

Student Debt:
Problem Definition & State Solutions

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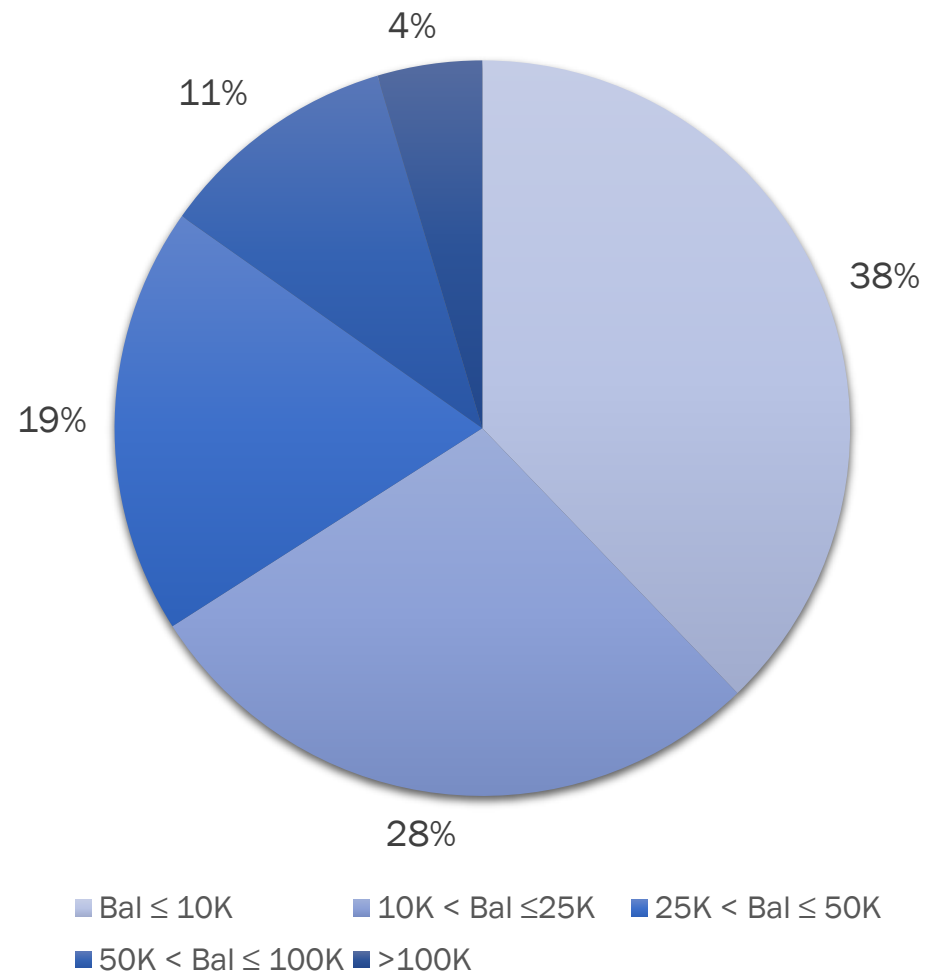
Key takeaways

- College is (still) a great investment
- Repayment is the key student loan issue
- Post-origination policies importantly provide relief
- Need integrated polices
 - Support prior to, during, & post college
 - Encourage informed decision making
 - Maximize the value of college

