

SEMINARIO INTERNACIONAL



**Crédito Educativo en la
Educación Superior**

**EQUIDAD
&
MOVILIDAD SOCIAL**

Con el apoyo de:



Educational Credit: Myths, Realities, and Lessons from the U.S.

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What can other countries learn from the US experience with student loans?

Perceptions create real problems

- Widespread view of a “student debt crisis” in the US
- Strong political pressure for forgiving all student debt
- Serious problems for some groups of borrowers: noncompleters, for-profit students, Black students

The US made some questionable decisions

- Failure to limit borrowing
- Bureaucratic problems: enrolling and staying in income-based repayment plans
- High default rates

Pluses and minuses for social mobility

Lessons learned?

Misperceptions



Despite common perceptions (at least in the US), student debt is not a broad and undifferentiated “crisis.”



- Some students / groups of students struggle disproportionately.
- Loan repayment is confusing.
- Loan servicing is problematic and sometimes abusive.
- But most borrowers benefit from the investment and can repay without undue burden.

What we hear

Media anecdotes: unrepresentative, misleading

Few stories of success and opportunity

Many stories of distress

2014 *Huffington Post*: Author called for “civil disobedience on a massive scale” to free millions of former students “trapped in a debtors’ prison without walls.”.





Why the misperceptions?

Strong emotional reactions to exaggerated images

Availability cascade: Simple idea for explaining complicated concept catches on, is repeated, spreads. People claiming danger is overstated are accused of a cover-up.



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It is difficult to accurately measure the impact of student debt.

Counterfactual for studying impact of student debt

--Same education?

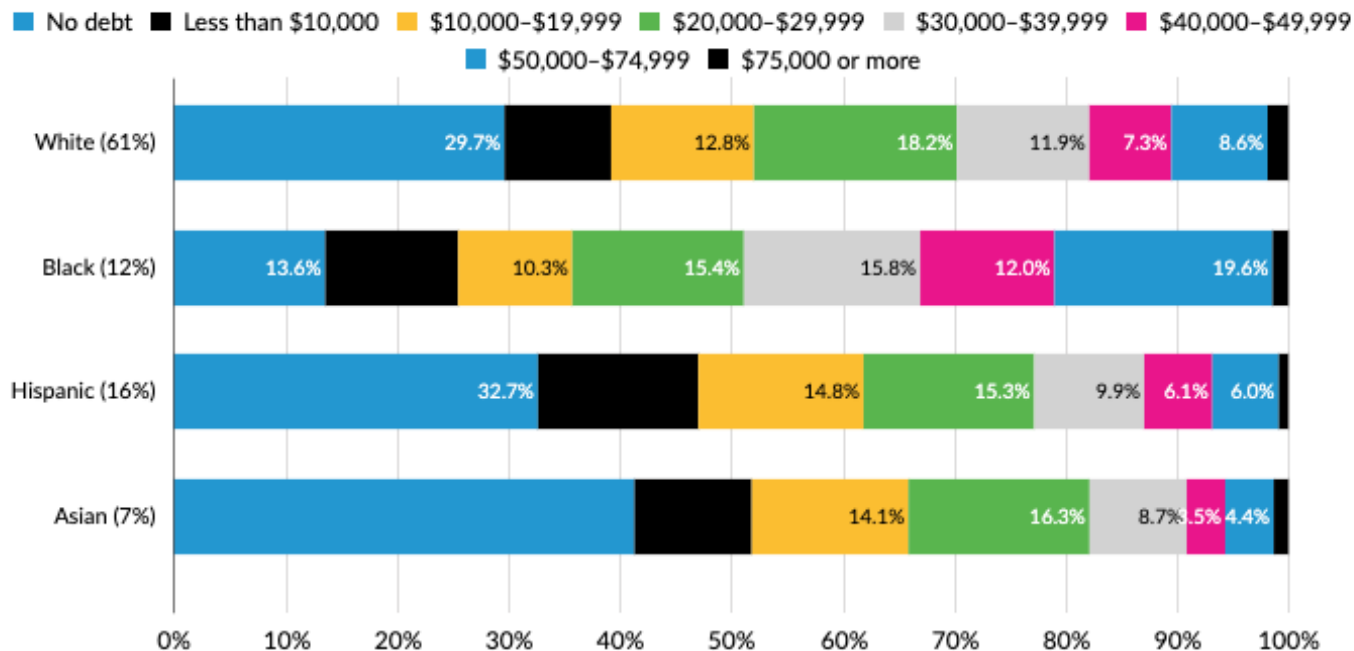
--Who would pay?

Frequent citations of questionable results about impact on home ownership, wealth, entrepreneurship, etc.

