Student debt: what’s the problem?

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Why does student loan debt matter?

• It’s not just a debt problem—it’s a repayment problem

• Return on investment in education and credentials
  • The difference between a surgeon with $200,000 of debt and a nursing school dropout with $15,000 of debt

• Student debt without credentials and skills →
  un- and underemployment + unmanageable debt burden
Why does student loan debt matter?

• Impact on the broader economy

- Unaffordable student debt
- Low discretionary income
- Delayed household formation
Why does student loan debt matter?

- Impact on long-term future well-being

- Unaffordable student debt
  - Low savings
  - Retirement disaster
Threat on the horizon: Growing racial wealth gap

• Limited wealth-building options beyond home equity and retirement savings

  • Homeownership rate for adults under 35 is at lowest level since 1982 (36.2%)

  • Adults 40 and younger lost 30% of net wealth in Great Recession
For-profit colleges particularly problematic

- University of Phoenix
- Corinthian Colleges, Inc.
- DeVry University
- ITT Technical Institute
- The Art Institutes
- Westwood College

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For-profit market overview

• Percent of undergraduates enrolled in for-profit colleges:
  • 2000: 4.6 percent
  • 2012: 10.3 percent

• Revenues of 4-year for-profit schools grew nearly 800 percent from 2000 to 2012

• Student body:
  • 24.2 percent African American, 15.7 percent Latino; 50 percent low income
Cost of for-profit colleges

- On average, a year of college at for-profit school cost $15,130 in 2013-2014
  - Tuition and fees at public two-year school: 21 percent of for-profit T&F
  - Tuition and fees at public four-year school: 59 percent of for-profit T&F
For-profit colleges cost more for low-income students

Net cost of attendance for students in lowest income quartile, 2011-2012

- Public two-year: $8,065
- Public four-year: $11,854
- Private non-profit: $19,359
- Private for-profit: $24,173
Students are more likely to borrow at for-profit colleges than at other colleges

Proportion of students who received federal and private loans at for-profit and other colleges, 2011-2012 academic year

Source: Woodstock Institute analysis of 2012 National Postsecondary Student Aid Survey
African American students most likely to borrow relative to other racial groups

Percentage of students at for-profit and other colleges who borrow, by race, 2011-2012 academic year

Source: Woodstock Institute analysis of 2012 National Postsecondary Student Aid Survey
Students at private for-profits are more likely to take out private student loans

Percentage of students at for-profit and other colleges who take out private loans, by race, 2011-2012 academic year

Source: Woodstock Institute analysis of 2012 National Postsecondary Student Aid Survey
For-profit students of all races are more likely to have borrowed during their college career.

Percentage of graduating seniors pursuing a BA in 2011-2012 who borrowed during their programs:

- **White**: Attends private for-profit 85.80%, Does not attend private for-profit 66.30%
- **African American**: Attends private for-profit 90.67%, Does not attend private for-profit 86.27%
- **Latino**: Attends private for-profit 89.29%, Does not attend private for-profit 72.28%
- **Asian**: Attends private for-profit 93.76%, Does not attend private for-profit 55.64%

Source: Woodstock Institute analysis of 2012 National Postsecondary Student Aid Survey
For-profit students are more likely to borrow non-federal loans at some point in their college career.

Percentage of graduating seniors who borrowed non-federal loans during their programs

- **White**: 38.19%
- **African American**: 45.74%
- **Latino**: 43.23%
- **Asian**: 45.58%

Source: Woodstock Institute analysis of 2012 National Postsecondary Student Aid Survey
Students of all races borrow more money over the course of their college career at private for-profits.

Cumulative amount borrowed for graduating seniors pursuing a BA who borrow, by for-profit attendance and race

Source: Woodstock Institute analysis of 2012 National Postsecondary Student Aid Survey

- White: $40,014
- African American: $39,340
- Latino: $39,722
- Asian: $40,741

Attends private for-profit
Does not attend private for-profit
For-profit students borrow a greater amount of federal loans over course of college careers

Cumulative federal loans borrowed ever for graduating seniors (BA) who borrow federal loans, by for-profit attendance and race

Source: Woodstock Institute analysis of 2012 National Postsecondary Student Aid Survey
Amounts of non-federal loans borrowed vary by race and for-profit attendance

Cumulative non-federal loans borrowed ever for graduating seniors pursuing a BA who borrow non-federal loans, by for-profit attendance and race

<table>
<thead>
<tr>
<th>Race</th>
<th>Attends private for-profit</th>
<th>Does not attend private for-profit</th>
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<tbody>
<tr>
<td>White</td>
<td>$10,144.91</td>
<td>$13,276.45</td>
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</tbody>
</table>

Source: Woodstock Institute analysis of 2012 National Postsecondary Student Aid Survey
Outcomes of for-profit college students

Graduation rates of full-time, first-year students by race/ethnicity and institution type (cohorts: 2006 and 2009)

Source: College Board
For-profit college students are more likely to default on their loans

- For-profit institutions accounted for:
  - 11% of all students enrolled in 2009-10
  - 32% of those who entered repayment in 2010-11
  - 43% of those who defaulted by the end of September 2012
For-profit problems in Illinois

- **Westwood College**
  - Sued by Attorney General Lisa Madigan in 2012
  - **Broken promises** about law enforcement job opportunities
  - Students accumulate **debt loads of $50,000 - $70,000**
  - **Misrepresented costs of attendance**, terms of in-house loans
Potential Solutions

- **Loan reforms**
  - Bankruptcy discharge
  - Allow refinances at current federal rate
  - Repayment options for students struggling to repay private student loans
  - School certification of private student loan need
Potential Solutions

- **School reforms**
  - **Reduce revenue** schools can obtain through federal aid from 90 to 85 percent
  - Establish strong rules **limiting federal aid** to schools who produce students unable to repay their loans
  - **Separate grants and scholarships** from work, student loans, and parent loans on costs sheets
Potential Solutions

- Enact and enforce consumer protections from debt settlement and financial aid vendors, student loan servicers
  - **Enforcement actions** from AG, CFPB
  - **Consent orders** from prudential regulators
  - **Servicing standards**
- We need better data
- Children’s savings accounts
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