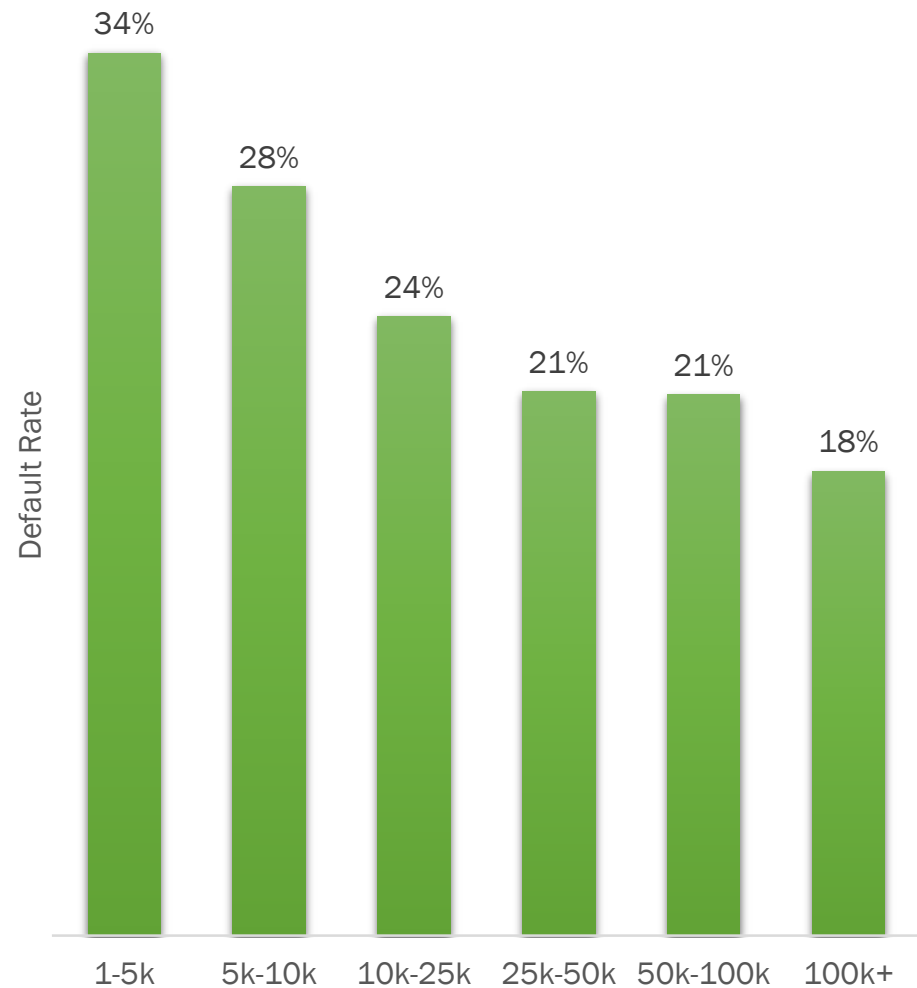
Pop quiz!

1. % of debtors with $>$ \$100k student loan debt?
2. Which debtor is more likely to default?
 - A. $<$ \$5k student loan debt
 - B. $>$ \$100K student loan debt

>95% of debtors
have <\$100K
debt



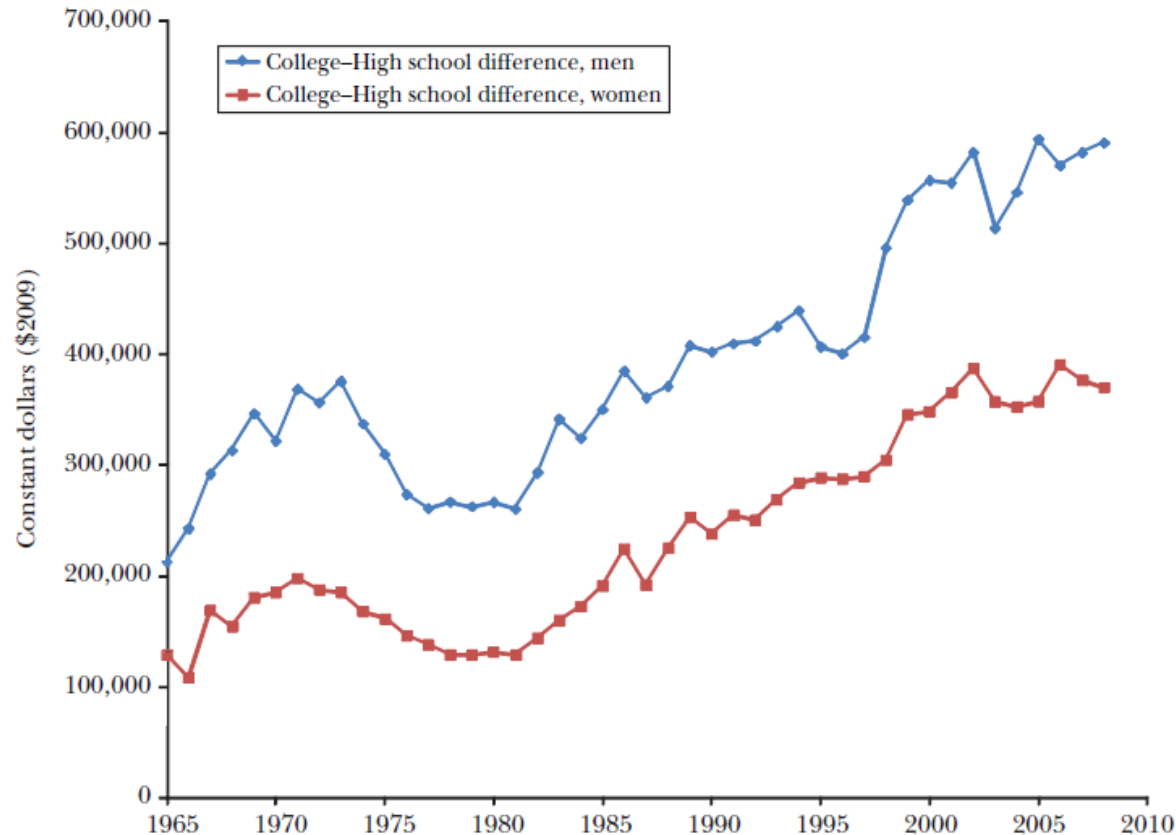
Debtors with
<\$5K debt
nearly 2X more
likely to default
than those with
>\$100K debt



