

Default and Repayment among Baccalaureate Degree Earners

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Economic Trends and Student Borrowing in the US

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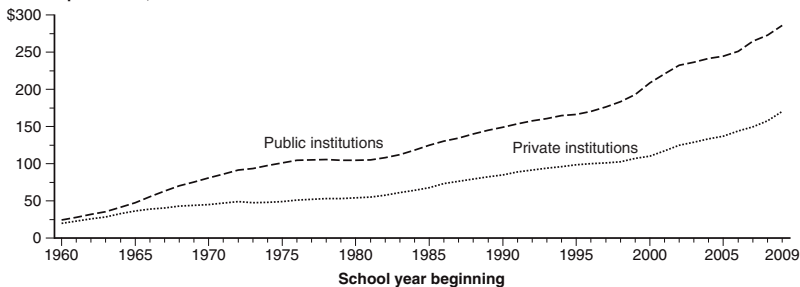
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- After declining for 15 years, default rates have risen since 2005
- Renewed interest in design of government student loan programs

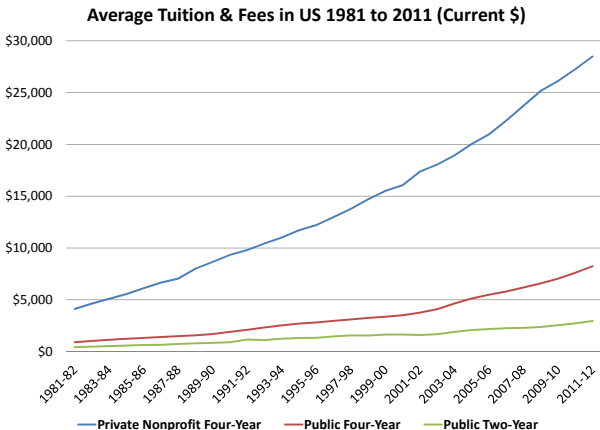
Rising Costs of Higher Education in the US

Total expenditures, in billions of constant 2008–09 dollars



Source: *Digest of Education Statistics, 2010*.

Reflected in Rising Tuition Levels

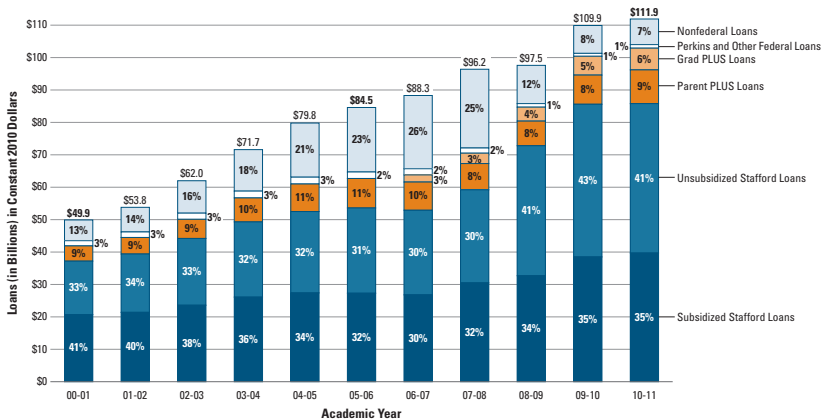


Source: College Board, Trends in College Pricing 2011 (Table 4a).

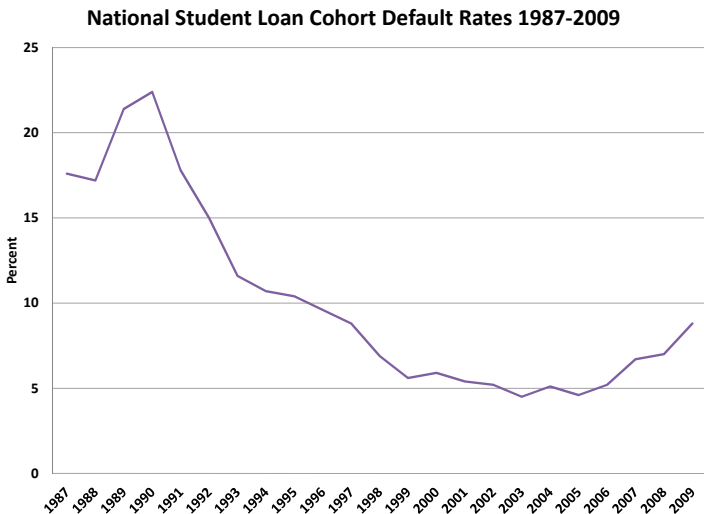
Student Loans 2000-01 to 2010-11

FIGURE 4

Growth of Federal and Nonfederal Loan Dollars in Constant 2010 Dollars, 2000-01 to 2010-11


 Source: College Board, *Trends in Student Aid 2011*.

