College on Credit: a multi-level analysis of student loan default

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Overview

- Brief summary of loan trends and "state of affairs" of student loan default research
- Conceptualization of repayment "success"
- Data and analytical strategies
- Key findings relative to theory/policy
- Discussion

Research questions

- *To what extent are:*
  - *students' socioeconomic, academic, or demographic characteristics associated with defaulting on student loans?*
  - *institutional characteristics related to default rates?*

Some qualifications…

- What this study **does**
  - Examines borrowers' odds of defaulting relative to repaying on time
  - Partitions the variance between student and institution levels
  - Utilizes recent national survey data (BPS:09)
- What this study **doesn't do**
  - Estimate a causal relationship between these factors
  - Compare other repayment options (i.e. *deferment*, *forbearance*, etc.)
  - Examine private loan repayment

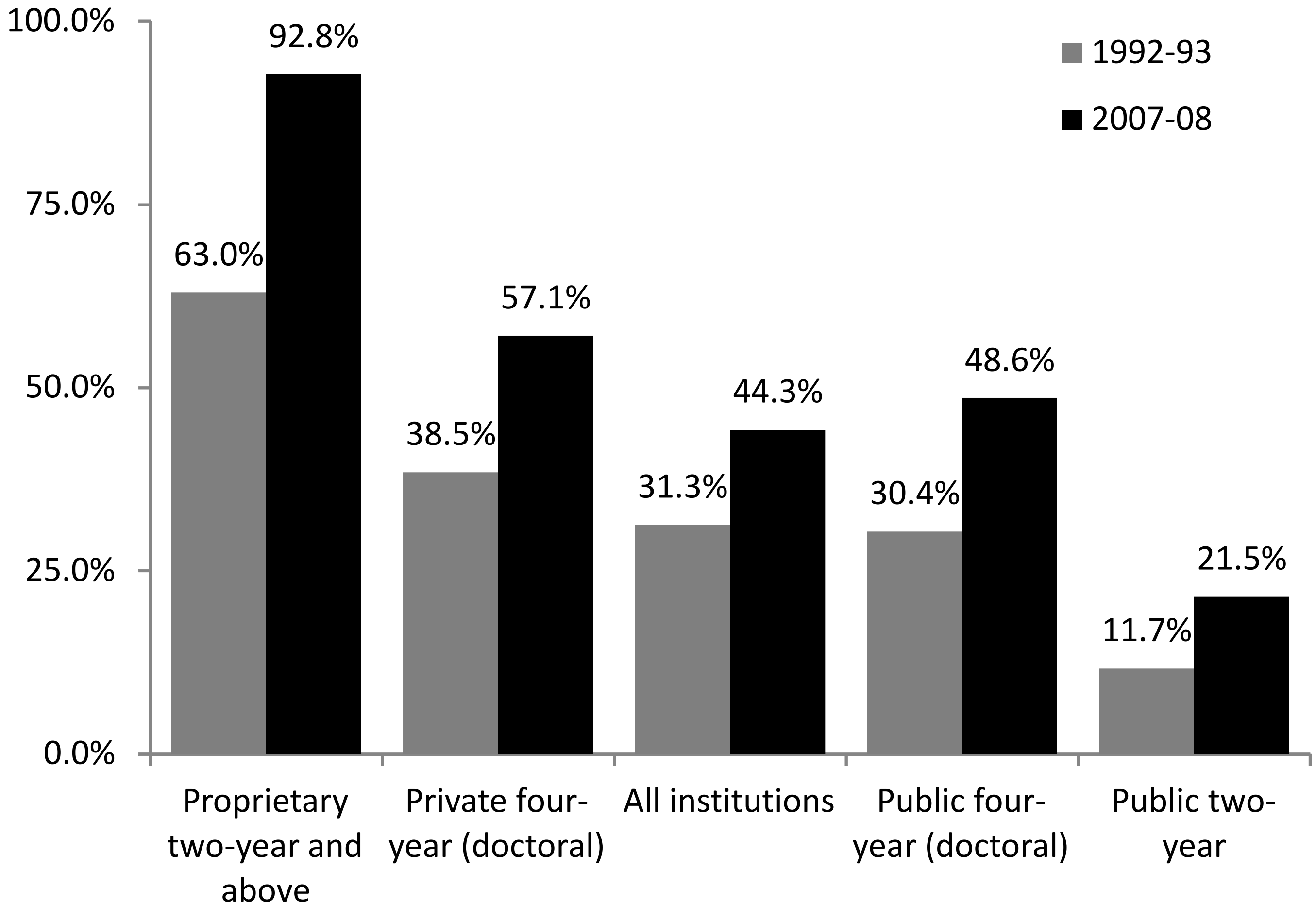
How much indebtedness occurs?

- \$25,250 [(1)]
- 66% [(2)]
- 8.7 million [(3)]

- Average debt of bachelors degree recipient
  \$950 < *debt* > \$55k
- Percent of undergraduate *bachelors grads* who borrow
- Number of borrowers (fed sub+unsub undergrads)

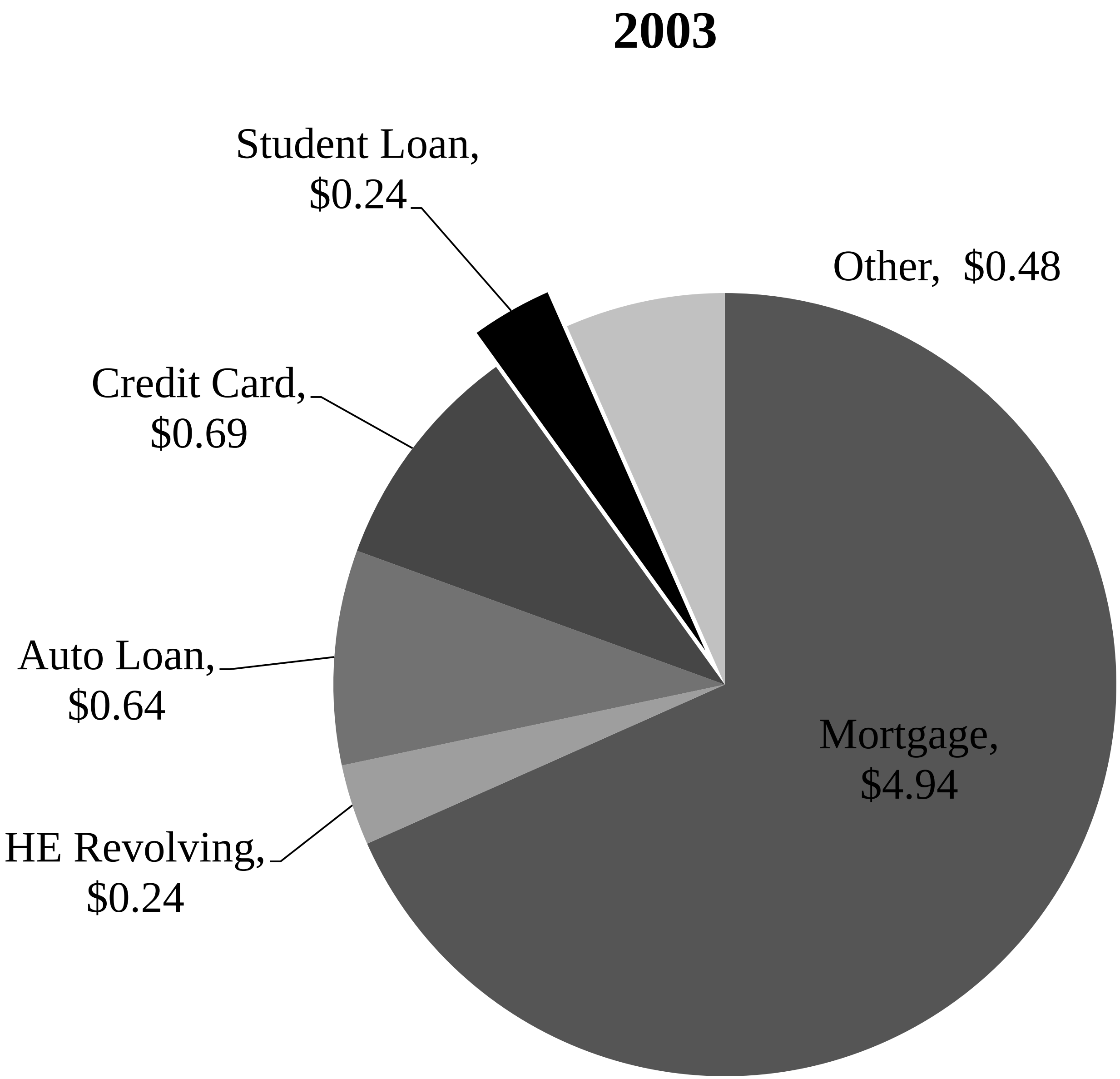
Share of undergraduates* borrowing federal loans

