Student Debt: Thinking Fast and Slow

A Presentation at the NAICUSE Summer Workshop
July 30, 2012
Student Debt: One Side

• “The Student Loan Bubble; Only Stupid People Will Be Surprised When It Bursts”, AboveTheLaw.com, August 18, 2011


• “Student Debt: What’s Been Driving College Costs So High, Anyway?”, Christian Science Monitor, June 6, 2012
Student Debt: The Other Side

• “Student Loans: Is There Really A Crisis?”, *Time Magazine*, May 17, 2012


• “Is College Affordable? In Search of A Meaningful Definition”, *white paper by Sandy Baum and Saul Schuartz, IHEP*, July 9, 2012
Thinking Fast and Slow, by Daniel Kahneman, November 2011

- Fast=instinctive, emotional thinking
- Slow=more deliberative, more rational thinking

We may think of ourselves as rational; but we are subject to many biases

Applicable not only to debt, but many issues in higher education
Setting The Record Straight: Why Do We Care?

- Need accurate information
- Incorrect information adds to the “noise” in policy-making environment
- Viable opportunities for students and families
- Access to affordable capital for students and families
Five Major Themes

1. Student loan volume as a large-scale economic issue
2. Looming “bubble” and defaults
3. Levels of student debt
4. Value of college and borrowing to attend
5. Federal student aid fuels tuition hikes
1. Student Loan Volume as a Large-Scale Economic Issue

- $1 Trillion
- More than credit card debt
- Yes, but ....
Composition of Total Consumer Debt

- Mortgage
- Home Equity
- Auto
- Credit Card
- Student Loan
- Other

Year
- 2003
- 2004
- 2005
- 2006
- 2007
- 2008
- 2009
- 2010
- 2011
- 2012

Trillions of Dollars
- $0.0
- $0.2
- $0.3
- $0.4
- $0.5
- $0.6
- $0.7
- $0.8
- $0.9
- $1.0
- $1.1
- $1.2

$4.9
$5.8
$6.5
$7.4
$8.4
$9.2
$9.1
$8.8
$8.5
$8.2
Composition of Total Consumer Debt

- Mortgage
- Home Equity
- Auto
- Credit Card
- Student Loan
- Other

<table>
<thead>
<tr>
<th>Year</th>
<th>Mortgage</th>
<th>Home Equity</th>
<th>Auto</th>
<th>Credit Card</th>
<th>Student Loan</th>
<th>Other</th>
<th>Total Debt</th>
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<tbody>
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<td>2003</td>
<td>$7.1</td>
<td>7.0%</td>
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<td>4.9%</td>
<td>4.3%</td>
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<td>2008</td>
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<td>3.7%</td>
<td>$12.5</td>
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<tr>
<td>2009</td>
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<td>7.0%</td>
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<td>2010</td>
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<td>2011</td>
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<td>2012</td>
<td>$11.4</td>
<td>7.0%</td>
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<td>4.3%</td>
<td>3.9%</td>
<td>3.7%</td>
<td>$11.4</td>
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</table>
Percentage of All Undergraduate Borrowing by Type of Institution

Source: “Student Loans: Do College Students Borrow Too Much – Or Not Enough?,” by Christopher Avery and Sarah Turner, Journal of Economic Perspectives, Winter 2012, p. 171
2. Looming “Bubble” and Defaults

- In the media, student loans as next “debt bomb”
- Some institutions and sectors have high and rising default rates
Cohort Default Rates by Type of Institution 
2007 - 2009

3. Levels of Student Debt

- In the media, focus on extreme examples
- Student aid data are murky, almost by nature
- Researchers can look at data differently
- Overall, facts are different than the hype
Outstanding Student Loan Balance 2011

All borrowers

Source: Federal Reserve Banks of New York, March 5, 2012
Student Loan Debtors in the United States by Total Cumulative Debt Amount (37 million borrowers)

Source: Federal Reserve Bank of New York Consumer Credit Panel /Equifax March 2012
Percentage of Cumulative Education Loan Debt for Four-Year Bachelor’s Degree Recipients 2007-08

<table>
<thead>
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<th>Public</th>
<th>Not for Profit</th>
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<tr>
<td>Cumulative Debt Percent of Total</td>
<td>38%</td>
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<tr>
<td>More Than $30,500</td>
<td>51%</td>
<td>48%</td>
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<tr>
<td>None</td>
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</table>