Focus on general “crisis” obscures real problems such as race, type of institution.



Debt Levels of 2015-16 Bachelor's Degree Recipients by Race or Ethnicity

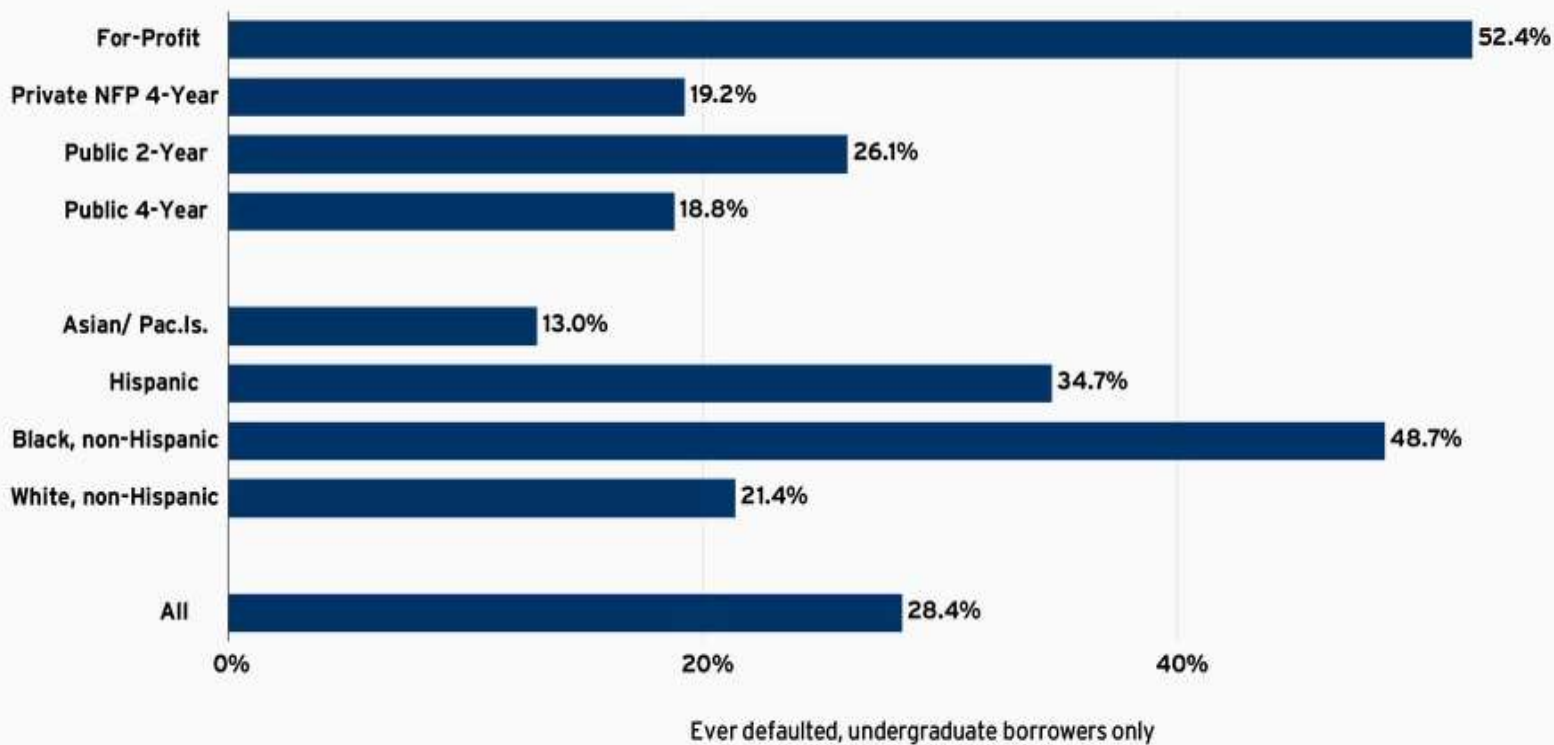


Source: 2016 National Postsecondary Student Aid Study.

Note: Percentages in parentheses on the vertical axis report the share of bachelor's degree recipients of each race or ethnicity.