*full-time, full-year only (1)

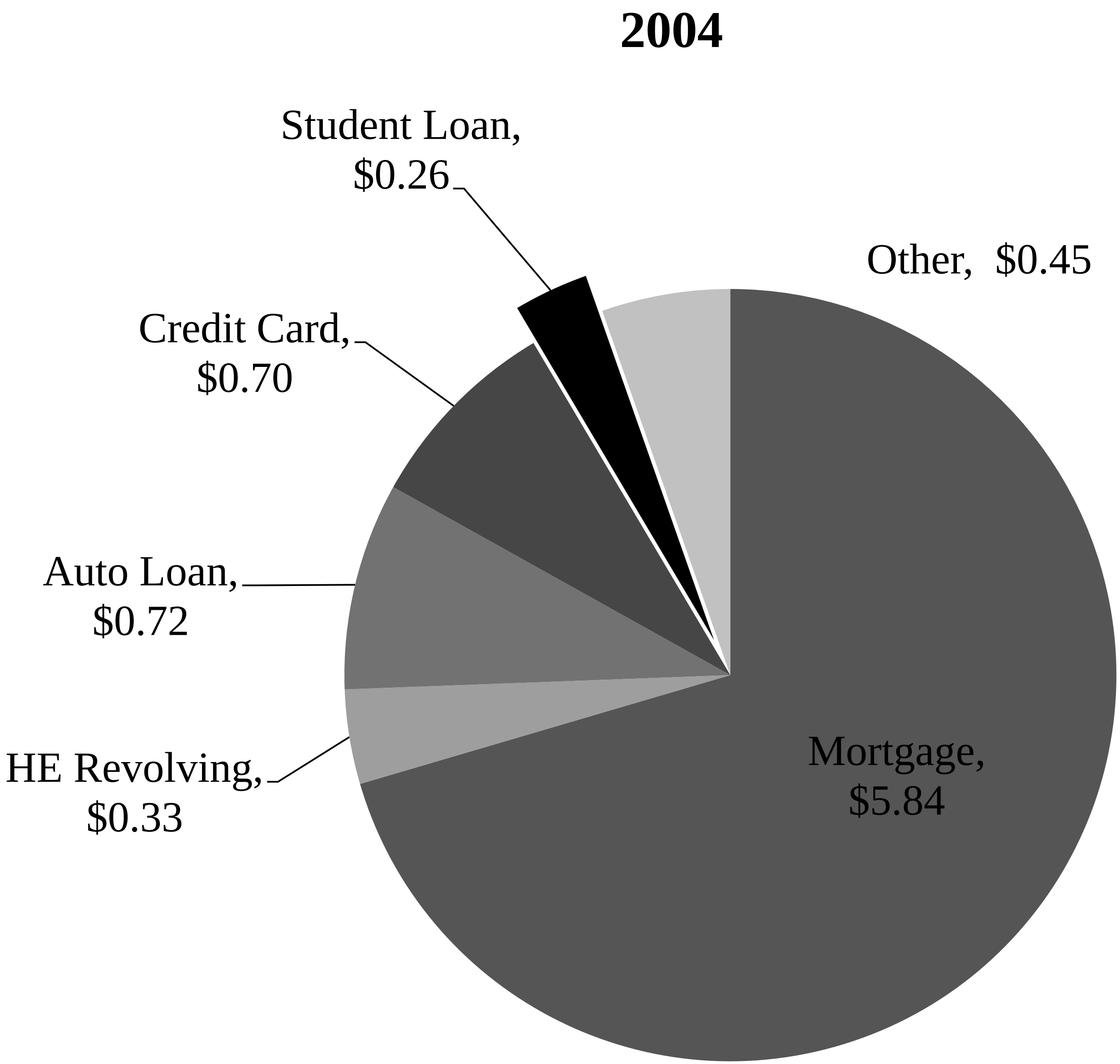


Share of outstanding debt by source (NY Federal Reserve data)