Note: Share of borrowers entering repayment in 2009 who had every defaulted by 2014. Debt based on balance upon leaving school. Source: New York Fed Consumer Credit Panel/Equifax.

COLLEGE IS (STILL) A GREAT INVESTMENT

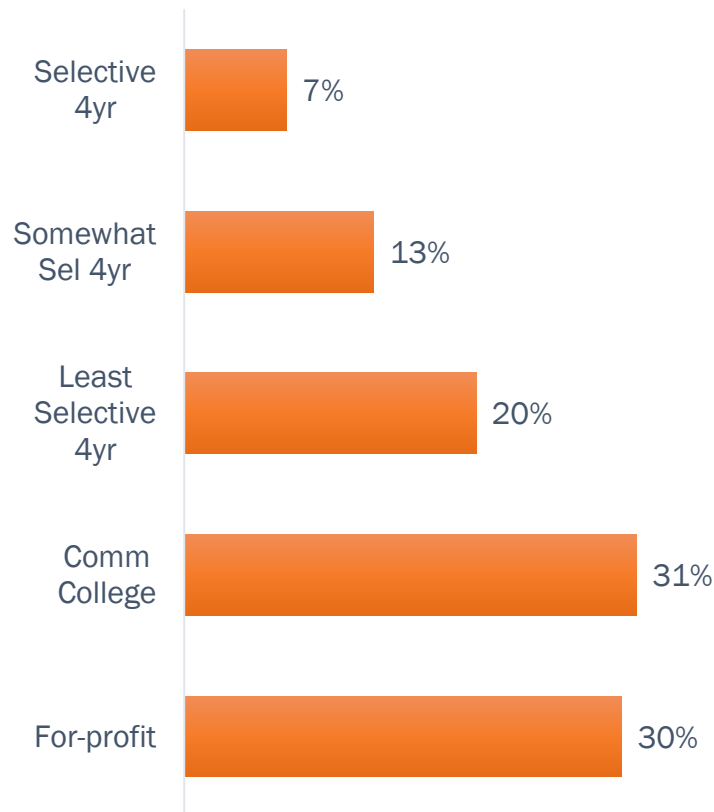
Present Discounted Value of College Degree Net of Tuition, 1965–2010



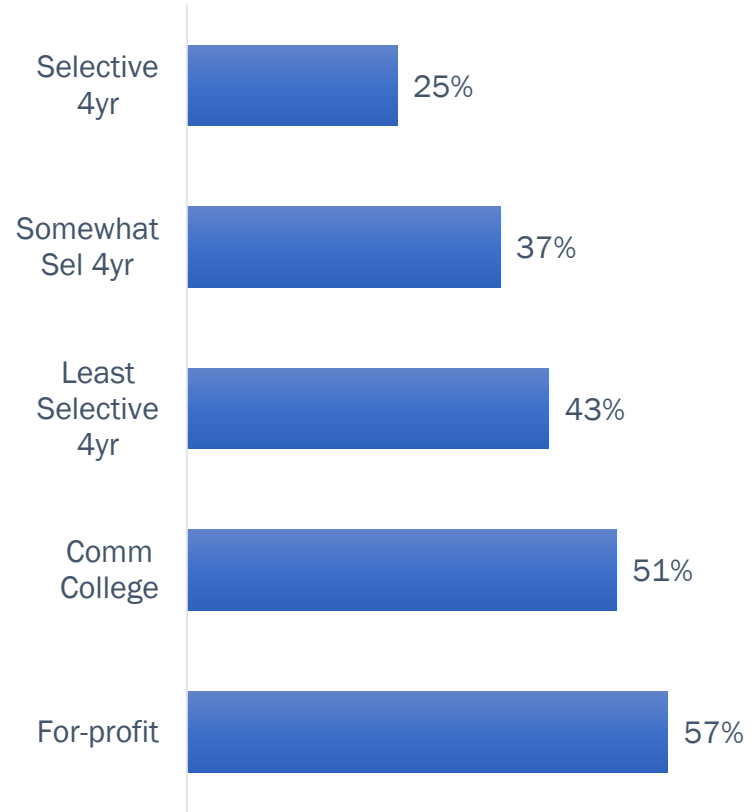
- But college comes with risk
- Returns differ across students, schools, and majors