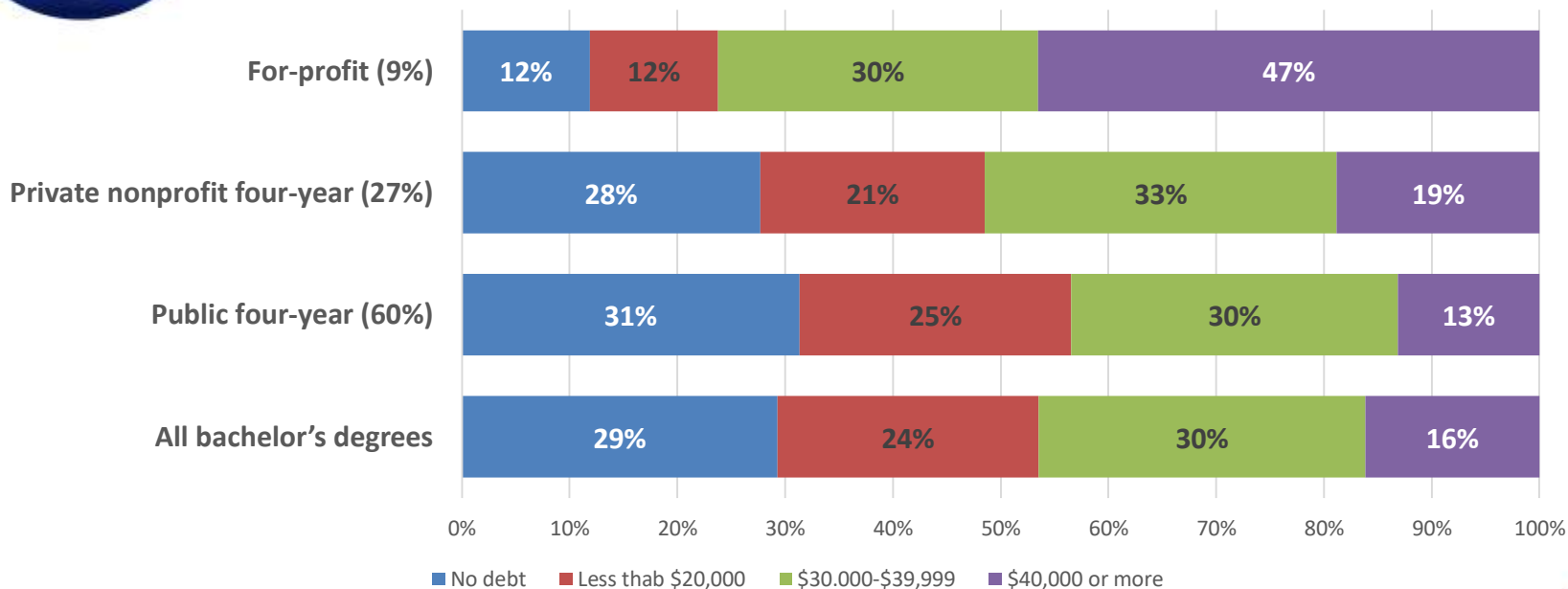


Figure 2. Ever defaulted, by sector and race (Undergraduate borrowers only)





Cumulative Debt of 2015–16 Bachelor’s Degree Recipients Who Began College at Age 20 or Younger, by Sector



