MAKING SENSE OF LOAN AVERSION AMONG LOW-INCOME STUDENTS: EVIDENCE FROM WISCONSIN
OVERVIEW OF LOAN MAXIMUMS

- Stafford Loan limits:
  - $5,500 in year 1 ($3,500 subsidized)
  - $6,500 in year 2 ($4,500 subsidized)
  - $7,500 in year 3 and beyond ($5,500 subsidized)

- Total cap=$31,000 for dependent students
  - $23,000 subsidized
2/3rds of undergrads borrow
- Average debt per borrower ~$26,000

Among students at public 4-year institutions, students from families < $30K are the most likely to borrow
- Average debt per borrower ~$16,500 (approx. 60% of household income)
- But this is because these students have the most unmet need

Among students with unmet need, students from families <$30K are the least likely to borrow
- 57% of them decline to take loans
Resistance or hesitation to take a loan which would be beneficial to student
- “Beneficial” is especially difficult to define

Measured by survey questions
- Sometimes with a hypothetical scenario
- Other times, student simply reports “no loans”

Measured by administrative data
- But nearly always this is “student has no loans” rather than “student declined a loan offered”
- Loan offers are hard to track
PRIOR THEORY AND RESEARCH

- Suggests students with these characteristics may be more loan averse:
  - Racial/ethnic minorities, particularly Hispanic and Asians
  - More financial strength
  - Less information about the returns to college
  - Stronger sense of self-control
  - Lower educational expectations
  - Less social capital
  - Shorter time horizon
  - Inclined to work more
- Loan aversion may also vary by institutional culture
- Consequences of loan aversion may vary (see Dwyer)
RESEARCH QUESTIONS

- How does approach to measurement affect who is defined as loan averse?
- What are key demographic disparities in loan aversion?
- Which factors drive those disparities?
- How is the assessment of the driving factors affected by measurement?
- How is loan aversion related to postsecondary outcomes?
Wisconsin Scholars Longitudinal Study—www.finaidstudy.org

3,000 first-time, full-time Pell recipients attending Wisconsin’s 26 public colleges and universities beginning fall 2008

Sample is 58% female, 74% white, 80% first-generation

Average family income ~$29,000
Utilizing survey and administrative measures from same time frame: beginning of first year

Survey: “Suppose you could take out a loan of up to $10,000 with a 7 percent interest rate [close to market rate]. How much money would you take?”
- Loan averse = student selected $0

Admin data: We observe all types and amounts of financial aid offered and accepted
- Loan averse = student declined all loans offered
  - 18% declined subsidized loans
  - 40% declined unsubsidized loans
- (Also, sensitivity checks with different definitions)
### Measurement Differences in Loan Aversion

<table>
<thead>
<tr>
<th></th>
<th>Administrative Data</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Survey Data</strong></td>
<td></td>
</tr>
<tr>
<td>Borrowed</td>
<td>52%</td>
</tr>
<tr>
<td>Loan Averse</td>
<td>7%</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Loan Averse</strong></td>
<td>29%</td>
</tr>
<tr>
<td></td>
<td>12%</td>
</tr>
</tbody>
</table>

N=684; correlation=0.213
Is the response to a survey question indicative of *preference* or *intent* whereas the administrative data reflect behavior?

Does this imply that the decision to borrow may sometimes be a constrained choice?

Or, are these disparities due to timing of when the survey was administered (Sept-December 2008) and the timing of when the administrative data was collected (September-October 2008)?

Either way, this implies we ought to have some concern re: measurement.
Racial/ethnic minority students are generally more loan averse than non-Hispanic white students
- 11% pts in admin data but no difference in survey data; p<.05

Southeast Asians are more loan averse than non-Hispanic whites
- 13% pts admin data, 6% pts survey data, p<.05

Blacks are less loan averse than non-Hispanic whites
- ~4% pts, no measurement difference
DISPARITIES IN LOAN AVERSION: OTHER OBSERVATIONS

- No statistically significant differences in loan aversion by gender
  - Trends may vary by measurement – survey data says women are less loan averse while admin data says they are more loan averse
- First-generation immigrants and students for whom English is not their first language are much more loan averse
  - 8-16 % pts, more pronounced with admin data
CORRELATES OF LOAN AVersion: 
OTHER OBSERVATIONS

