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Student Loan Debt: The Devil is in the Details

Christopher R. Bollinger
University of Kentucky, crboll@email.uky.edu

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Student Loan Debt: The Devil is in the Details

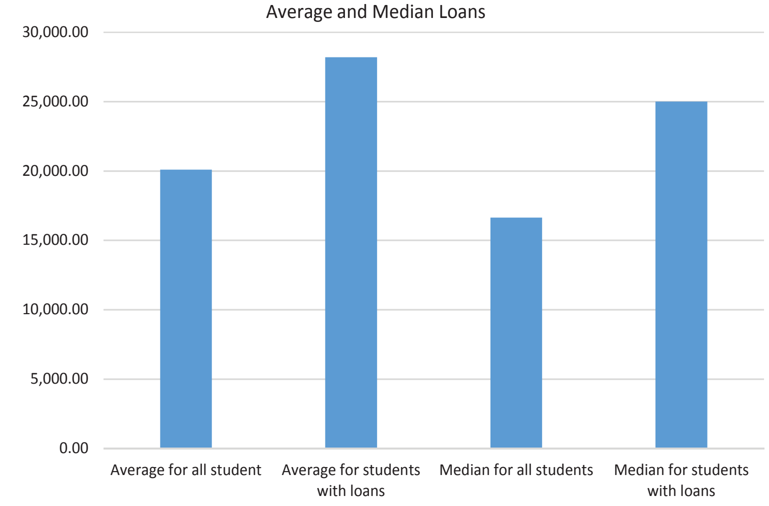
By Christopher R. Bollinger (crboll@uky.edu)[1]

Student loan debt has received a great deal of attention in the popular press recently. However, the statistics and data that are frequently presented fail to fully capture the complexity of student loans and student debt. This brief presents a more complete picture of student loan debt, examining not only average debt of student borrowers, but presenting a full assessment of the distribution of debt and the types of schools.

The median loan amount for all students in 2012 was $16,640.

The data derive from the 2011-2012 National Postsecondary Student Aid Study, a large sample of students who were pursuing an undergraduate degree in 2012. The analysis is limited to students who were in their 4th or 5th year of study. Students at three types of institution are included in the analysis: public four year schools, private non-profit four year schools, and private for profit schools. Figure one presents four different measures of the "typical" loan. The first two are averages: one for the average student and one for the average student who has a loan. The average student had $20,098 in student loans. When examining only students who have loans, the number rises to $28,197. That's a large difference, and much closer to the amount typically reported in the popular press. However, averages can be misleading because extreme values have a great deal of influence. The median loan amount is $16,640. This means that 50% of students have less than $16,640 in loans. For students with loans, the median rises to $25,000.

FIGURE 1
Average and Median Loans



Compared to their counterparts in private institutions, students attending public four year schools have the lowest level of debt.

FIGURE 2
Average and Median Loan by Type of School

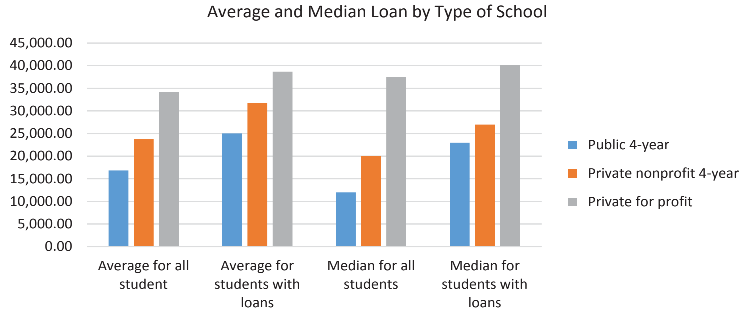


Figure two presents these statistics for students by type of school. Approximately 66% of students in these data are in 4 year public institutions. Regardless of the measure, students at public four year institutions have the lowest debt. While students at the private for profit schools have the highest debt. The median student at a four year public school, has $12,000 in loans. That means 50% of students at four year schools have less than $12,000 in student loans.