Default & student characteristics vary by college

Default rates



% first generation students

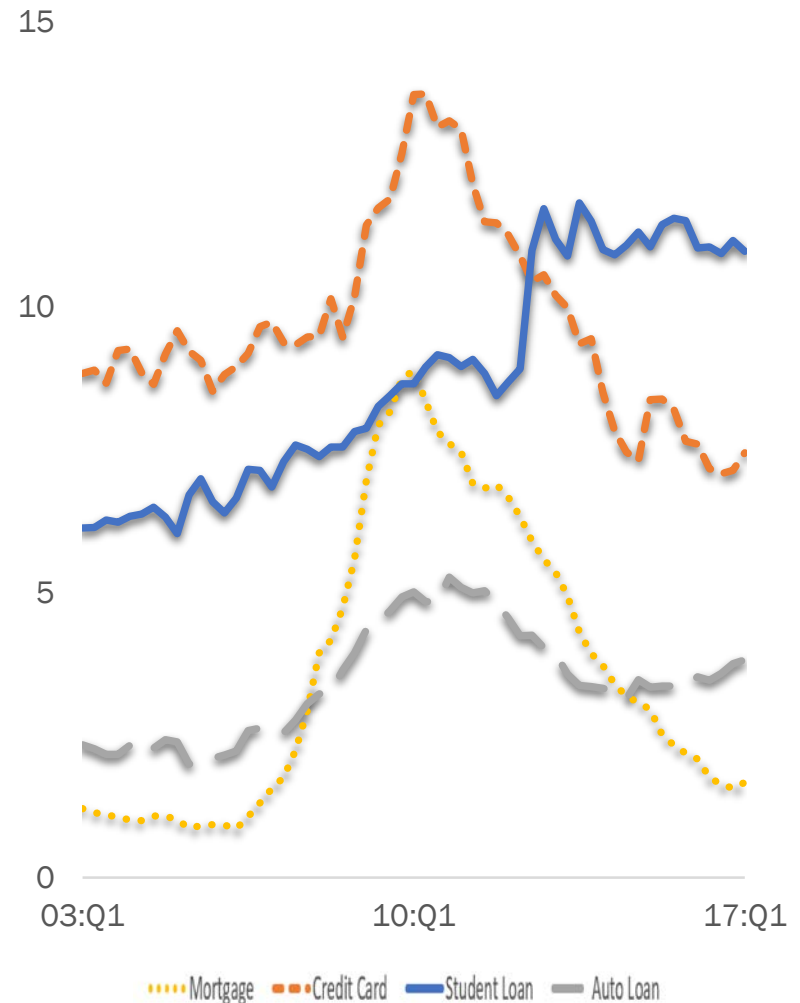


Note: 3 year cohort default rates for 2011 cohort. Source: National Student Loan Data System data from Looney & Yannelis (2015).

