Myths About Student Loans

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Student Loans in the US

Source: NY Fed Consumer Credit Panel
Student Loans in the US
40 million borrowers, $1.4 trillion in debt

Total Debt Balance and its Composition

Source: New York Fed Consumer Credit Panel/Equifax

Source: NY Fed Consumer Credit Panel
Myth #1

$100,000 Debts Are The Norm
Borrowing by Entering College Students
Source: Survey Data, US Dept of Ed

Source: NPSAS, 2009. Total borrowing six years after college entry
Federal Student Debt in Repayment
Source: Admin Data, US Dept of Ed

Source: Analysis of National Student Loan Data System by Looney and Yannelis (2015)
All Student Debt
Source: NY Fed Consumer Credit Panel

Balance in 2014Q4:
- $\leq 5k$: 28.5%
- >$5k \text{ and } \leq 10k$: 18.5%
- >$10k \text{ and } \leq 25k$: 18.0%
- >$25k \text{ and } \leq 50k$: 7.2%
- >$50k \text{ and } \leq 75k$: 2.9%
- >$75k \text{ and } \leq 100k$: 2.4%
- >$100k \text{ and } \leq 150k$: 1.0%
- >$150k \text{ and } \leq 200k$: 0.8%
- >$200k$: 1.0%

43.3 million borrowers
Mean balance: $26,700
Median balance: $14,400
Myth #2

Defaults Are Driven by Large Debts
Smallest Debts, Highest Default

% borrowers entering repayment in 2009 who had defaulted by 2014

Source: NY Fed Credit Panel
Myth #3:
Borrowers from Elite Colleges Are Struggling
Defaults Lowest at Elite and 4-Year Colleges

Source: Analysis of National Student Loan Data System by Looney and Yannelis (2015)
Hardest Hit Are For-Profit & Community College

Myth #4

Loans Were Once Competitive, Have Been Taken Over by Feds
Public Loans, Private Servicers
Before 2010

• Federal government
  – guarantees loans
  – pays interest during school
  – sets loan terms & eligibility

• Private lenders
  – take applications
  – give out loans
  – collect payments
  – keep records, communicate with borrowers
Public Loans, Private Lenders
Since 2010

- Federal government
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Responsive Policies

• Free college?
  – But people will still borrow for living expenses and for-profits
  – Loans need to work since they are not going away

• Tighter regulation of for-profits
  – Accreditation
  – Fraud

• Improved repayment & servicing
  – Automatic payroll deduction (like Social Security)
  – Automatic adjustment of payments with earnings
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