

# College Student Debt: What State and Institutional Leaders Should Know

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POLICY REPORT  
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**About this Series**

This report examines a critical state policy issue identified through the College Affordability Research Initiative, a collaboration between the Midwestern Higher Education Compact and the National Forum on Higher Education for the Public Good at the University of Michigan.

## EXECUTIVE SUMMARY

**T**he widespread notion of a general student debt “crisis” creates an exaggerated image of the problems associated with borrowing for college and diverts attention from the serious difficulties some students and former students face. A disproportionate amount of attention goes to the \$1.5 trillion dollars in outstanding student debt. Instead, policymakers should focus on how much individual students borrow and which characteristics and circumstances put them at risk. This report discusses evidence about student borrowing over time to help state and institutional observers understand the facts about student debt and consider policy initiatives that will help the students who really need more support.

### TRAJECTORY OF STUDENT DEBT

Both the total amount borrowed and average borrowing per undergraduate student have declined each year in inflation-adjusted dollars since 2010-11. Total annual borrowing, which rose by 150% from \$52.7 billion in 1998-99 to \$131.7 billion in 2010-11, was \$106.2 billion in 2018-19. Total loans per full-time equivalent undergraduate student, which rose from \$3,910 in 1998-99 to \$6,560 in 2010-11, fell for eight consecutive years to \$5,370 in 2018-19.

### STATE DIFFERENCES IN DEBT LEVELS

Student debt levels in most Midwestern states are higher than the national average. In 2017-18, average debt per graduate (including both borrowers and non-borrowers) ranged from \$14,500 in Nebraska to \$23,000 in South Dakota. The share graduating with debt ranged from 55% in Nebraska to 72% in South Dakota, and average debt per borrower ranged from \$26,400 in Nebraska to \$32,300 in Minnesota.

### DEBT BY SECTOR

Borrowing levels differ by sector, with students at for-profit institutions borrowing most and those at public institutions least. For example, in 2015-16, 31% of students completed a bachelor’s degree without any debt at public institutions, compared to 13% of students at for-profit institutions.

### DEBT BY FAMILY INCOME AND RACE/ETHNICITY

There is significant variation in student borrowing across family income and racial/ethnic groups. Among 2015-16 bachelor’s degree recipients, students from middle-income families had more debt than those from either higher- or lower-income families. A large proportion of low-income students graduate from public four-year institutions with relatively low levels of debt. Approximately 82% of bachelor’s degree recipients at public four-year institutions from low-income families (annual income below \$28,000) graduated with less than \$20,000 of student debt.

Borrowing rates differed by race and ethnicity within each income group. Among public four-year bachelor’s degree recipients from low-income families, the share graduating without any debt in 2015-16 ranged from 44% of Asian and Hispanic students and 26% of White students to 13% of Black students. Approximately 14% of Black students in this income group borrowed \$30,000 or more, compared to 10% of White students.

### TIME TO DEGREE COMPLETION

Students who take longer to earn their degrees graduate with higher debt levels. For example, only 19% of 2015-16 four-year college graduates who had completed their degrees within four years had debt levels in excess of \$30,000, compared to 39% of graduates who took six years to complete their degrees.

### PREVALENCE OF STUDENT LOAN DEFAULT

Among Midwestern states, three-year default rates for borrowers entering repayment in 2015-16 ranged from 6.2% in North Dakota and 7.3% in Nebraska to 11.6% in Kansas and 14.2% in Indiana. National estimates show that loan default rates are highest among students who began at for-profit institutions, those from low-income families, Black students, those who began college at age 20 or older, and those who either earned only a certificate or left school without a credential.

## RESEARCH ON STUDENT SUCCESS AND POST-COLLEGE CONSUMPTION

Research on student success indicates that borrowing can have a positive impact on both GPA and the likelihood of graduating, but high levels of borrowing can have the opposite effect. The impact of borrowing may differ across demographic groups, and there is some evidence that without the availability of student loans, the racial gap in college completion would be larger. However, Black students struggle more with their debt after college than other

students. Research on post-college consumption shows mixed effects of student debt on homeownership and savings, with some studies showing no effect and others showing a negative impact.