Source: National Postsecondary Student Aid Study 2016



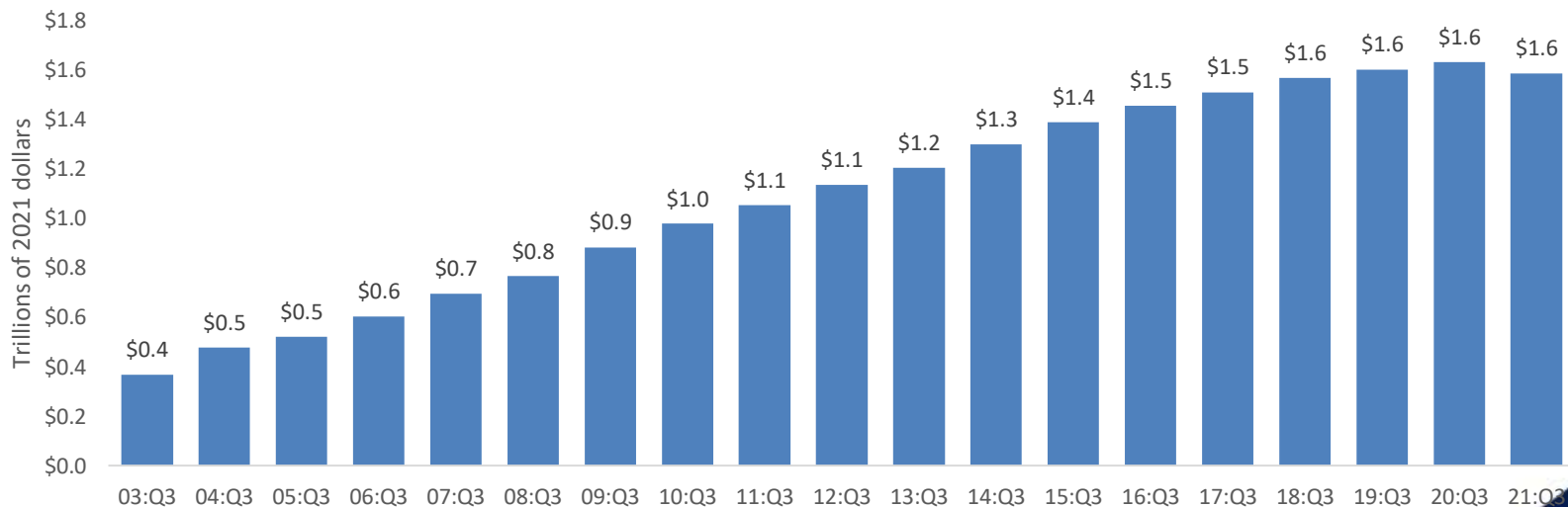
The reality of student debt in the US



Outstanding student debt has leveled off since 2016.

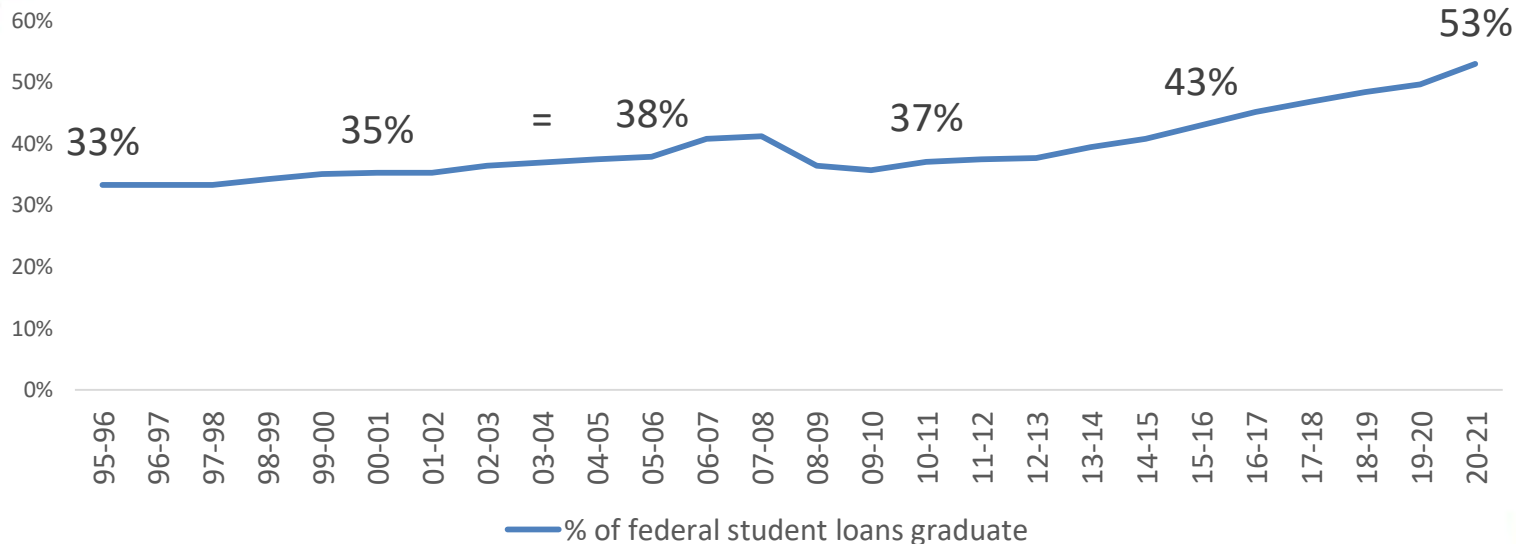
Student debt as share of all household debt

2003	2005	2007	2009	2011	2013	2015	2017	2019	2021
3%	4%	4%	6%	7%	9%	10%	10%	11%	10%