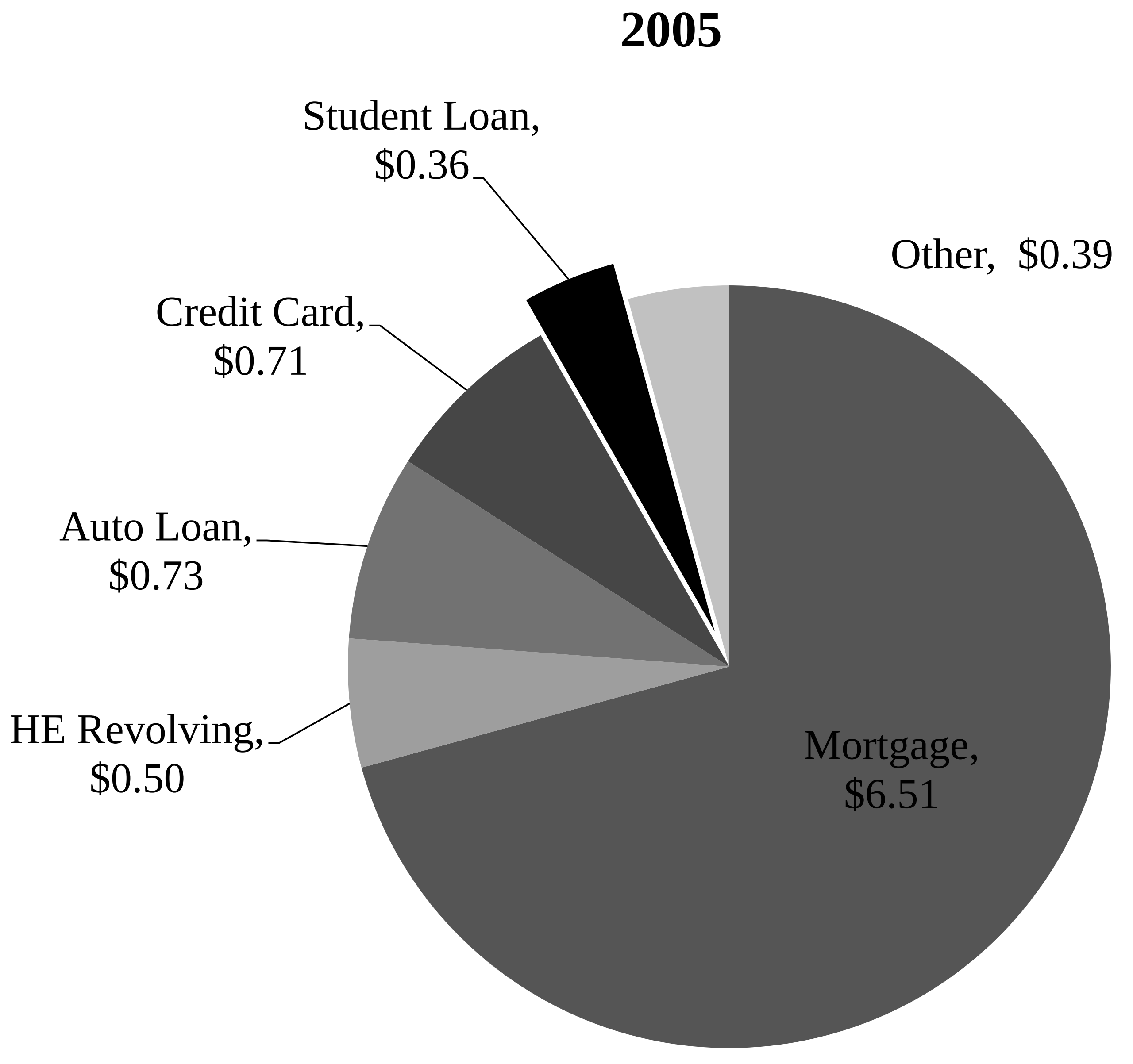
$ Billions

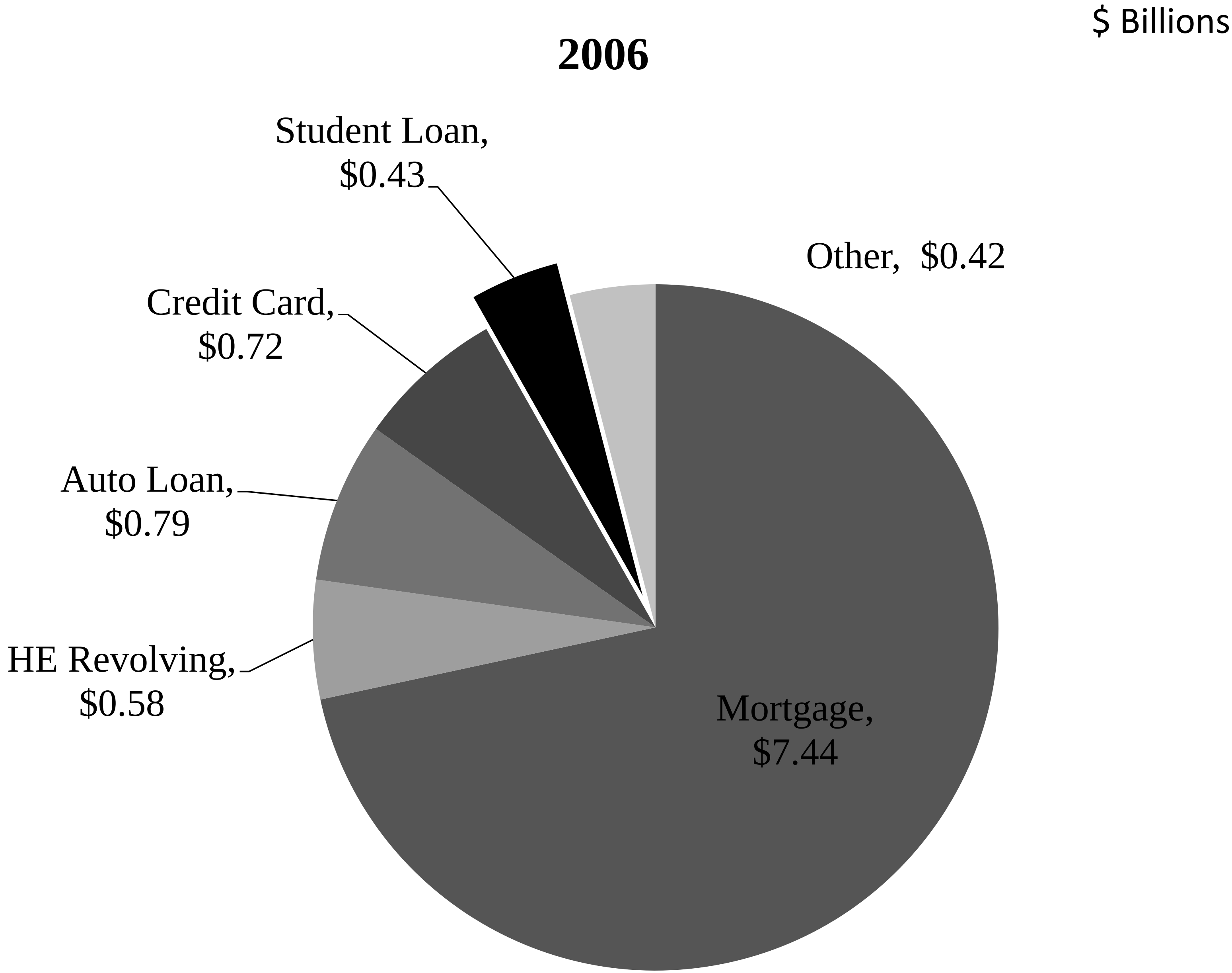

2003
Student Loan, $0.24
Other, $0.48
Credit Card, $0.69
Auto Loan, $0.64
HE Revolving, $0.24
Mortgage, $4.94

$ Billions

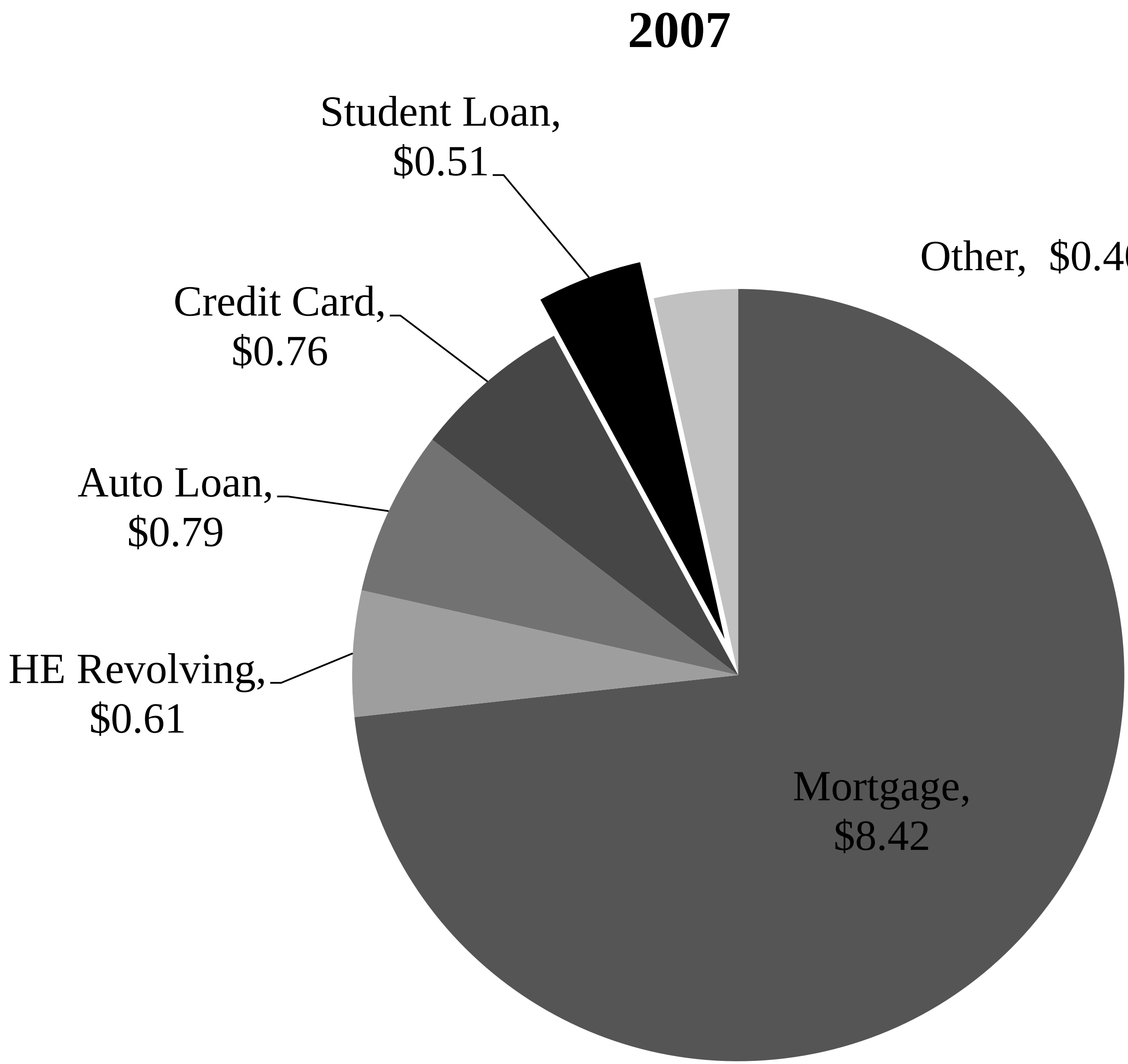

2004
Student Loan, $0.26
Other, $0.45
Credit Card, $0.70
Auto Loan, $0.72