## POLICY OPTIONS

- ▶ **Provide personalized guidance about college and major choice.** Making good decisions about where to enroll and which major to pursue can help students avoid excessive borrowing and can increase the chances that they will complete credentials of value.
- ▶ **Make sure educational institutions are appropriately regulated.** Too many institutions, particularly in the for-profit sector, have central goals other than providing high-quality educational opportunities. Regulation can limit the extent of fraud, abuse, and exposure to school closings.
- ▶ **Keep tuition and fees in check.** High and rapidly rising tuition prices increase the financial barriers students face in paying for college. However, holding tuition down in the face of rising enrollments and stagnant appropriations is not an effective solution. Inadequate resources at the campus level explain a significant share of student success problems.
- ▶ **Offer a strong need-based aid program.** Low tuition is not enough to make college financially viable for the least well-off students. Living expenses make up a large share of student budgets.
- ▶ **Provide adequate and equitable support for public colleges and universities.** Institutions need sufficient funding to provide students with the academic and social supports that will increase their chances of successfully completing their programs. The institutions that enroll disproportionate shares of low-income and at-risk students frequently have the lowest resource levels at the same time that they face the biggest challenges in this area.
- ▶ **Provide high-quality loan counseling.** Advice about optimal borrowing should include cautions about both under-borrowing and over-borrowing. Students should also understand the advantages of federal student loans relative to other sources of borrowing, including private student loans. As they enter the repayment period, they need clear information about income-driven repayment and other repayment options and available protections.

## College Student Debt: What State and Institutional Leaders Should Know

The fact that many students borrow to help pay for their college education has come to be viewed as a general calamity, with headlines such as “We should all be concerned about the student debt crisis” becoming pervasive (Healey, 2019). Total borrowing for undergraduate study more than doubled in inflation-adjusted dollars between 2000-01 and 2010-11 but has been declining for almost a decade and is now lower than it was in the middle of that decade—with little impact on public perceptions. Although it is vital to call attention to the strains on students and families paying for college and to the declining share of educational costs covered by state appropriations to public institutions, there is a real risk that the current narrative may discourage college attendance among students in weak financial circumstances who cannot pay for college without borrowing. If they have the idea that borrowing will ruin their lives, many are likely to skip the opportunity to invest in themselves.

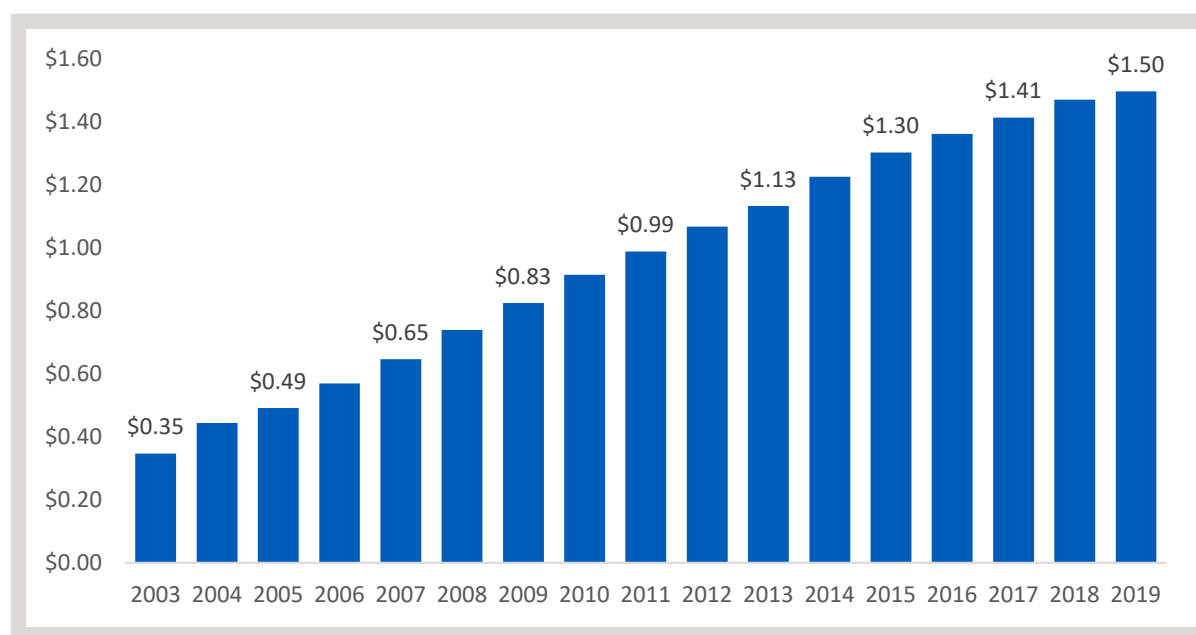
This report discusses evidence about student borrowing over time to help state and institutional observers understand the facts about student debt and consider policy initiatives that will help the students who really need more support. The report begins with an overview of the trajectory of student

debt in the United States and a snapshot of current debt levels of bachelor’s degree recipients across states. National trends are not consistent with a general crisis, but an analysis of debt levels and loan default rates by family income and race/ethnicity reveals significant variation across groups of students. For example, Black students tend to borrow heavily and struggle to repay their loans; Asian and Hispanic students may be at risk of under-borrowing. After a brief review of recent research on the effects of student debt with special emphasis on college enrollment, academic performance, degree completion, and post-college consumption, the report concludes with a set of recommendations for institutional and state leaders who seek to mitigate the problems associated with excessive student borrowing.