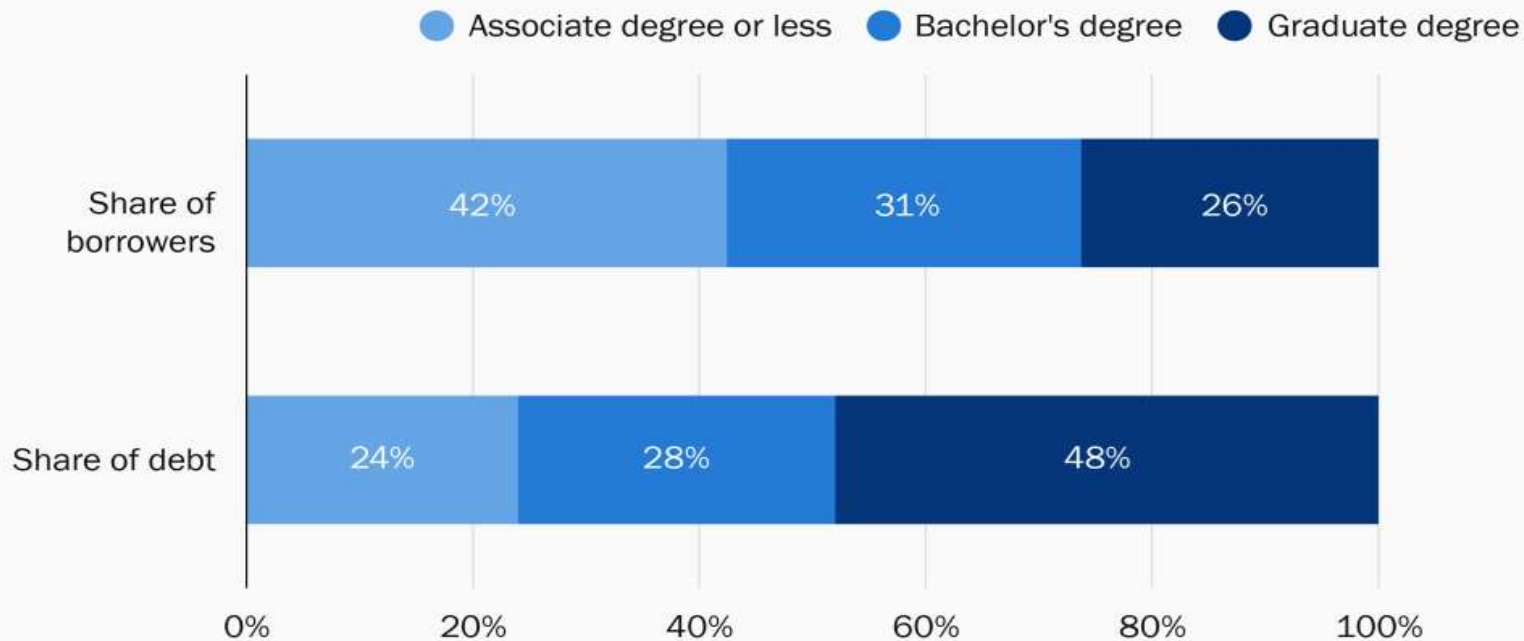


An increasing share of federal education loans goes to graduate students.



College Board, Trends in Student Aid 2021

Figure 2. Share of Borrowers and Share of Total Outstanding Debt by Educational Attainment



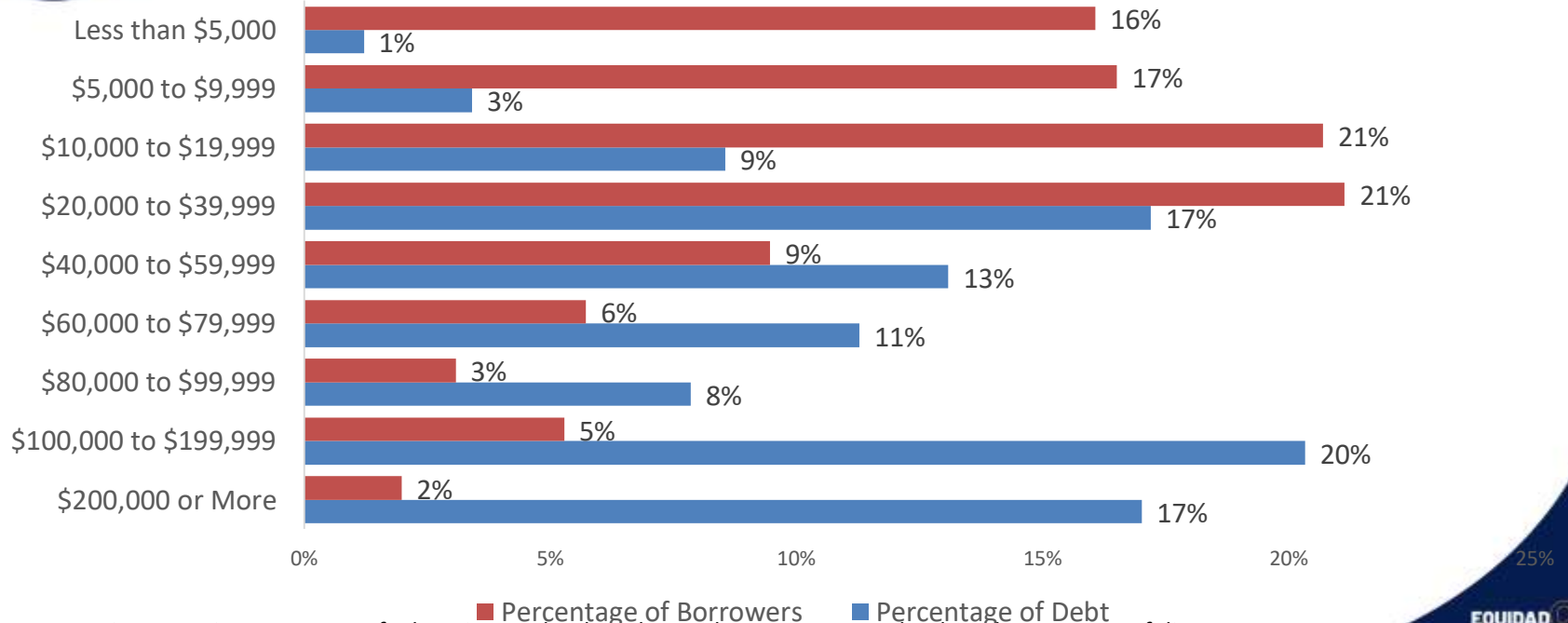
Source: Survey of Consumer Finances; Urban Institute, via Adam Looney.