Federal Student Loan Cohort Default Rates



What Do We Know About Student Loan Repayment?

- Nearly all studies using nationally representative samples are based on cohorts from more than three decades ago
 - 1987 NPSAS
 - Dynarski (1994), Flint (1997), Volkwein, et al. (1998)
 - other (usually small) studies focus on specific institutions or states

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 - other (usually small) studies focus on specific institutions or states
- Most studies focus exclusively on default
- Default often measured a few years out of school

What Do We Know About Student Loan Repayment?

- The following characteristics are often associated with higher default rates
 - minorities
 - low family income
 - college dropout
 - attendance at 2-year schools, for-profit private schools
 - high debt levels
 - low post-school earnings

Contributions of this Paper

- Main contribution: examine determinants of various forms of student loan repayment and non-payment in addition to default
 - based on premise that lenders care about expected discounted returns and not just default

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- Main contribution: examine determinants of various forms of student loan repayment and non-payment in addition to default
 - based on premise that lenders care about expected discounted returns and not just default
- Other contributions:
 - more recent cohort: 1993 college graduates
 - measure repayment/non-payment up to 10 years after school
 - simultaneous analysis of a number of different types of potential determinants

Why use Different Measures of Repayment/Non-Payment

Expected returns and losses of loans depend on many factors

- Early defaults without return to good standing are more costly than late defaults
- Deferment/forbearance shift payments to later dates, which is costly due to discounting
 - deferment/forbearance may be more costly for lender than default followed by return to good standing
- Income contingent programs
 - forgive loan amounts remaining after 20-25 years
 - timing of payments may also matter due to difference in interest rates charged on loans and the lender's discount rate

Broader Measures of Repayment/Non-Payment

We consider the following measures ten years after school:

- fraction of debt still outstanding
 - should be ≈ 0 under standard payment plan
- default
- any form of non-payment, including default, deferment, and forbearance
- fraction of debt in default
- fraction of debt in non-payment

Baccalaureate and Beyond Surveys

We use data from the Baccalaureate and Beyond Surveys (B&B)

- Random sample of roughly 16,000 students who *received their BA/BS* in 1992-93
 - good: homogeneous schooling group
 - bad: omits dropouts who typically have highest default rates
- Sample drawn from 1993 NPSAS
- Data from
 - surveys in 1993, 1994, 1997, and 2003
 - institutional records on college costs and financial aid
 - snapshots from government student loan administrative records in 1998 and 2003

Baccalaureate and Beyond Surveys

B&B contains information on

- family background & demographic characteristics
 - age, race, gender, SAT/ACT scores, maternal education, dependency status and parental income (for dependents)
- college major
- characteristics of institution attended
 - control (public, private not-for-profit, for-profit), HBCU
 - merge in Barron's admissions competitiveness ratings (most competitive, competitive, non-competitive)
- loan amounts and status
- post-school employment, earnings and income

Sample Criteria

We limit our sample to exclude:

- non-citizens
- disabled
- students receiving BA/BS at age 30+
- students currently enrolled in school (in 2003)
- students with significant post-graduate studies
 - attended 12+ months of graduate school by 1997
 - received any post-graduate degree by 2003
- Remaining sample: 4,304
- Sample of borrowers: 2,183

Repayment Basics

- Most graduates are repaying their debts or have fully paid them 5-10 years after school
- Deferment and forbearance are important forms of non-payment in early years, while the importance of default grows over time
- There is considerable persistence in repayment and default
- Most borrowers in deferment/forbearance 5 years after school are making payments (or have fully repaid) 5 years later
- Roughly half of all borrowers in default 5 years after school return to payment (or have fully repaid) 5 years later