### THE TRAJECTORY OF STUDENT DEBT

There are multiple ways to measure student debt, including total outstanding debt, total annual borrowing, and total loans per full-time equivalent student. Once outstanding student debt passed the \$1 trillion mark, discussions of student debt gravitated toward this metric, as opposed to per-student borrowing. Figure 1 shows that student debt by

**FIGURE 1. Total Outstanding Education Debt (in Trillions of 2019 dollars)**



Source: Federal Reserve Bank of New York. (2019). Quarterly Report on Household Debt and Credit.  
Note: Data are current as of the end of the third quarter of the year.

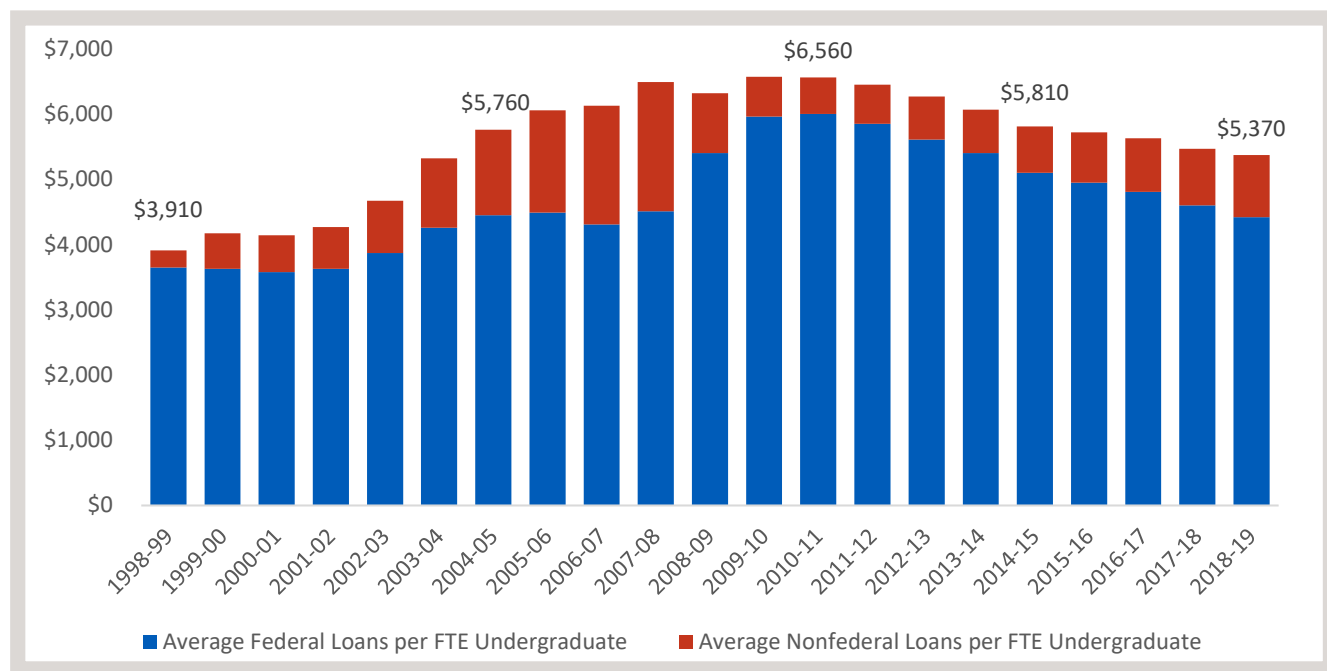
this measure has indeed increased significantly over time, but the rate of increase has steadily declined. For example, total outstanding debt increased by 86% (\$0.3 trillion) between 2003 and 2007, compared with a 15% (\$0.2 trillion) increase between 2015 and 2019. These outstanding debt totals include both undergraduate and graduate student borrowing, overstating the changing circumstances of undergraduates.