- Students feel more obligated to support their family and receive no $ support from family while in college
- They are less likely to feel college is difficult, and yet also have less high school preparation
- Longer time horizons
- Stronger sense that debt is normative
- More likely to have received FAFSA help from a non-family member
- More likely to be working
UNRELATED TO LOAN AVERSION

- ACT scores
- Perceived likelihood of college completion
- Expected returns to degree (~$60,000)
- Financial knowledge
  - Generalized and specific to financial aid
- Locus of control
ACCOUNTING FOR RACIAL/ETHNIC DIFFERENCES IN LOAN AVERSION

Black/white gap measured with survey data
ACCOUNTING FOR RACIAL/ETHNIC DIFFERENCES IN LOAN AVERSION

- Black/white gap measured with admin data

- Student demographics
- Financial strength
- Academic preparation and financial knowledge
- Attitudes, beliefs, and dispositions
- Work behaviors
- Social capital
ACCOUNTING FOR RACIAL/ETHNIC DIFFERENCES IN LOAN AVERSION

Southeast Asian/white gap measured with survey data

Student demographics | Financial strength | Academic preparation and financial knowledge | Attitudes, beliefs, and dispositions | Work behaviors | Social capital
ACCOUNTING FOR RACIAL/ETHNIC DIFFERENCES IN LOAN AVERSION

Southeast Asian/white gap measured with admin data

- Student demographics
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## Institutional Context and Loan Aversion

<table>
<thead>
<tr>
<th></th>
<th>Most selective universities</th>
<th>Somewhat selective</th>
<th>Least selective</th>
<th>2-year colleges</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loan aversion rate</td>
<td>8%</td>
<td>11.1%</td>
<td>24.5%</td>
<td>38.8%</td>
</tr>
<tr>
<td>% Pell</td>
<td>12-17%</td>
<td>20-38%</td>
<td>23-32%</td>
<td>24%</td>
</tr>
<tr>
<td>Grad rate</td>
<td>69-81%</td>
<td>41-61%</td>
<td>27-43%</td>
<td>20%</td>
</tr>
<tr>
<td>% Minority</td>
<td>6.8-12.8%</td>
<td>5-9.5%</td>
<td>17-22.8%</td>
<td>9.1%</td>
</tr>
</tbody>
</table>
## ACADEMIC OUTCOMES ASSOCIATED WITH BORROWING

<table>
<thead>
<tr>
<th></th>
<th>% Enrolled Year 2</th>
<th>% Enrolled Year 3</th>
<th># Credits</th>
<th>Cum. GPA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Means of Loan Averse Students</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(Survey data)</td>
<td>78.1</td>
<td>66.9</td>
<td>63.7</td>
<td>2.42</td>
</tr>
<tr>
<td>Borrowing Impact (survey)</td>
<td>8.9***</td>
<td>9.3**</td>
<td>4.6**</td>
<td>0.23***</td>
</tr>
<tr>
<td>Means of Loan Averse Students</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(Admin data)</td>
<td>82.4</td>
<td>70.9</td>
<td>64.8</td>
<td>2.58</td>
</tr>
<tr>
<td>Borrowing Impact (admin)</td>
<td>-4.8</td>
<td>-3.2</td>
<td>-1.8</td>
<td>-0.22***</td>
</tr>
</tbody>
</table>
SUMMARY

- Rates of loan aversion vary depending on method of measurement.
- Disparities also vary by measurement.
- Immigration status and home language appear to increase loan aversion.
- At least among low-income students, financial knowledge, time horizon, etc matter little.
- Explanations for loan aversion and associations with academic outcomes also vary by measurement.
Is loan aversion a concern? Unclear
Perhaps, given payoff to college
On the other hand, perhaps payoff relative to future earnings is not the relevant comparison. With current and future earnings committed to family, perhaps debt to household income is more appropriate.
- 24% for families earning < $30K/year
- 7% for families earning > $60K/year

Need to better understand how decisions about borrowing are affected by perception that college increases mobility vs. perpetuating economic struggles
- See my upcoming WT Grant study