Percentages of 2003-04 Beginning Postsecondary Dependent Students Who Last Attended a Four-Year Institution Receiving Bachelor’s Degrees by 2009

Cumulative Debt Among 2009 Dependent, Bachelor’s Degree Completers Quartiles

College Board, *Trends in Student Aid 2011*, Figure 9A, page 18.
Cumulative Debt Among 2009 Dependent, Non-Completers Quartiles

College Board, *Trends in Student Aid 2011*, Figure 9B, page 18.
4. Value of College and Borrowing to Attend

• Worth it to the individual
• Worth it to society
Estimated Cumulative Earnings Net of Loan Repayment for Tuition and Fees, by Education Level

Sources: The College Board, *Education Pays 2010*, Figure 1.3; U.S. Census Bureau, 2009; The College Board, 2009; calculations by the authors.
Unemployment Rates Among Individuals Ages 25 and Older, by Education Level, 1992–2009

Sources: The College Board, *Education Pays 2010*, Figure 1.10a; Bureau of Labor Statistics, 2010d.
Unemployment Rates of Individuals Ages 25 and Older, by Education Level and Race/Ethnicity, 2009

Sources: The College Board, *Education Pays 2010*, Figure 1.10b; Bureau of Labor Statistics, 2010c.
Voting Rates Among U.S. Citizens, by Age and Education Level, 2008

Sources: The College Board, *Education Pays 2010*, Figure 1.22; U.S. Census Bureau, 2008.
5. Federal Student Aid Fuels Tuition Hikes

• No empirical evidence of a causal relationship between federal student aid and tuition increases
• Research is ignored or not believed
Why student aid is NOT driving up college costs

By Valerie Strauss

This was written by David L. Warren, president of the National Association of Independent Colleges and Universities

By David L. Warren

Support for higher education has never been more important to the nation’s economic future than today. According to the Georgetown University Center on Education and the Workforce, by 2018, 63 percent of U.S. jobs will require some form of postsecondary education. The center projects the nation’s employers will need 22 million new workers with postsecondary degrees. Unless we change course, the nation will fall short by three million workers.

Going back to the original G.I. Bill in 1944, there is a history of strong federal support for student financial aid. The budget crisis, however, is eroding the federal commitment to ensuring that hard-working, academically prepared students from low-income backgrounds have the opportunity to earn a college degree. This erosion couldn’t come at a worse time for college students and the nation.

The re-emergence of the so-called Bennett hypothesis in policy discussions, media coverage, and federal appropriations threatens to make a bad situation worse. According to the hypothesis, named after former Education Secretary William Bennett, who promoted the notion in the 1980s, student aid has allegedly given colleges and universities “license” to increase tuition, meaning that federal student aid has not made higher education more accessible or more affordable.

There is not a shred of empirical evidence of a causal relationship between federal student aid and tuition increases at public and private nonprofit institutions, including institutions with high published prices and large endowments.

This Bennett hypothesis simply isn’t true, though Gary C. Fethke and Andrew J. Policano attempted to argue that it was with regard to high-endowment private universities. In their Answer Sheet guest post last month, Fethke and Policano, professors at the University of Iowa
and University of California, Irvine, unfortunately, ignore the body of research on the subject, as well as common sense, in singling out these universities.

Continuous pressures to examine the Bennett hypothesis have led to nearly 15 years of federal research. Studies conducted during three successive administrations — Bill Clinton, George W. Bush, and Barack Obama — have found no link between student aid and tuition increases. The hypothesis is nothing more than an urban legend.

“Regarding the relation between financial aid and tuition, the regression models found no associations between most of the aid packaging variables (federal grants, state grants, and loans) and changes in tuition in either the public or private not-for-profit sectors.” (italics added)


“The Commission finds no evidence to suggest any relationship between the availability of Federal grants and the costs or prices in these institutions,” and “has found no conclusive evidence that loans have contributed to rising costs and prices.”


“After the change to the Stafford loan limits beginning in AY 2007-08, the price [of college] … increased at a rate generally consistent with prior years.”


“Overall, [previously conducted] analyses are descriptive and do not necessarily indicate a linkage between increases in the loan limits and changes in tuition or borrowing.”


Although Bennett thinks student aid can be a “considerable factor” in tuition increases, even he notes in a March 2012 CNN.com commentary piece that “increased federal aid does not cause college price inflation.” He does not carve out an exception for any segment of nonprofit higher education.