Repayment in B&B

Table 1: Repayment Status 5 and 10 Years after Graduation

UG Loan Status	5 Years	10 Years
Fully Repaid	.269 (.013)	.639 (.013)
Repaying or Fully Paid	.920 (.008)	.917 (.007)
Deferment or Forbearance	.038 (.006)	.025 (.004)
Default	.042 (.006)	.058 (.005)

Repayment in B&B

Table 2: Repayment Status Transition Probabilities

Repayment Status in 1998	Repayment Status in 2003:		
	Repaying/Fully Paid	Defer/Forbear	Default
Repaying or Fully Paid	.939 (.006)	.020 (.004)	.040 (.005)
Deferment or Forbearance	.749 (.063)	.165 (.057)	.085 (.032)
Default	.544 (.070)	.038 (.020)	.418 (.068)

Understanding Repayment Behavior

- We begin by studying average earnings, undergraduate loan amounts, and our repayment/non-payment outcomes by
 - personal/family characteristics
 - institutional characteristics
- Then, use regression-based methods to examine importance of these factors along with the following:
 - college major
 - student debt levels
 - post-school earnings
 - state/division fixed effects

Gender & Race

Table 3a: Earnings, UG Borrowing, and Repayment/Non-Payment in 2003 by Gender & Race

	N	Earnings (\$1,000)	Total UG Loan Amt. (\$1,000)	Share of UG Debt Still Owed	Fraction in Default	Fraction Not Paying	Default x Share of Debt Still Owed	Not Paying x Share of Debt Still Owed
Full Sample	2,116	49.629 (1.300)	9.336 (.179)	.188 (.012)	.058 (.005)	.083 (.007)	.028 (.005)	.052 (.007)
Males	904	64.199 (2.426)	9.646 (.304)	.146 (.014)	.057 (.008)	.067 (.008)	.019 (.005)	.028 (.006)
Females	1,212	37.705 (1.097)	9.091 (.212)	.221 (.018)	.059 (.008)	.095 (.01)	.034 (.008)	.071 (.013)
Asians	51	58.085 (3.975)	8.706 (1.039)	.236 (.075)	.112 (.043)	.130 (.047)	.020 (.013)	.026 (.015)
Blacks	147	42.123 (2.513)	9.165 (.522)	.506 (.064)	.132 (.029)	.180 (.032)	.156 (.057)	.208 (.060)
Hispanics	126	47.235 (3.115)	8.127 (.786)	.216 (.054)	.113 (.038)	.134 (.041)	.031 (.011)	.048 (.020)
Whites	1,778	49.965 (1.483)	9.441 (.197)	.158 (.012)	.047 (.005)	.070 (.007)	.017 (.003)	.040 (.007)

SAT/ACT Quartiles and Maternal Education

Table 3b: Earnings, UG Borrowing, and Repayment/Non-Payment in 2003 by SAT/ACT and Mother's Education

	N	Earnings (\$1,000)	Total UG Loan Amt. (\$1,000)	Share of UG Debt Still Owed	Fraction in Default	Fraction Not Paying	Default x Share of Debt Still Owed	Not Paying x Share of Debt Still Owed
SAT/ACT Q1	513	41.641 (1.641)	9.466 (.46)	.236 (.025)	.061 (.01)	.097 (.014)	.032 (.008)	.059 (.011)
SAT/ACT Q2	503	50.197 (2.164)	9.153 (.319)	.141 (.015)	.048 (.01)	.054 (.01)	.022 (.007)	.025 (.007)
SAT/ACT Q3	476	60.087 (3.914)	9.673 (.371)	.175 (.031)	.047 (.009)	.076 (.014)	.010 (.004)	.026 (.007)
SAT/ACT Q4	369	50.54 (2.508)	9.131 (.378)	.151 (.022)	.061 (.012)	.084 (.014)	.027 (.009)	.052 (.014)
Mom No Coll.	920	48.168 (1.726)	8.911 (.24)	.223 (.021)	.060 (.008)	.088 (.011)	.027 (.005)	.058 (.012)
Mom Some Coll.	608	44.452 (1.96)	9.184 (.297)	.14 (.014)	.055 (.01)	.069 (.011)	.028 (.008)	.039 (.009)
Mom BA+	581	56.838 (3.177)	10.161 (.416)	.18 (.021)	.058 (.01)	.089 (.014)	.028 (.013)	.055 (.016)