Hutchins Center
on Fiscal & Monetary Policy
at BROOKINGS



The 7% of borrowers owing \$100,000 or more hold 37% of the debt. The 33% owing less than \$10,000 hold 4% of the debt. Distribution of borrowers and debt by outstanding balance, 2021



Source: US Department of Education, Federal Student Aid Data Center, Federal Student Loan Portfolio

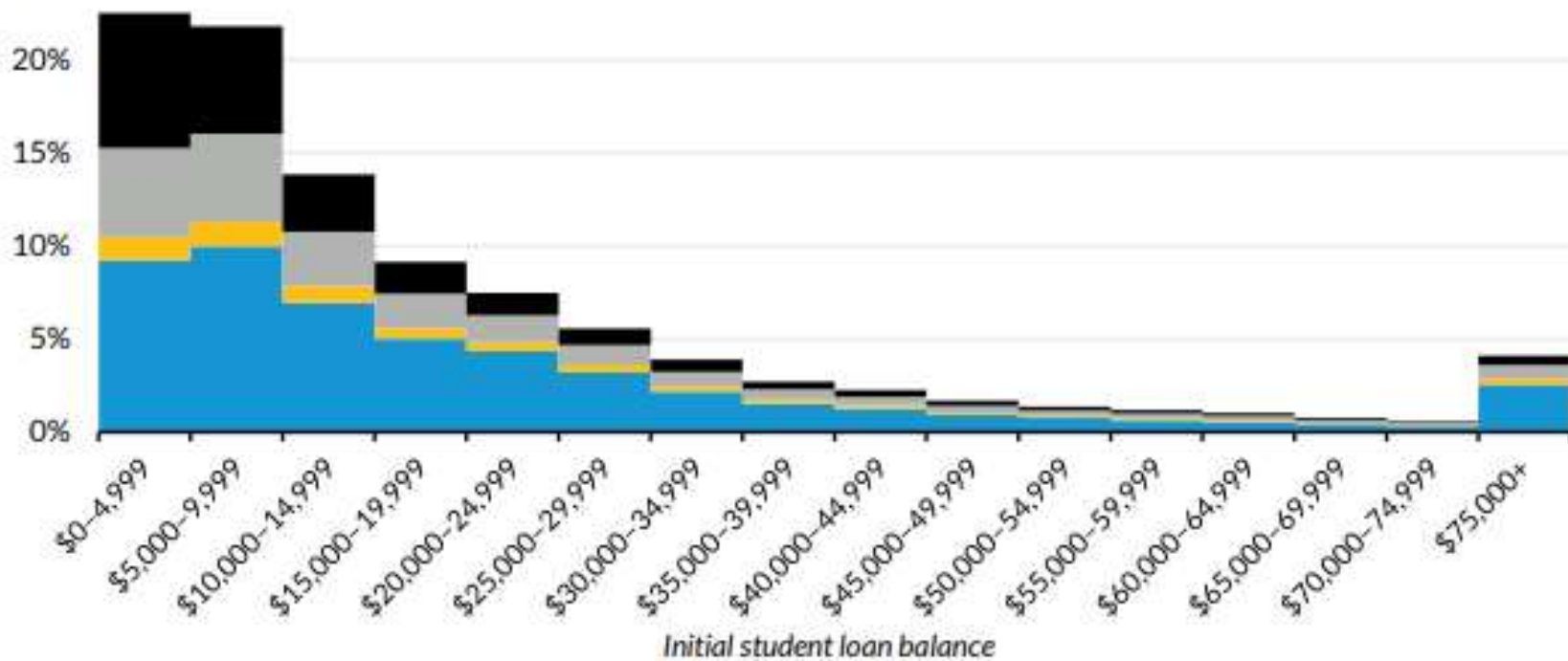
Status of Student Loans by Balance

By worst-ever status on student loans over four years, 2012 cohort

■ Stayed current ■ Early delinquency ■ Late delinquency ■ At least one default

Share of borrowers

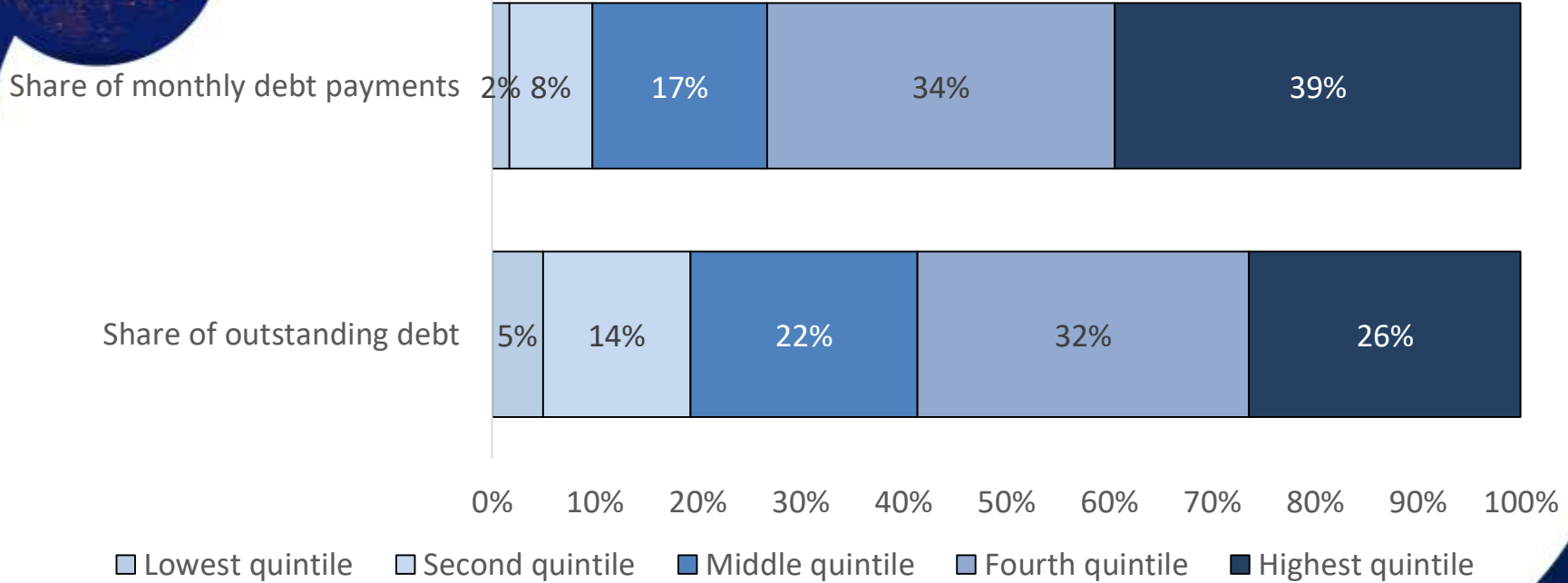
25%





Who would benefit most from broad debt forgiveness?

Education debt is concentrated in the upper half of the income distribution.



Notes: Households ages 25 and older.
Source: Baum and Looney (2020) "Who owes the most in student loans? New data from the Fed?" *Brookings*..

Does student debt increase
educational opportunities and/or
impede social mobility?



How does debt interfere with benefits of higher education?

Moderate (typical) debt levels don't come close to eliminating financial benefits of postsecondary education. BUT:

Not completing postsecondary programs is a big problem.