HE Revolving, $0.33
Mortgage, $5.84

$ Billions

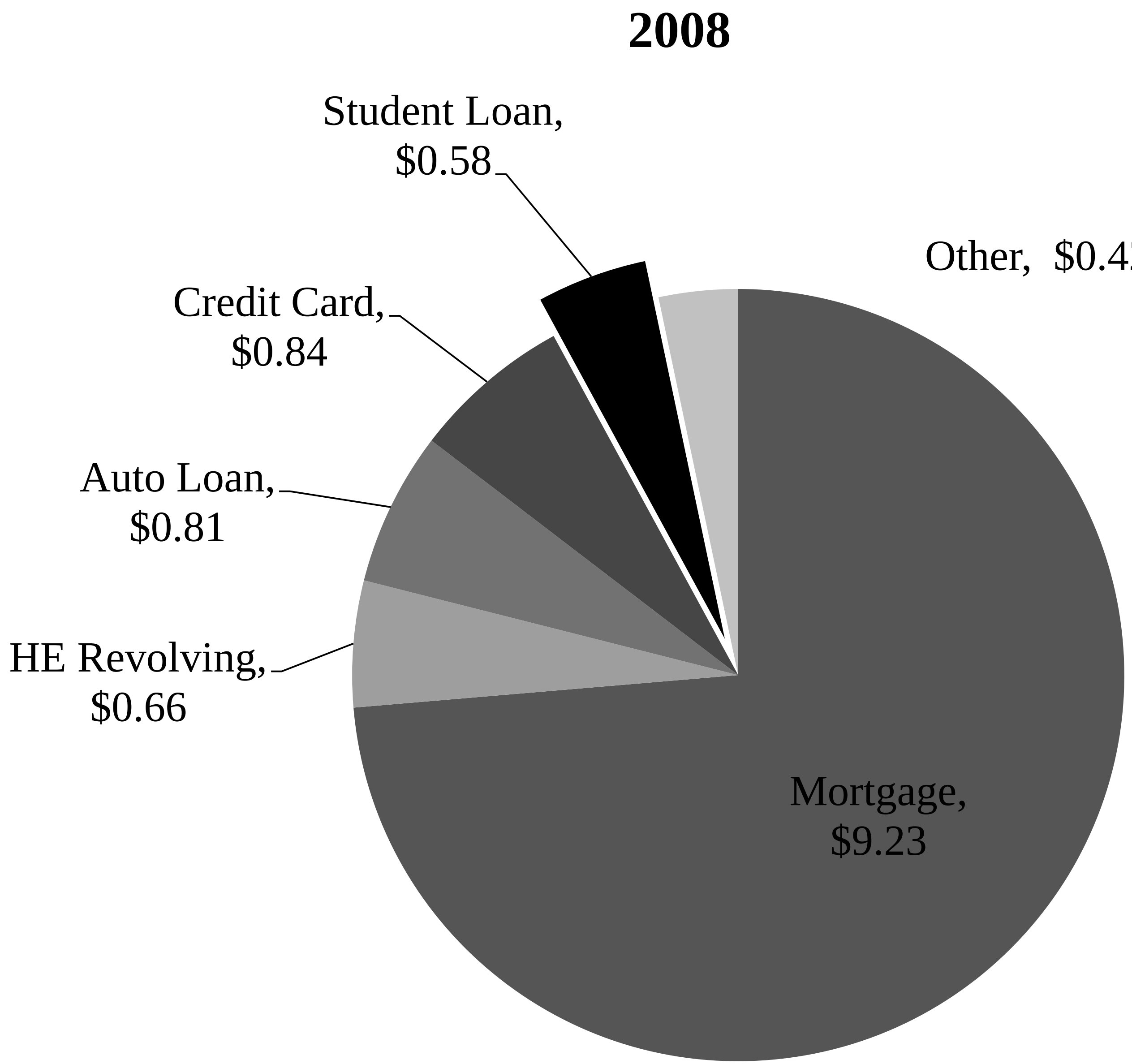

2005
Student Loan, $0.36
Other, $0.39
Credit Card, $0.71
Auto Loan, $0.73
HE Revolving, $0.50
Mortgage, $6.51


$ Billions
2006
Student Loan, $0.43
Other, $0.42
Credit Card, $0.72
Auto Loan, $0.79
HE Revolving, $0.58
Mortgage, $7.44

