not imply that individuals with student debt are, overall, among the most financially strained groups in the nation. They do not imply that borrowing to finance an investment in higher education is a self-destructive decision. And they do not imply that public policy should be focused either on forgiving the debt of most of those who have borrowed for education or on preventing students from having to borrow in the future.

Addressing the real problems in student debt requires a dispassionate assessment of policies that have already been implemented, of policies that are currently under discussion, and of other potential approaches. The goals include alleviating the burden of borrowers who are in untenable situations and, of particular importance, reducing the number of students who, in the future, take loans they are unlikely to be able to repay with reasonable effort.

But the goals should also include ensuring that future students are comfortable borrowing reasonable amounts of money to invest in their futures and taking responsibility for repaying those loans; that taxpayers provide ample and well-targeted subsidies designed to increase educational opportunities; and that students and families—as well as postsecondary institutions and society at large—take responsibility both for financing higher education and for strengthening its quality and the proportion of students who succeed in improving their lives through education.

The prevalence of non-completion would be a serious problem even absent student loans. It is too often a sign of wasted time, effort, and money, in addition to shattered dreams. But arguing that debt finance is inappropriate because some people do not complete credentials is not logical. We urgently need stronger pre-college academic preparation, better guidance about choosing schools and programs, better policing of postsecondary quality, and better student support systems. We should minimize the number of students who enroll in programs they are not likely to complete, rather than just ensuring that they do not borrow excessively to fund these dead-end paths. We are much more likely to be able to fund these efforts amply if we carefully target public subsidies to those who need them. Because most students experience significant financial benefits from their college education, most of them can repay their loans. We should not direct our limited dollars away from the more urgent needs to eliminate loan obligations for people with high levels of education and high earning potential.

The rising concern about student debt emerges from the confluence of a number of trends. The Great Recession reduced earnings for all, including college

graduates. It depleted the savings of parents who had planned to send their children through college. And it put significant strains on state budgets, with the unsurprising result that state subsidies to public higher education could not keep up with growing enrollments. Tuition increases far outstripped the capacity of students and families to finance college without increased borrowing. The public interest in a more highly educated population demands that students bear a smaller share of the cost of their education and taxpayers, businesses, and philanthropy bear a higher share.

But students can, should, and will continue to borrow to finance a portion of the cost of their postsecondary education. Public policy should not be directed toward transferring the maximum possible financial responsibility from college students—who come disproportionately from the upper part of the income distribution and end up with earnings that are significantly higher than those of taxpayers without a college education—to taxpayers at large.

Rather, the student loan system should be designed to provide reliable insurance to borrowers whose postsecondary and labor market outcomes are unexpectedly poor. In order for such a system to be sustainable, there must be limits on how much students can borrow, or at least on how much debt is eligible for income-driven repayment plans with loan forgiveness at the end. In particular, the current structures that permit graduate students to borrow virtually unlimited amounts from the federal government without risking excessive payments are neither equitable nor viable in the long run.

Student debt is a very real problem for borrowers who do not reap the typical financial benefits from their education. But it is part of a very good investment for most students. These students can take responsibility for the money they have borrowed and still have made a good investment. We should focus on an equitable division of the burden of paying for college and on the plight of borrowers facing real hardship. But we should not direct a disproportionate share of the limited resources we need to create opportunities for all towards relieving the temporary discomfort of some of the better-off members of our society.