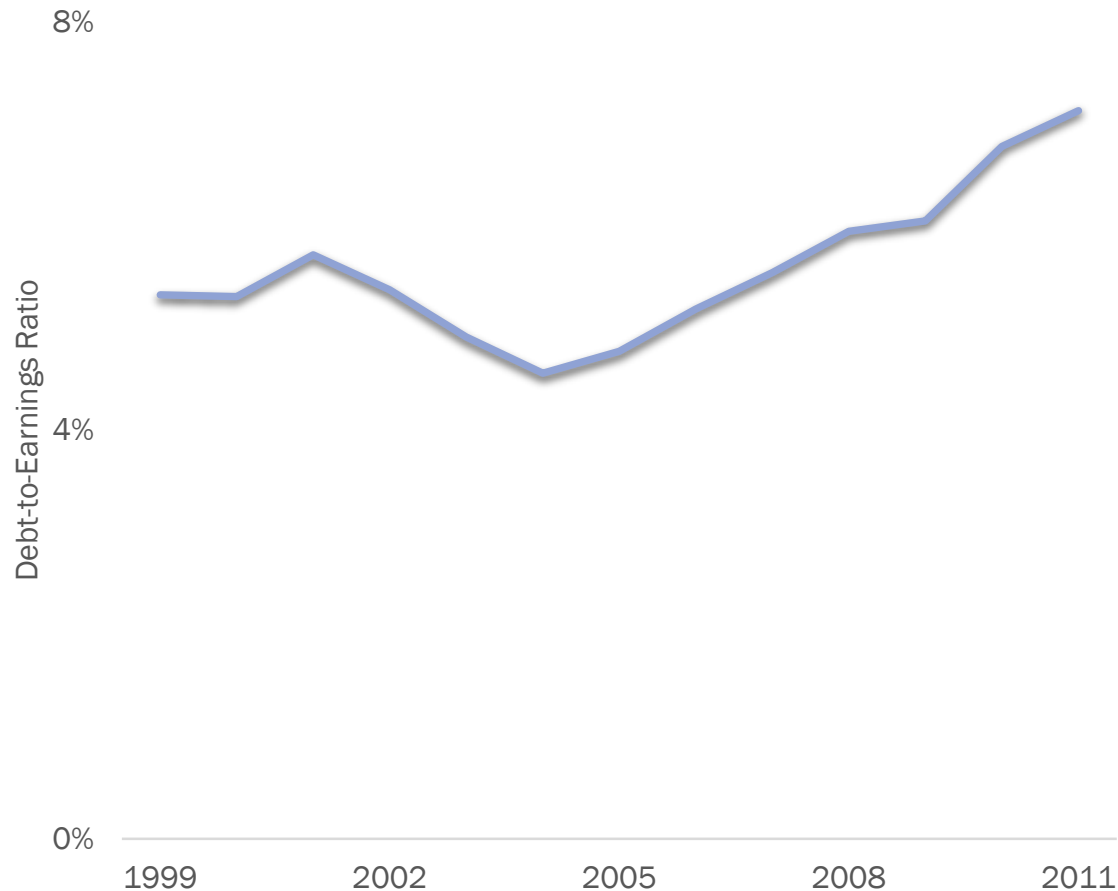
REPAYMENT IS THE KEY STUDENT LOAN ISSUE

- Default is costly to the debtor
- Default is costly to the lender & servicer
- Default is costly to taxpayers

% of Balance 90+ Days Delinquent



Increasing concern about burdens



Inconclusive evidence on the effect of student loan debt on later choices

Note: % first-generation is 2011 cohort. Source: National Student Loan Data System data from Looney & Yannelis (2015).

POST-ORIGINATION POLICIES PROVIDE RELIEF

- Consumer protection
 - Ombudsman
 - Servicing oversight
- Loan forgiveness
- Refinancing programs
- Tax credits/deductions (individual & employer)

Student loan difficulties are intricately connected to: the value of college; if, when, and where students go college; and student characteristics.

NEED INTEGRATED POLICIES

- Support prior to, during, & post college
- Encourage informed decision making
- Maximize the value of college
 - Benefits
 - Costs
 - Risk/uncertainty

What can states do to improve decisions?

Provide information

- Student loans: Debt letters; Disclosures
- Educational choices: Scorecards; Data

Educate / Increase skills

- Financial literacy courses
- Financial & educational counseling
- Mentoring

Information alone likely not sufficient

- Debt letters do not affect borrowing in isolation
 - Experiment on ~10K students
- Interviews: Students intentionally inattentive
 - Denial: “don’t have to worry about it until I leave”
 - Depression: “really cements my student depression”
 - Resignation: “just do what you’ve gotta do”
- Other ongoing supports needed (counseling, financial literacy, active engagement)

What can states do to address college value?

Cost / Prices

- Increase state subsidies (grant programs, free college)
- Seed asset building programs (child savings accounts, 529 plans)
- Offer alternative financing (ISAs, state loan programs)

What can states do to address college value?

Benefits

- **Encourage college completion**
- Track and report job & post-college outcomes
 - By school
 - By field of study
- Measure institutional performance & hold institutions accountable

What can states do to address college value?

Risk / Uncertainty

- Provide information / Educate & increase skills
- Offer insurance (IBR)
- Front load grants

Key takeaways redux

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- Post-origination policies importantly provide relief
- Need integrated polices
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 - Encourage informed decision making
 - Maximize the value of college

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