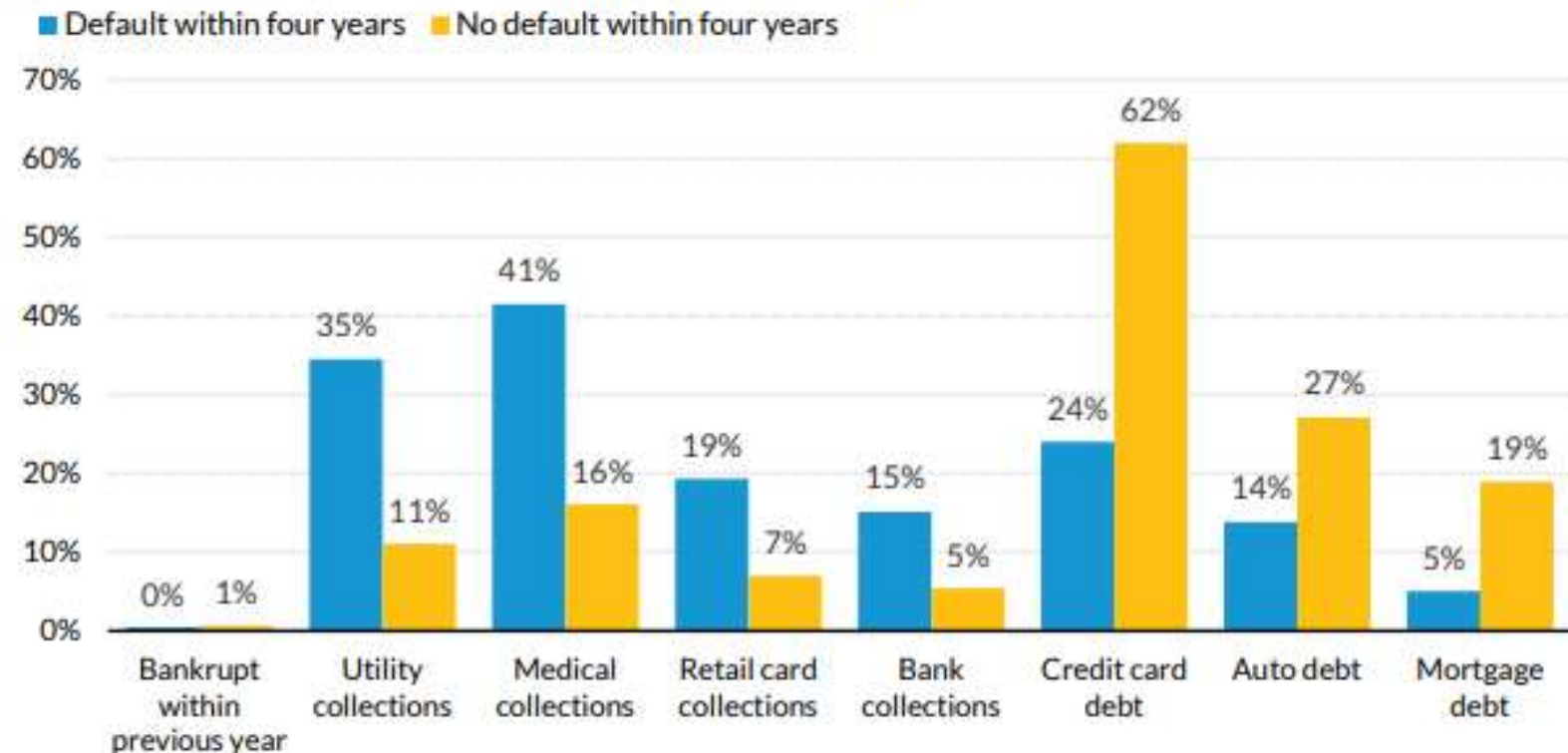
Put completion and student debt into larger social context: early childhood, health care, neighborhoods, elementary/secondary school.

Students from low-SES backgrounds start out behind even if they finish their programs:

- Family financial support
- Connections/ information / social capital
- Labor market discrimination
- Student debt adds to the problems!

Debt Holdings of Borrowers in the Year before Entering Student Loan Repayment

By default status four years after entering repayment, 2012 cohort





Inequality and social mobility

- Inequality makes it harder for people to move up the ladder
- Forces of supply and demand affect impact of higher education on inequality
- Capacity constraints in higher education (even with low high school graduation rate) are a barrier to increasing opportunity
- Education can increase absolute mobility even if relative mobility remains a big problem



Lessons Learned and Policy Considerations



Lessons Learned

- Unlimited graduate borrowing
- Lending money for low-quality programs
- Poor implementation of income-contingent loans
- Income-contingent repayment has become too generous



Principles of System Design

- Simple system to navigate and administer
- Consistent forward- and backward-looking policies
- Loans are loans and grants are grants
- Minimize delinquency and default
- Avoid disparate impacts



Policies: Preventing problems

Exclude institutions that don't serve students well

Helping students make better choices—more than just information

Stronger incentives for institutional performance

Better-designed loan limits

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