Fethke and Policano base their assertion solely on the findings of one study, conducted by Larry Singell and Joe Stone. Commenting on that study, Harvard University education economist Bridget Terry Long noted during congressional testimony in 2006 that “the results [related to private colleges] seem attributable to factors other than government aid policy.”

According to most experts, there is no relationship between federal student aid and tuition increases, including at private nonprofit institutions.
“There is no convincing evidence that increases in Pell Grants feed tuition increases in either public or private not-for-profit institutions.” (italics added)


“Concerns about colleges raising tuition prices in response to federal aid appear to be largely unwarranted. Most studies conclude that colleges are not responding to federal aid, and studies that do provide limited support for the notion are plagued by mixed and sometimes contradictory results. Evidence suggests growth in tuition prices is instead related to a myriad of other internal and external factors.”


In recent years, private colleges nationwide have been redoubling efforts to keep students’ out-of-pocket costs as low as possible, regardless of federal funding patterns.

Inflation-adjusted net tuition (published tuition minus grants from all sources and federal higher education tax benefits) at private nonprofit colleges has actually dropped by 4.1 percent in the past five years.

The average annual increase in list price at these institutions over the past three years is the lowest on record. During the same period, institutionally-provided student aid has grown 7 percent to 9 percent annually.

The very institutions that Fethke and Policano single out are the poster children for generous student aid policies and affordability for low-income students in all of American higher education. In 1998, Princeton University – and then joined by dozens more high-endowment institutions in subsequent years – implemented incredibly generous policies that provide no-loans student aid packages to financially needy students. These generous student aid policies have made these institutions among the most affordable in the United States, despite high published prices.

Despite the dramatic drops in their endowment values during the recent recession, nearly all of these institutions maintained their programs. Dartmouth recently announced it is making its program more generous, raising the family income threshold.

It is vital that policymakers, taxpayers, journalists, and, yes, university researchers, realize the importance of federal financial aid in making a college degree possible, for students at both private nonprofit colleges and state institutions.

Private nonprofit colleges and universities are vital to President Obama’s goal of making the United States first in the world again in college graduation by 2020. The productivity of these
institutions and the success of their students will help make the difference. There is no question that federal student aid for students at private nonprofit institutions is an investment well made.

Although they enroll almost 20 percent of all students, private nonprofit colleges award nearly 30 percent of all degrees. Seventy-eight percent of students who received a bachelor’s degree from a four-year private nonprofit college were able to complete it in four years or less, as were 60 percent of graduates at state institutions, according to Education Department data.

Private nonprofit colleges enroll the same percentage of African American, Hispanic/Latino, Asian, and multi-racial students as four-year public colleges. They also enroll similar percentages of students from low-, middle-, and upper-income families as four-year state institutions.

Despite the poor job market, only 4.6 percent of private-college student borrowers have defaulted on their loans, according to the federal government. This is the lowest rate of any sector.

At a time when billions of dollars in federal student aid funding is at stake, and the promise of affordable, accessible, and high-quality education at risk, it is critical that policymakers and the nation’s taxpayers understand the full value of investing in student aid.

It is wrong to suggest that student aid is a cause for growing college costs, in any sector. To argue so is counterproductive to the goal of making higher education accessible and affordable. Without the continued federal investment in student aid, a college degree will be a lost dream for millions of low- and middle-income Americans. It is too important to the nation and these students to abandon them now.

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http://www.washingtonpost.com/blogs/answer-sheet/post/the-urban-legend-of-the-bennett-hypothesis-or-why-student-aid-is-not-driving-up-college-costs/2012/05/31/pJQAFvEX5U_blog.html
## NAICUSE Meeting

**Handout and Discussion Guide**

<table>
<thead>
<tr>
<th>Myths/Key messages that are prevalent among target audience</th>
<th>Facts to counter this</th>
<th>Level of importance to parents*</th>
<th>Level of importance to policy makers*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Student debt is going to be the next bubble to burst.</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Students borrow too much money.</td>
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<tr>
<td>Students borrow too much and don’t pay it back.</td>
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<tr>
<td>College isn’t worth going into debt.</td>
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<tr>
<td>Independent colleges are for rich white kids; the schools have big endowments</td>
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<tr>
<td>Federal aid fuels tuition.</td>
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<tr>
<td>Other?</td>
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</tbody>
</table>

*On a scale of 1-5, with 5 being extremely important and 1 being not important at all.*