Dr. Chris Bollinger, Director
CBER
335AY Gatton Building
Lexington, KY 40506-0034
(859) 257-7675, (859) 257-7671 (FAX)
http://cber.uky.edu

CENTER FOR BUSINESS AND ECONOMIC RESEARCH
GATTON COLLEGE OF BUSINESS AND ECONOMICS
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For students at four year private non-profit schools, the median loan amount is $20,000. Approximately 24% of students attend these type of schools. For most parents looking to "send their kid to college" these two types of schools are the schools they are considering. Public or "State" schools like the University of Kentucky or Western Kentucky University, or private non-profits, like Centre or Transylvania. But there is one more category, accounting for 10% of students: private, for-profit, schools. These include schools like Sullivan University. The median debt for students at these schools is $37,500. This amount is nearly double the median for private, non-profit schools, and over three times the median for public schools.

Students at private for profit schools make up 20% of all students with loans and the median loan amount is $40,188

An interesting pattern emerges when comparing the medians with and without the students who have no loans by type of school. Students at public four year schools who have loans, have a median amount borrowed of $23,000. This nearly doubles the overall median because 32.7% of four year public school students have no loans at all. Students at four year private non-profit schools with loans, have a median amount of $27,000. Even at four year private non-profit schools, 25.2% of students have no loans. Students at private for profit schools who have loans, the median amount is $40,188. A much smaller increase because only 11.7% of students at for profit schools have no loans. While students at private for profit schools only make up 10% of the students in these data, they make up 20% of all students with loans.

FIGURE 3
Distribution of Loans by School

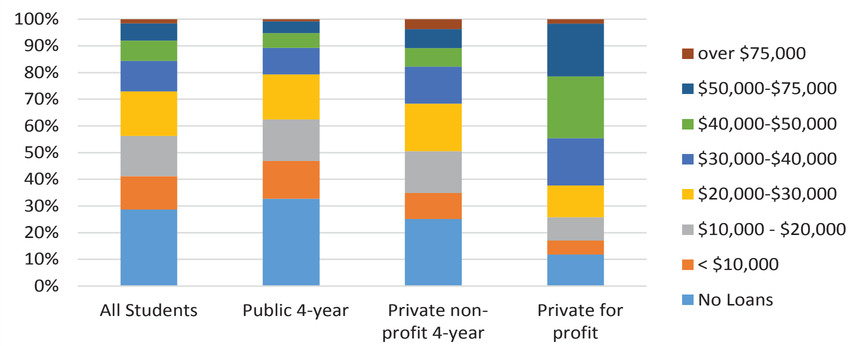

Figure 3 presents the distribution of student loan amounts. Overall, 28% of students have no loans. But we do see some very extreme amounts, 1.5% of students are carrying over $75,000 in student loans. This is part of the reason the average loan amount is so high relative to the median. We see that these extreme amounts are actually most associated with private, non-profit schools (3.74% of students). These include many of the most prestigious (and expensive) schools in the country. Less than 1% of students at public four year schools have over $75,000 in student loans. The private for profits have 1.6% of students in the $75,000 or above range.

The distribution of loans by school type shows that 32.7% of students attending public institutions do not have student loans, while approximately 42.9% of students enrolled at private, for-profit universities hold between $40,000-$75,000 in debt.

A very interesting group are students with $40,000-$50,000 in loans. Overall, 7.5% of students have borrowed this much. While 5.6% of students at public four year institutions carry this amount, and 6.9% of students at private non-profit institutions carry this much, 23% of students at private for profit schools carry this much in loans. Combining students at for profit institutions with the students studying at more traditional institutions is misleading for people considering attending a public school or even non-profit private school. A similar story unfolds for the $50,000-$75,000 range. Over 40% of students at private for profit schools carry $40,000 of debt or more. In comparison, at public schools only 10% of students have loans in that range, and even at private non-profit schools only 17% of students exceed $40,000 in loans.

The other end of the distribution is equally telling. Fully 32.7% of public school students have no loans, while 25.5% of students at private non-profit schools have no loans. But only 11.8% of students at private for profit schools are able to remain loan-free. Almost 30% of students at public schools and over 25% of students at private schools keep the loan amount between $1 and $20,000. In contrast, only 13% of private for profit students are able to keep loan amounts under $20,000.

Advice to students and parents is simple. Take a careful look at what a particular degree will cost and be sure to understand the costs before making a choice. Accumulating large amounts of debt (say over $30,000) to obtain a bachelor's degree is probably not really advisable. But, as the statistics above show, most people don't need to. Some careful planning and a realistic assessment of what you can afford, can lead to students who get a great education without "crushing" debt.