Institutional Characteristics

Table 4: Earnings, UG Borrowing, and Repayment/Non-Payment in 2003 by Type of Institution Attended

	N	Earnings (\$1,000)	Total UG Loan Amt. (\$1,000)	Share of UG Debt Still Owed	Fraction in Default	Fraction Not Paying	Default x Share of Debt Still Owed	Not Paying x Share of Debt Still Owed
Public	1,348	49.458 (1.63)	8.407 (.224)	.174 (.015)	.056 (.006)	.076 (.008)	.025 (.004)	.047 (.009)
Private NFP	721	49.827 (2.268)	11.207 (.297)	.213 (.021)	.054 (.009)	.086 (.012)	.032 (.012)	.061 (.014)
Private FP	33	51.434 (7.896)	9.738 (1.263)	.199 (.073)	.182 (.091)	.264 (.108)	.059 (.042)	.087 (.047)
Most Competitive	153	61.583 (4.663)	11.453 (.65)	.202 (.034)	.043 (.016)	.087 (.022)	.009 (.005)	.043 (.014)
Competitive	1,303	49.99 (1.558)	9.471 (.235)	.168 (.013)	.054 (.007)	.075 (.008)	.026 (.005)	.041 (.006)
Non-competitive	619	46.041 (2.696)	8.668 (.308)	.23 (.026)	.065 (.011)	.096 (.015)	.034 (.012)	.076 (.021)
Black, Not HBCU	98	44.421 (3.088)	10.085 (.667)	.448 (.054)	.17 (.042)	.223 (.045)	.157 (.045)	.203 (.048)
Black, HBCU	49	38.85 (4.075)	7.855 (.837)	.589 (.132)	.078 (.033)	.119 (.041)	.155 (.124)	.215 (.129)

Multivariate Analysis of Repayment/Non-payment

- We consider a number of different specifications to understand repayment/non-payment:
 - 1 **personal/family characteristics**
 - 2 (1) + college major
 - 3 (1) + institutional characteristics
 - 4 **(1) + college major + institutional characteristics**
 - 5 **(4) + student debt + post-school earnings**
 - 6 (5) + state fixed effects

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 - 5 **(4) + student debt + post-school earnings**
 - 6 (5) + state fixed effects
- Comparing (2) or (3) with (1) tells us whether personal/family characteristics affect outcomes through choice of major or institution
- Comparing (4) and (5) tells us whether various factors affect outcomes through debt or post-school income

Table 6: Fraction of Undergraduate Student Debt Still Owed Ten Years After Graduation

Variable	Individual & Family Char. Only	Adds Major & Institution Char.	Adds Debt & Earnings
male	-0.047***	-0.034*	-0.017
black	0.271***	0.251***	0.244***
hispanic	0.061*	0.067*	0.067*
asian	0.070	0.060	0.062
SAT/ACT Q2	-0.000	0.003	0.008
SAT/ACT Q3	0.005	0.013	0.018
SAT/ACT Q4	0.014	0.015	0.023
mom some college	-0.056***	-0.057***	-0.045**
mom BA+	-0.060***	-0.072***	-0.055***
dependent	-0.007	-0.013	-0.019
parental income x dependent	0.0002	0.0001	0.0004

Table 6: Fraction of Undergraduate Student Debt Still Owed Ten Years After Graduation

Variable	Individual & Family Char. Only	Adds Major & Institution Char.	Adds Debt & Earnings
business		-0.049	-0.020
education		-0.036	-0.044
engineering		-0.109***	-0.086**
health		-0.017	-0.004
public affairs		-0.040	-0.017
biology		0.004	-0.023
math science		-0.025	-0.019
social science		0.040	0.058*
history		0.012	0.019
humanities		0.060*	0.074**
psychology		0.049	0.067
private FP		-0.049	-0.083
private NFP		0.047***	0.000
HBCU		0.061	0.049
competitive		-0.009	0.011
non-competitive		0.000	0.020
N	1,850	1,820	1,614
R-squared	0.051	0.072	0.141