$ Billions

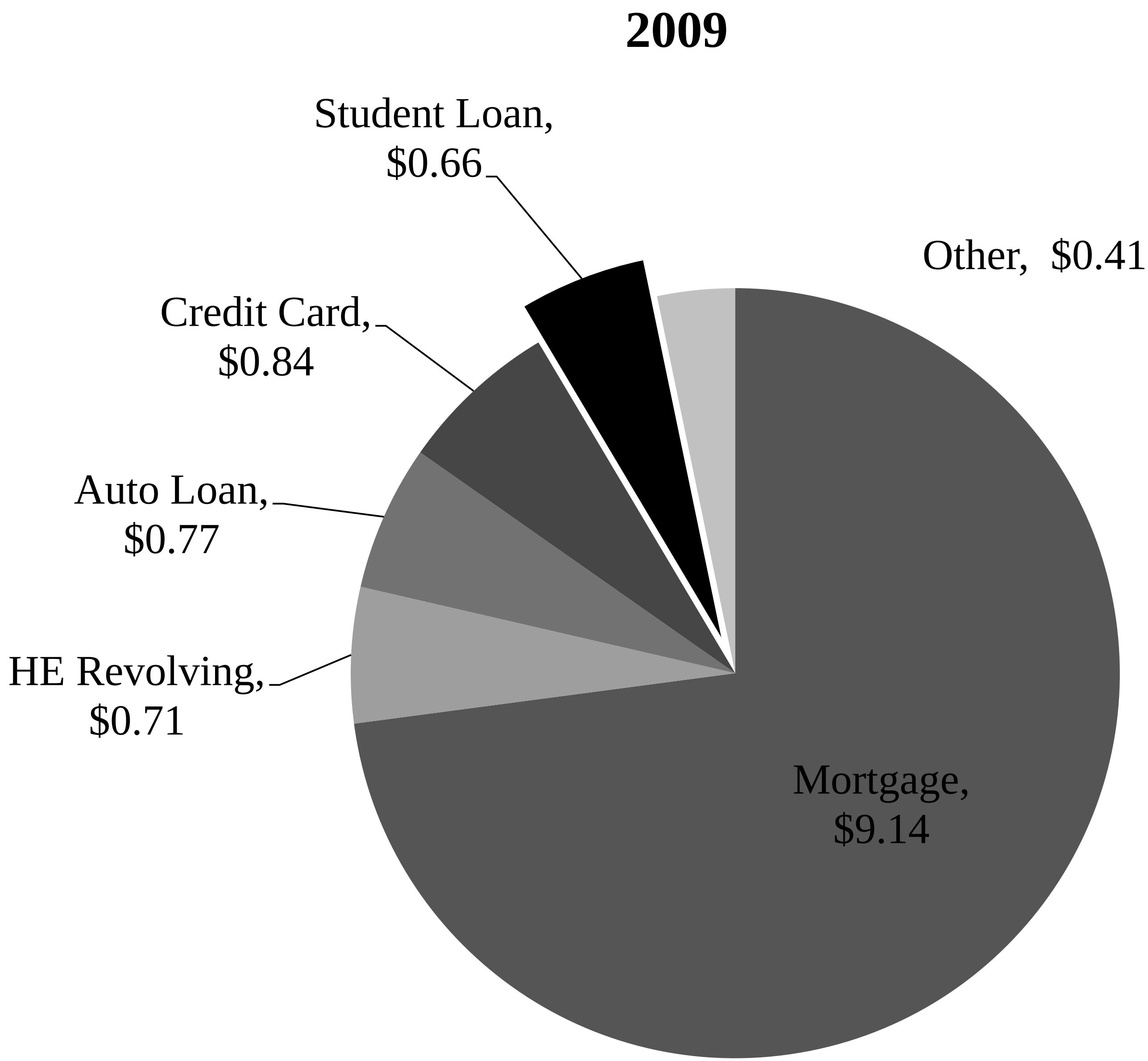

2007
Student Loan,
$0.51
Other, $0.40
Credit Card,
$0.76
Auto Loan,
$0.79
HE Revolving,
$0.61
Mortgage,
$8.42

$ Billions

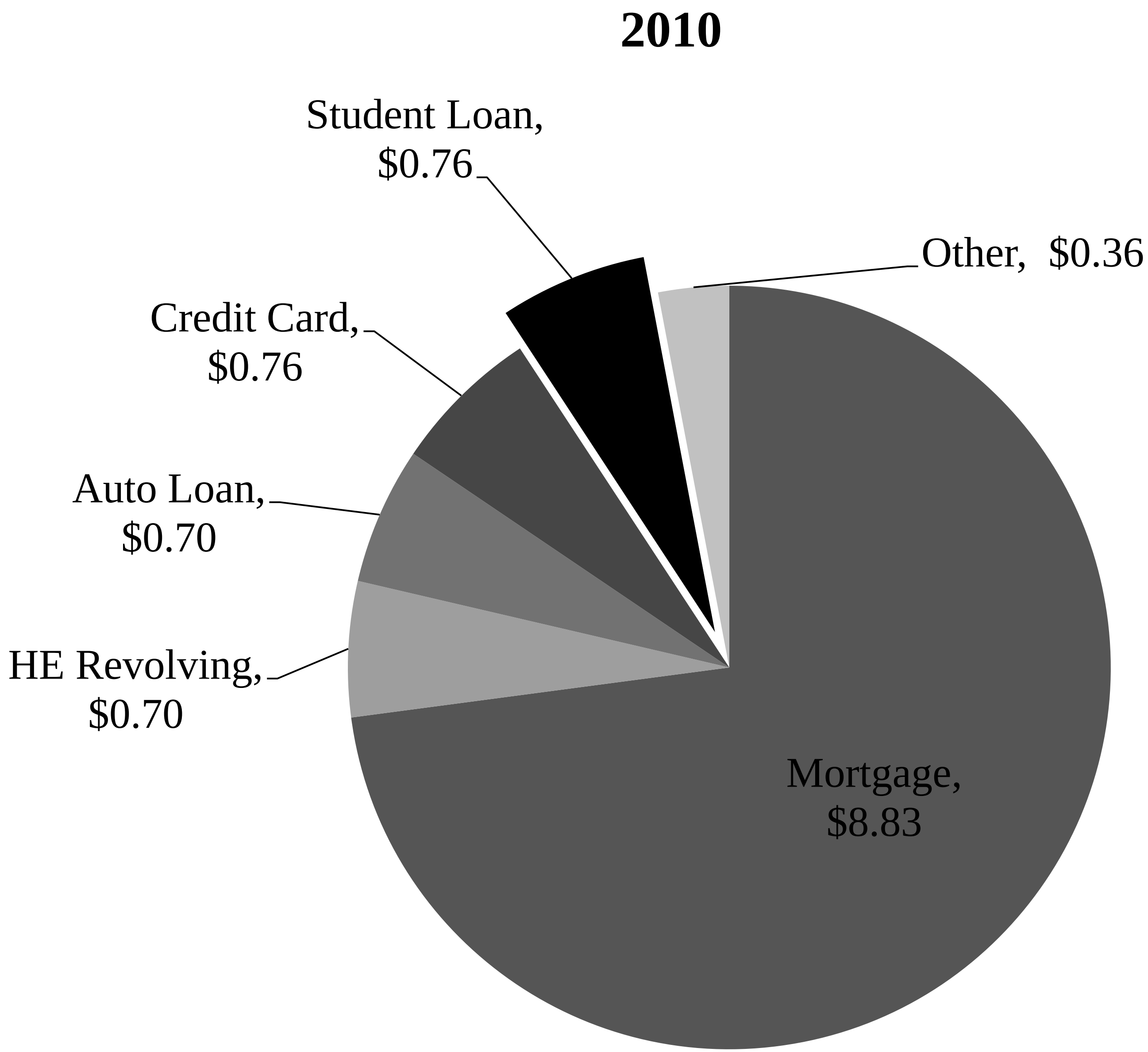


2008
Student Loan, $0.58
Other, $0.42
Credit Card, $0.84
Auto Loan, $0.81
HE Revolving, $0.66
Mortgage, $9.23

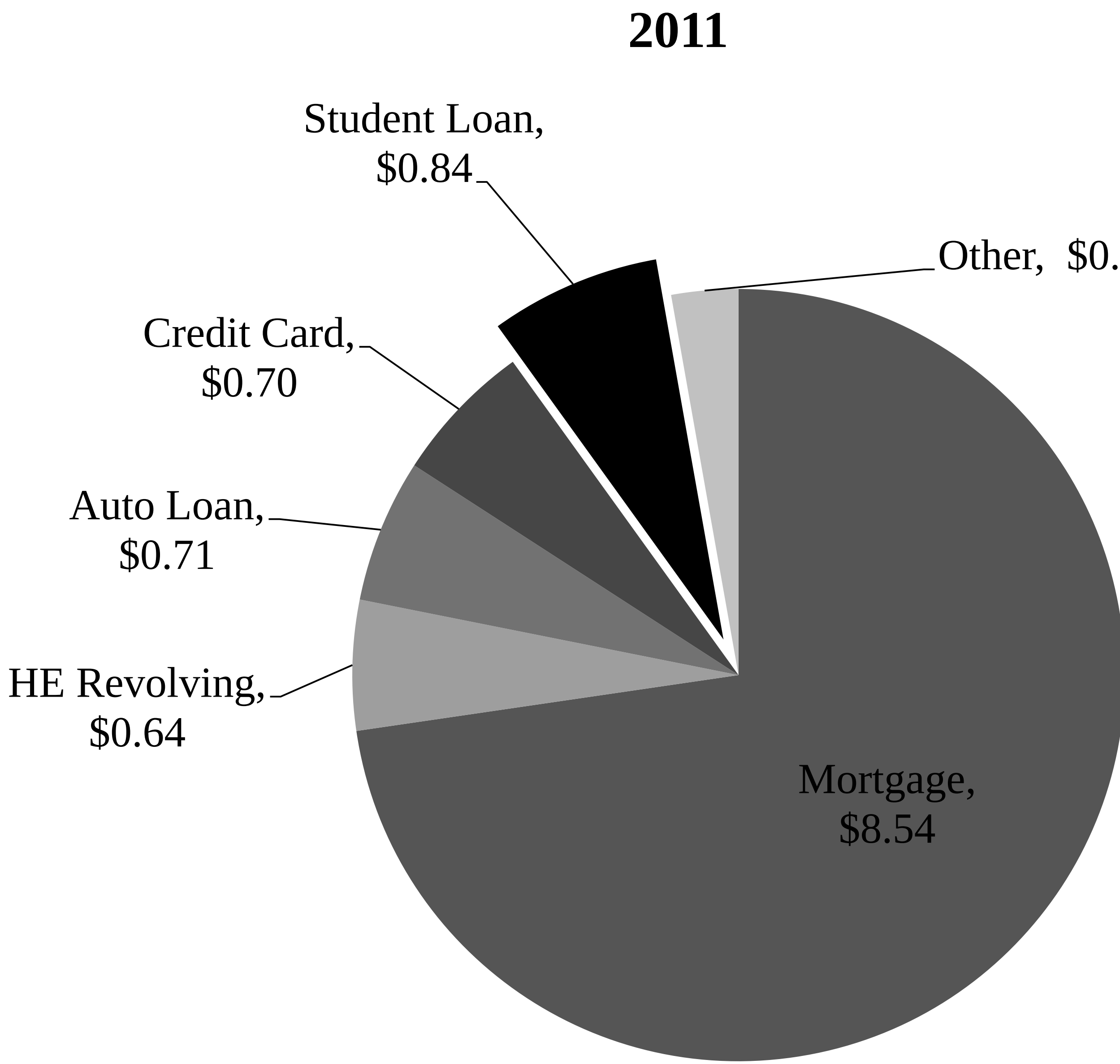
$ Billions


2009
Student Loan, $0.66
Other, $0.41
Credit Card, $0.84
Auto Loan, $0.77
HE Revolving, $0.71
Mortgage, $9.14

$ Billions

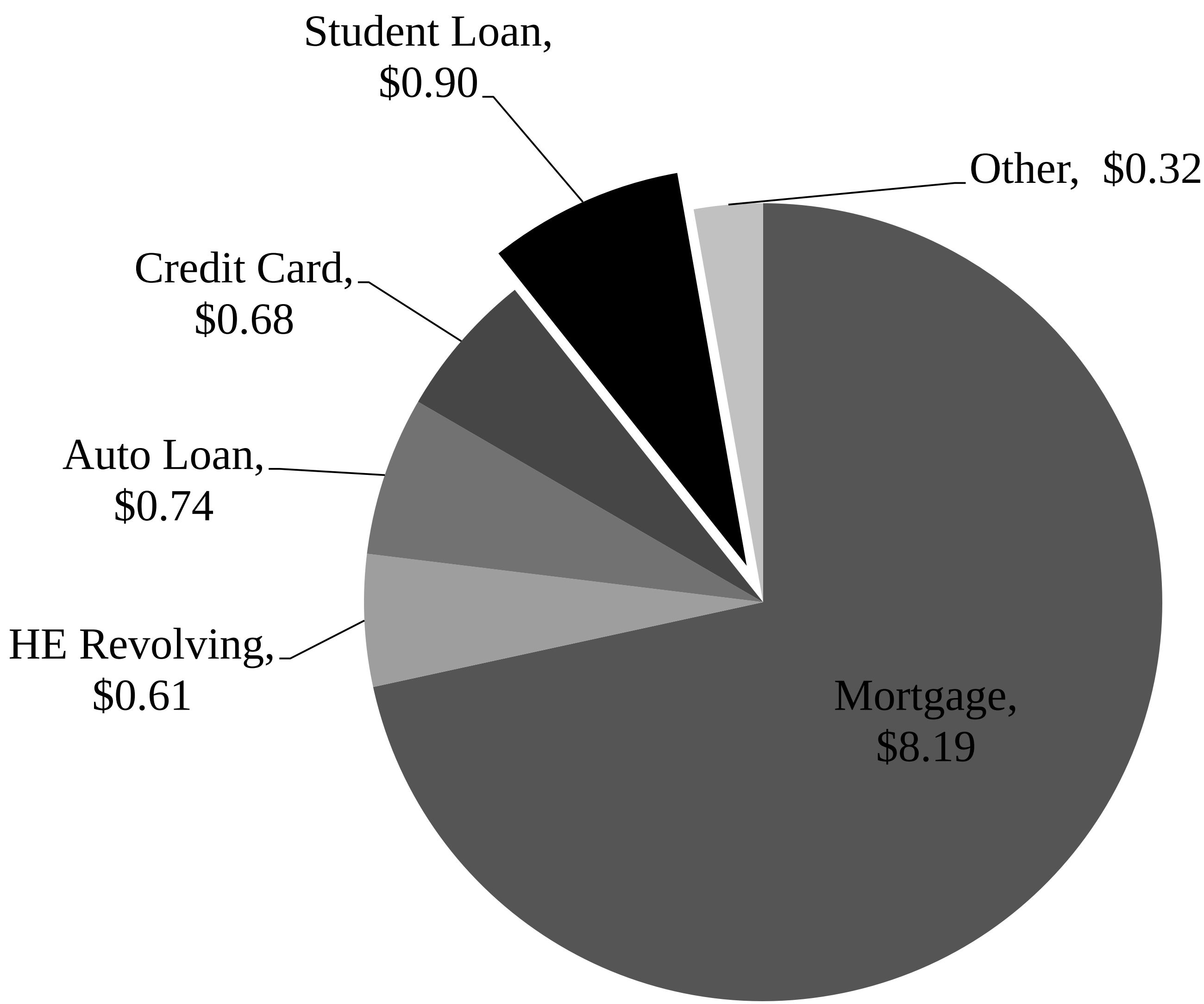

2010
Student Loan, $0.76
Other, $0.36
Credit Card, $0.76
Auto Loan, $0.70
HE Revolving, $0.70
Mortgage, $8.83

$ Billions


2011
Student Loan, $0.84
Other, $0.33
Credit Card, $0.70
Auto Loan, $0.71
HE Revolving, $0.64
Mortgage, $8.54

$ Billions

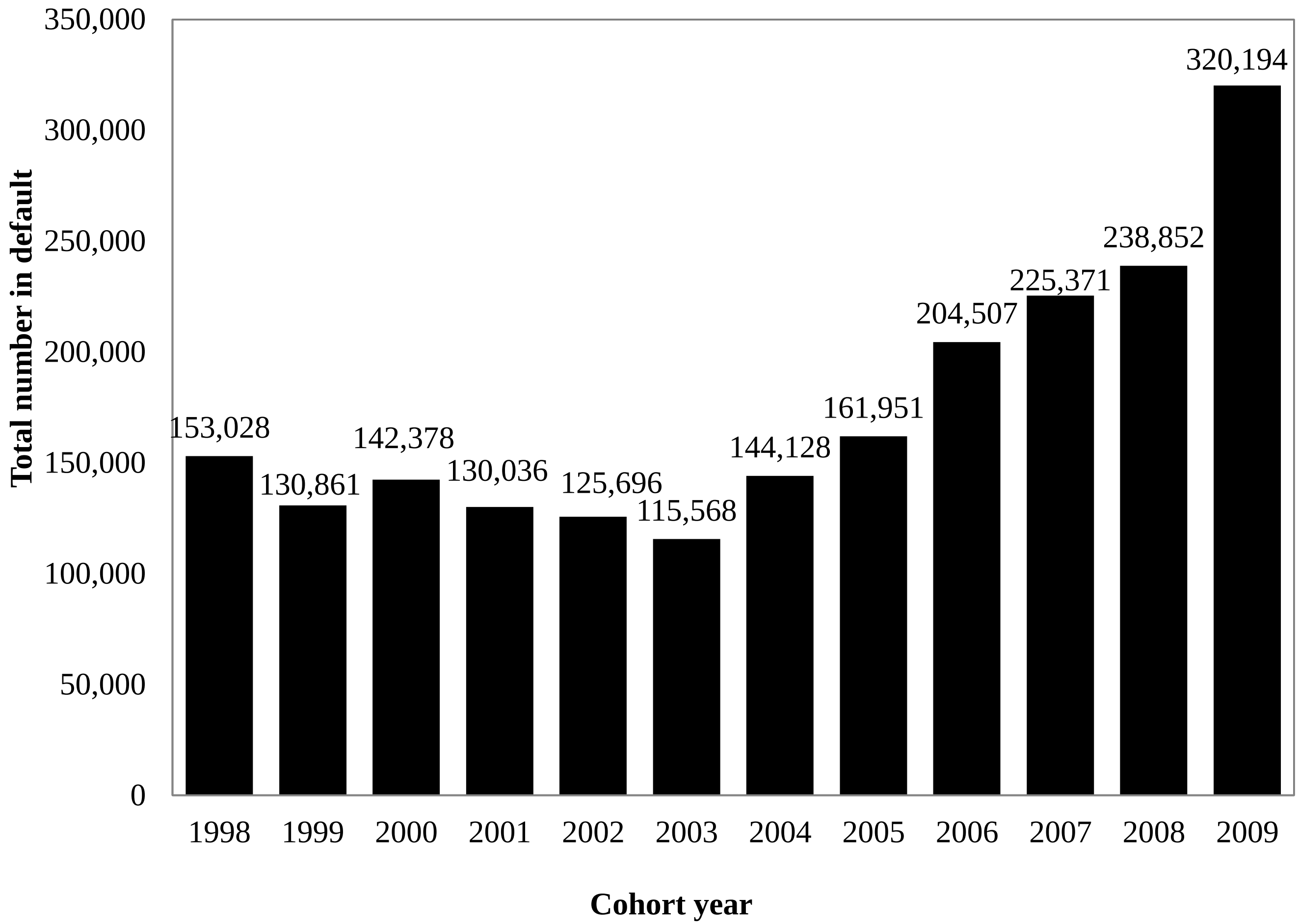
2012


Student Loan, $0.90
Other, $0.32
Credit Card, $0.68
