

Loans for Educational Opportunity: Making Borrowing Work for Today's Students

Discussion

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Bottom Line: This is a Great Proposal

- Economic rationale for public provision of student loans
 - Cannot write a contract with human capital as collateral
 - Private market will underprovide/not exist
 - Individuals who would receive private benefit from college do not attend (credit constraints)
 - *Not a redistribution/externalities story!*

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- Takes into account age-earnings profile of recent college graduates
- Subsidized loans ineffective tool for increasing enrollment/attainment
 - Students don't understand the subsidy (Cadena & Keys 2013)

My comments

- Implementation issues
- Questions for researchers

Implementation

- Loan payments tied to individual income while households make decisions as unit
 - Incentives for spouse with high debt to exit the labor force?
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 - Incentives for spouse with high debt to exit the labor force?
 - If payments linked to family income, incentives to avoid marriage?
- Treatment of other sources of income (dividends, capital gains, pensions)
- End of year reconciliation via tax return
 - Treatment of individuals with uneven earnings and large EoY bill
 - What happens if cannot pay bill?

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 - How is mark-up for admin costs and risk determined?
- Makes cohort default rate metric obsolete
 - Current mechanism for determining Title IV eligibility
 - *Not necessarily the job of student loan program to determine institutional credit-worthiness!*

Research Questions

- Moral hazard
 - Impacts on amount of debt, labor supply, choice of job, marriage
 - Can the experiences of UK/Australia/other countries provide evidence on behavior distortions?
 - Evidence from individuals enrolled in current US IBR system?

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 - How binding are current SAP requirements?
- Incentives for schools
 - Reduces risk for schools (no cohort default rates)
 - Increase in pressure on students to take on debt?