Table 7: Default Ten Years After Graduation (Avg. Marginal Effects, Probit)

Variable	Individual & Family Char. Only	Adds Major & Institution Char.	Adds Debt & Earnings
male	-0.002	-0.009	0.000
black	0.073***	0.073***	0.066***
hispanic	0.019	0.019	0.032
asian	0.071**	0.074**	0.073**
SAT/ACT Q2	-0.004	-0.016	-0.007
SAT/ACT Q3	-0.008	-0.013	-0.018
SAT/ACT Q4	0.019	0.007	0.006
mom some college	0.010	0.014	0.018
mom BA+	0.018	0.014	0.006
dependent	-0.004	-0.012	-0.015
parental income x dependent	-0.0010**	-0.0008**	-0.0005

Table 7: Default Ten Years After Graduation (Avg. Marginal Effects, Probit)

Variable	Individual & Family Char. Only	Adds Major & Institution Char.	Adds Debt & Earnings
business		-0.075***	-0.083***
education		-0.024	-0.032
engineering		-0.037	-0.023
health		-0.025	-0.038
public affairs		-0.014	-0.017
biology		0.014	0.006
math science		0.048**	0.038
social science		-0.029	-0.032
history		0.068**	0.049
humanities		-0.001	-0.003
psychology		-0.002	-0.067
private FP		-0.016	
private NFP		0.007	-0.009
HBCU		-0.028	-0.010
competitive		0.015	0.014
non-competitive		0.016	0.027
N	1,871	1,839	1,614

Table 8: Non-Payment Ten Years After Graduation (Avg. Marginal Effects, Probit)

Variable	Individual & Family Char. Only	Adds Major & Institution Char.	Adds Debt & Earnings
male	-0.017	-0.024	-0.005
black	0.090***	0.091***	0.09***
hispanic	0.007	0.007	0.027
asian	0.079**	0.081**	0.088**
SAT/ACT Q2	-0.018	-0.029	-0.026
SAT/ACT Q3	-0.015	-0.019	-0.019
SAT/ACT Q4	0.027	0.011	0.008
mom some college	-0.003	0.002	0.001
mom BA+	0.001	-0.007	-0.005
dependent	0.032	0.025	0.013
parental income x dependent	-0.0014***	-0.0013***	-0.0008*

Table 8: Non-Payment Ten Years After Graduation (Avg. Marginal Effects, Probit)

Variable	Individual & Family Char. Only	Adds Major & Institution Char.	Adds Debt & Earnings
business		-0.070**	-0.052*
education		-0.042	-0.0478*
engineering		-0.048	-0.026
health		-0.011	-0.012
public affairs		-0.017	-0.002
biology		0.006	0.000
math science		0.059**	0.054*
social science		-0.028	-0.025
history		0.085**	0.065*
humanities		0.014	0.018
psychology		0.040	0.010
private FP		0.015	
private NFP		0.017	-0.004
HBCU		-0.032	-0.044
competitive		-0.013	0.003
non-competitive		-0.009	0.017
N	1,871	1,839	1,614

Table 9: Fraction of Student Debt in Default Ten Years After Graduation

Variable	Individual & Family Char. Only	Adds Major & Institution Char.	Adds Debt & Earnings
male	-0.011	-0.012	-0.006
black	0.106***	0.129***	0.116***
hispanic	0.025	0.026	0.030
asian	0.007	0.004	0.004
SAT/ACT Q2	0.007	0.002	0.006
SAT/ACT Q3	0.003	0.000	0.003
SAT/ACT Q4	0.021*	0.016	0.019
mom some college	-0.002	-0.002	0.001
mom BA+	-0.016	-0.018*	-0.015
dependent	-0.008	-0.012	-0.011
parental income x dependent	-0.0002	-0.0002	-0.0001

Table 9: Fraction of Student Debt in Default Ten Years After Graduation

Variable	Individual & Family Char. Only	Adds Major & Institution Char.	Adds Debt & Earnings
business		-0.031**	-0.027
education		-0.021	-0.032*
engineering		-0.030	-0.021
health		-0.034*	-0.039**
public affairs		-0.008	-0.006
biology		-0.015	-0.021
math science		0.028	0.040*
social science		-0.013	-0.013
history		0.024	0.018
humanities		0.030*	0.028
psychology		-0.023	-0.037
private FP		-0.027	-0.042
private NFP		-0.006	-0.020**
HBCU		-0.080**	-0.064*
competitive		0.020	0.021
non-competitive		0.010	0.013
N	1,871	1,839	1,630
R-squared	0.030	0.048	0.063