Auto Loan, $0.74
HE Revolving, $0.61
Mortgage, $8.19

Context on student loan default

- Policy
  - HEA
    - Title IV eligibility
    - Gainful employment
- Research
  - Do institutions matter?
  - Or is default a "pre-existing" condition? (Monteverde, 2000)
- Practice
  - Consequences of defaulting:
    - Borrower: aid eligibility, wage garnishment, credit score, bankruptcy
    - Institution: CDR, default management, 3-year window (30% CDR)

Trends in loan default (2-year CDR)



Conceptual framework

Student-level (level 1)

Demographics:
- Age
- Gender
- Race/ethnicity
-

Socio-economic status:
- First-generation student
- Family income level
- Has dependents

Academic experience:
- Major choice
- College GPA
- Received Pell Grant
- Cumulative federal loan
- Took out private loans
- Transfer
- Degree completion

Post-collegiate employment:
- Employment status

Institution-level (level 2)

Control:
- Public
- Private
- Proprietary

Level:
- Two-year
- Four-year

Primary loan repayment outcomes of interest:
- **In repayment**
- **In default**

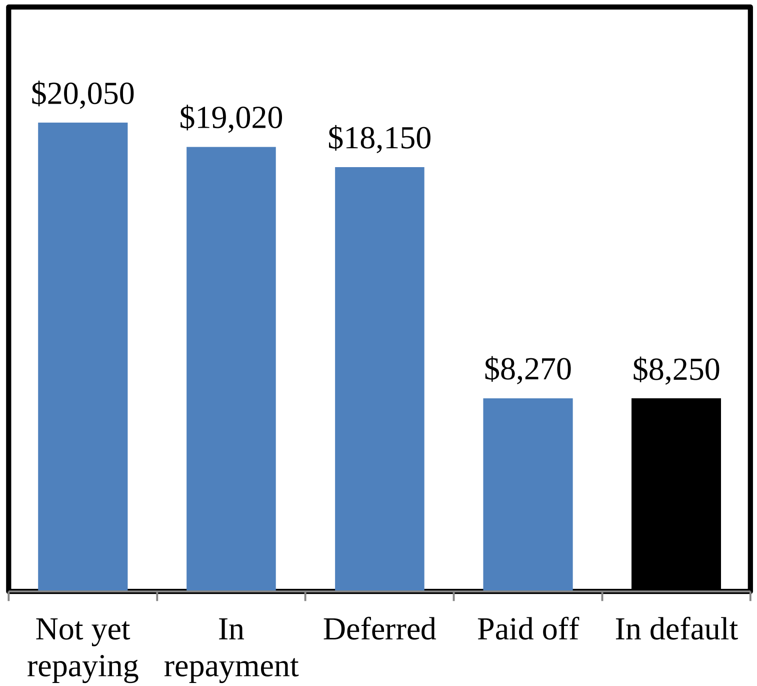
Alternative loan repayment outcomes:
- Repaid loans
- Emergency protection
- Not yet in repayment

Data and analysis

- Data:
  - BPS: 2003-2009
  - Nationally-representative sample
    - In repayment vs. In default (n=5,959)
    - Panel weights
- Analytical technique:
  - Multi-level model (ICC = .32)
  - Binary outcome (1 = default, 0 = in repayment)

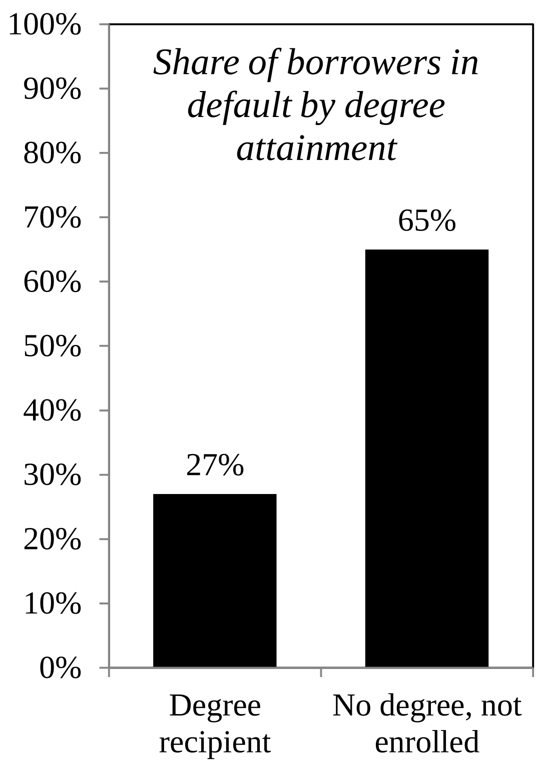
Key finding #1:

Cumulative debt burden is not a strong predictor of default

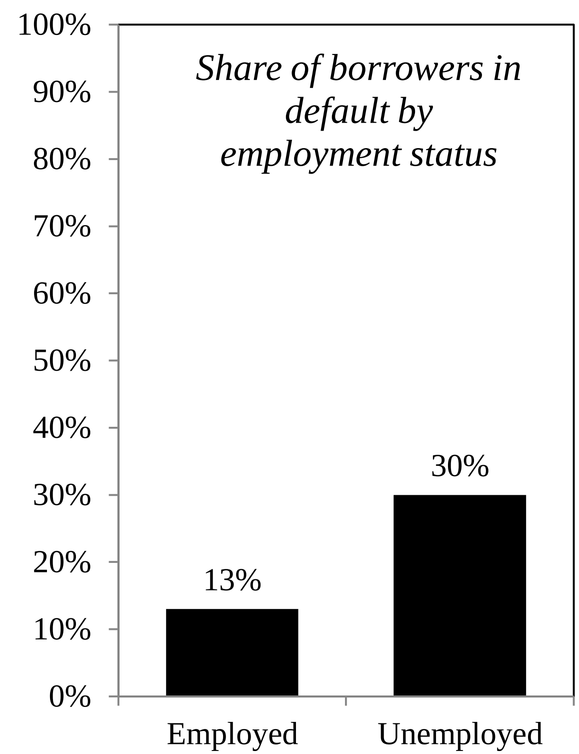


	Odds ratio
Cumulative federal loans	0.919***
Cumulative federal loans (sq)	1.001**

Key finding #2:
Degree completion and employment are strong predictors of default