Table 10: Fraction of Student Debt in Non-Payment Ten Years After Graduation

Variable	Individual & Family Char. Only	Adds Major & Institution Char.	Adds Debt & Earnings
male	-0.019	-0.018	-0.015
black	0.134***	0.156***	0.159***
hispanic	0.009	0.012	0.024
asian	-0.003	-0.007	0.003
SAT/ACT Q2	-0.018	-0.021	-0.005
SAT/ACT Q3	-0.018	-0.017	0.003
SAT/ACT Q4	0.027	0.020	0.039**
mom some college	-0.006	-0.009	-0.015
mom BA+	-0.022	-0.026	-0.016
dependent	-0.001	-0.004	0.002
parental income x dependent	-0.0002	-0.0002	-0.0001

Table 10: Fraction of Student Debt in Non-Payment Ten Years After Graduation

Variable	Individual & Family Char. Only	Adds Major & Institution Char.	Adds Debt & Earnings
business		-0.035	-0.011
education		-0.036	-0.036
engineering		-0.026	-0.017
health		0.010	-0.022
public affairs		0.007	0.033
biology		-0.026	-0.028
math science		0.015	0.041
social science		-0.006	0.006
history		0.045	0.049
humanities		0.072***	0.085***
psychology		0.004	0.011
private FP		-0.042	-0.073
private NFP		0.006	-0.014
HBCU		-0.076	-0.127***
competitive		0.017	0.024
non-competitive		0.020	0.019
N	1,871	1,839	1,630
R-squared	0.023	0.037	0.066

Significant Effects Only for All Repayment/Non-Payment Outcomes using Specification 6

(includes state/district fixed effects)

Variable	Share of UG Debt Still Owed	Fraction in Default	Fraction Not Paying	Default x Share of Debt Still Owed	Not Paying x Share of Debt Still Owed
black	0.216	0.055	0.085	0.108	0.158
asian	0.107	0.072	0.089	0.003	0.008
SAT/ACT Q4	0.029	0.006	0.006	0.022	0.041
mom some college	-0.047	0.022	0.008	0.001	-0.014
mom BA+	-0.062	0.003	-0.007	-0.018	-0.013
business	-0.020	-0.081	-0.051	-0.023	-0.010
engineering	-0.090	-0.018	-0.021	-0.016	-0.008
health	-0.007	-0.047	-0.019	-0.042	-0.027
social science	0.078	-0.022	-0.014	-0.008	0.008
humanities	0.083	0.001	0.023	0.030	0.081
HBCU	0.041	-0.005	-0.040	-0.060	-0.117
1997 earnings (\$1,000)	-0.0010	-0.0001	-0.0003	-0.0005	-0.0004
2002 earnings (\$1,000)	-0.0004	-0.0008	-0.001	-0.0001	-0.0004
UG loan amount (\$1,000)	0.013	0.003	0.004	0.003	0.003

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 - nothing systematic across measures
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 - by some measures, business and engineering look good, while social science and humanities look bad
- Institutional characteristics generally have insignificant effects
 - exception: HBCU's associated with lower share of debt in non-payment for blacks
- Post-school earnings reduce non-payment, while debt levels increase non-payment
 - an extra \$1,000 in debt is generally offset by around \$10,000 in earnings

Other Lessons

- Default does not always provide a good picture of expected losses/returns on loans
 - understates other black - white differences
 - overstates other asian - white differences

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Other Lessons

- Default does not always provide a good picture of expected losses/returns on loans
 - understates other black - white differences
 - overstates other asian - white differences
- Differences in choice of major, institution, debt and post-school earnings do not explain demographic differences in repayment/non-payment
- Differences in post-school earnings explain much less than half of the variation in non-payment across majors

Some Pesky Questions for Policymakers and Lenders

- What explains the poor payment records for blacks?
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- How different would things look for today's students?