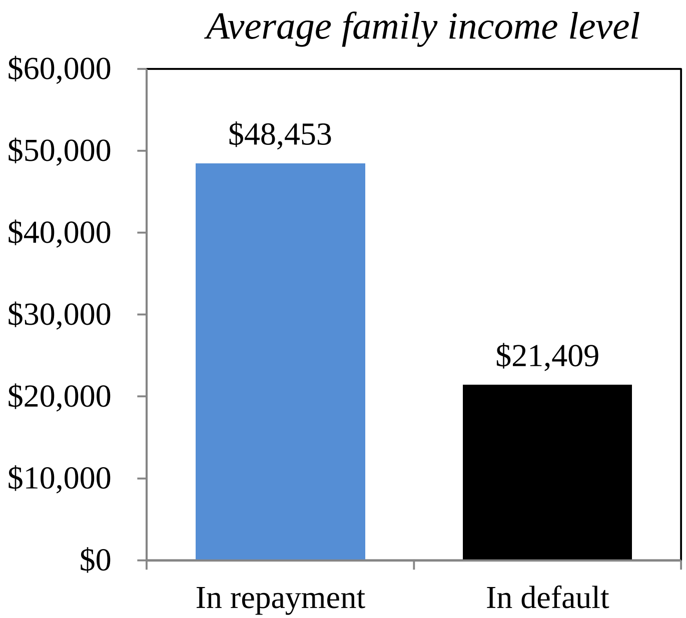


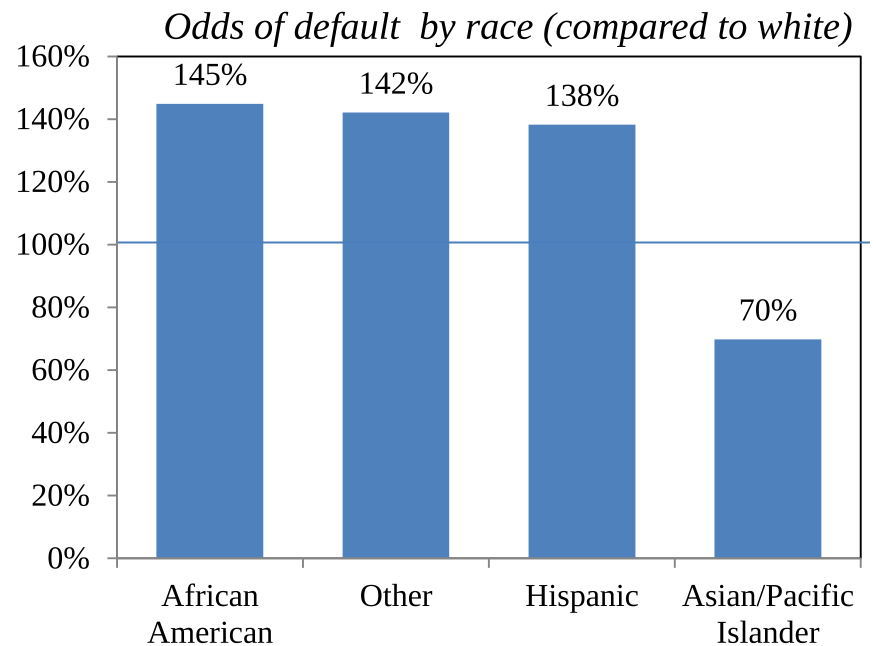
	Odds ratio
No degree, not enrolled	2.314***
Unemployed	1.705***



Key finding #3:

Student socio-economic characteristics are moderate predictors of default

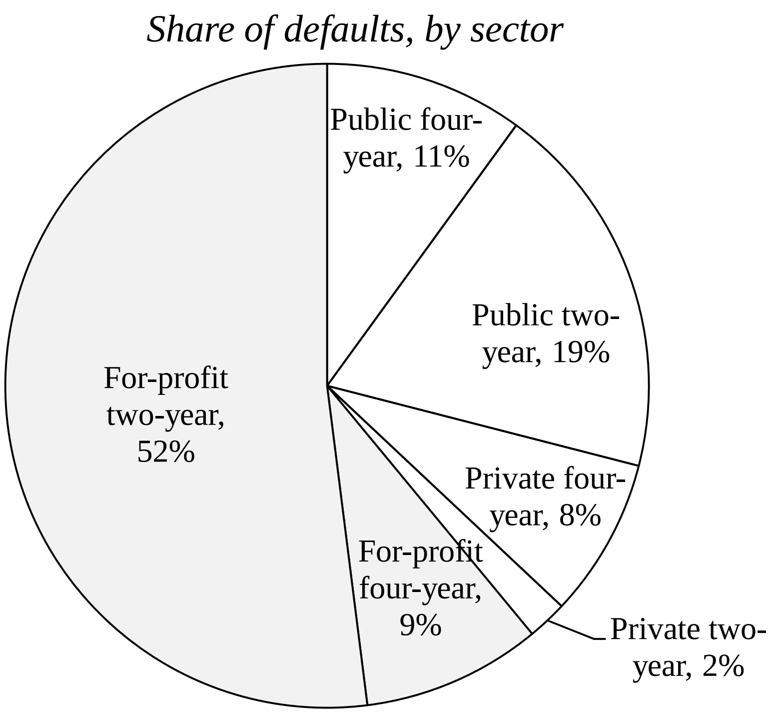


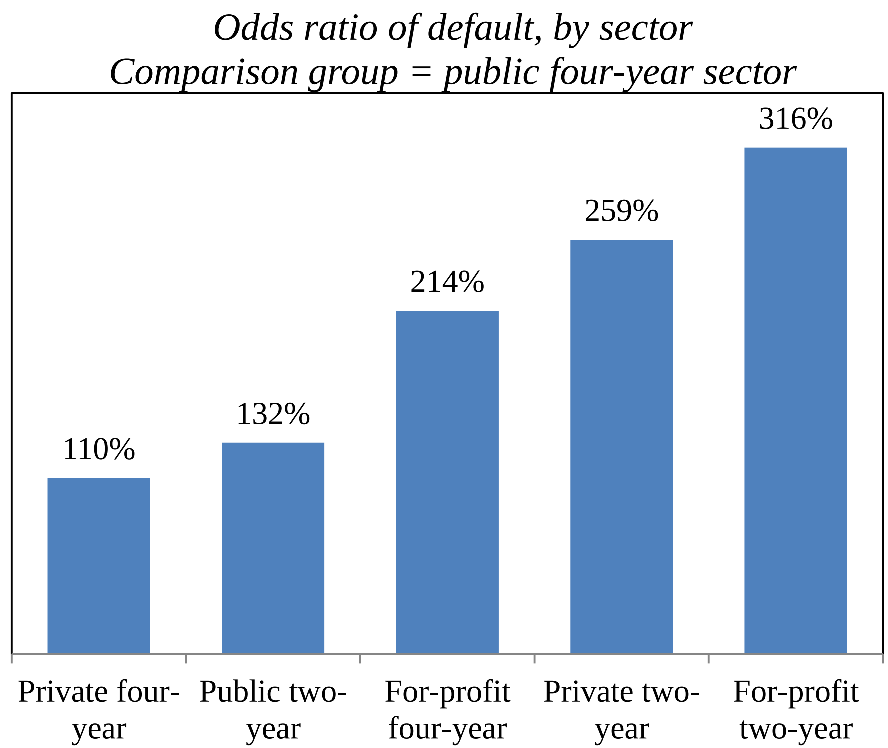


	Odds ratio
Family income level (thousands)	.990***

Key finding #4:

Net of student characteristics, institutional sector strongly predicts default





Summary & Implications

- Not all default risk can be attributed to “pre-existing conditions”
  - In fact, it may be a “preventable illness”
    - *Recall the grad rate and unemployment variable*s
- Federal policy implications
  - Student-level
    - Improve information regarding repayment options
    - Consider alternative sanctions for defaulted loans
  - Institution-level
    - Program integrity: strengthen career college sanctions/access to Title IV aid
    - Cohort Default Rate threshold could even lower for many for-profits (i.e. are we “ok” when 30% of borrowers default?)

Thank you!

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