Total outstanding student debt, however, is a poor measure of the degree to which the typical student relies on debt. Debt levels by this measure are mainly determined by the number of students enrolled, the Great Recession, and new federal income-driven repayment programs. The number of students enrolling in postsecondary education increased from 14.5 million in 1998 to 19.1 million in 2008 and 19.8 million in 2018 (NCES, 2018). If each student had borrowed \$4,000 every year, total borrowing would have increased from \$58.0 billion to \$76.4 billion to \$79.2 billion. Outstanding debt would have increased unless former students were paying off their debt more rapidly than new students were borrowing. Debt per student did increase but explains only a part of the increase in outstanding

debt. The Great Recession, with its declining earnings and increasing unemployment did not help loan repayment. The establishment of income-driven federal student loan repayment, which allows borrowers to postpone their payments until they can afford them, reduced the rate of repayment. And the implementation of basically unlimited borrowing under the Grad PLUS program for graduate students dramatically increased new borrowing without any impact on the undergraduate students who are the primary focus of concerns about the growth of student debt.

Whereas discussions of total outstanding student debt frequently imply that the amount students borrow is on a seemingly endless upward trajectory, both the total amount borrowed and average borrowing per undergraduate student have declined each year in inflation-adjusted dollars since 2010-11. Total annual borrowing, which rose by 150% from \$52.7 billion in 1998-99 to \$131.7 billion in 2010-11, was \$106.2 billion in 2018-19. The reduction in borrowing is not just a function of declining enrollments. Total loans per full-time equivalent undergraduate student, which rose from \$3,910 in 1998-99 to \$6,560 in 2010-11, then fell for eight consecutive years to \$5,370 in 2018-19 (see Figure 2).

**FIGURE 2. Annual Borrowing per Full-Time Equivalent Undergraduate Student, 1998-99 to 2018-19 (in 2018 dollars)**



Source: Baum et al. (2019). Trends in Student Aid 2019, Table 3.  
 Note. Values have been adjusted for inflation to 2018 dollars.

There is no clear evidence about the weight of a range of factors likely contributing to the decline in per-student borrowing. However, in 2015–16 average loans per student in the for-profit sector were \$5,500—64% more than the overall average of \$3,550.<sup>1</sup> The share of students enrolled in the for-profit sector peaked at 10% in 2010 and had declined to 6% by 2017. Further analysis is needed to explore changes in borrowing within sectors and demographic groups. However, economic recovery with increasing employment, earnings, and asset values has also surely diminished reliance on education loans.

## STATE DIFFERENCES IN DEBT LEVELS OF BACHELOR'S DEGREE RECIPIENTS

Comparisons of debt levels across states are imprecise because available data include only four-year college graduates and many institutions do not report this information.<sup>2</sup> But the best estimates indicate considerable variation across states. In 2017-18, 76% of students receiving bachelor's degrees from colleges in New Hampshire had borrowed an average of \$36,800 (see Figure 3). Average debt per graduate, including both borrowers and non-borrowers was \$28,000. At the other end of the spectrum, 36% of four-year college graduates in Utah borrowed an average of \$19,000, and average debt per graduate was \$7,100. Student debt levels in most Midwestern states are higher than the national average. Among Midwestern states, average debt per graduate ranged from \$14,500 in Nebraska to \$23,000 in South Dakota. The share graduating with debt ranged from 55% in Nebraska to 72% in South Dakota, and average debt per borrower ranged from \$26,400 in Nebraska to \$32,300 in Minnesota.

These borrowing patterns exclude many students who struggle with student debt including those who left college

without a credential and those who completed certificates and associate degrees with limited labor market value. Differences across states in the debt levels of bachelor's degree recipients depend on a number of factors, including shares attending public, private nonprofit, and for-profit institutions and the demographics of the student bodies.

## DEBT BY SECTOR

Borrowing levels differ by sector, with students at for-profit institutions borrowing most and those in public institutions least (see Table 1). For example, in 2015-16, 31% of students completed a bachelor's degree without any debt at public institutions, compared to 13% of students at for-profit institutions. At the other end of the spectrum, only 7% of students completed a bachelor's degree with debt of \$50,000 or more at public institutions, compared to 32% of students at for-profit institutions. Students in the for-profit sector tend to be older, come from low-income backgrounds, are disproportionately Black, have weak academic preparation, and face high tuition and net prices relative to those at other institutions.

## DEBT BY INCOME AND RACE

There is significant variation in student borrowing across family income and racial/ethnic groups. Full-time students from more affluent families and their parents actually borrow more *annually* than those from lower-income families. Students from families with incomes of \$113,500 or higher and their parents were less likely than others to borrow in 2015-16, but 18% of those from the top half of the income distribution (\$63,000 or higher) borrowed more than \$15,000, compared with 7% in the lowest quartile and 11% in the second quartile.<sup>3</sup>

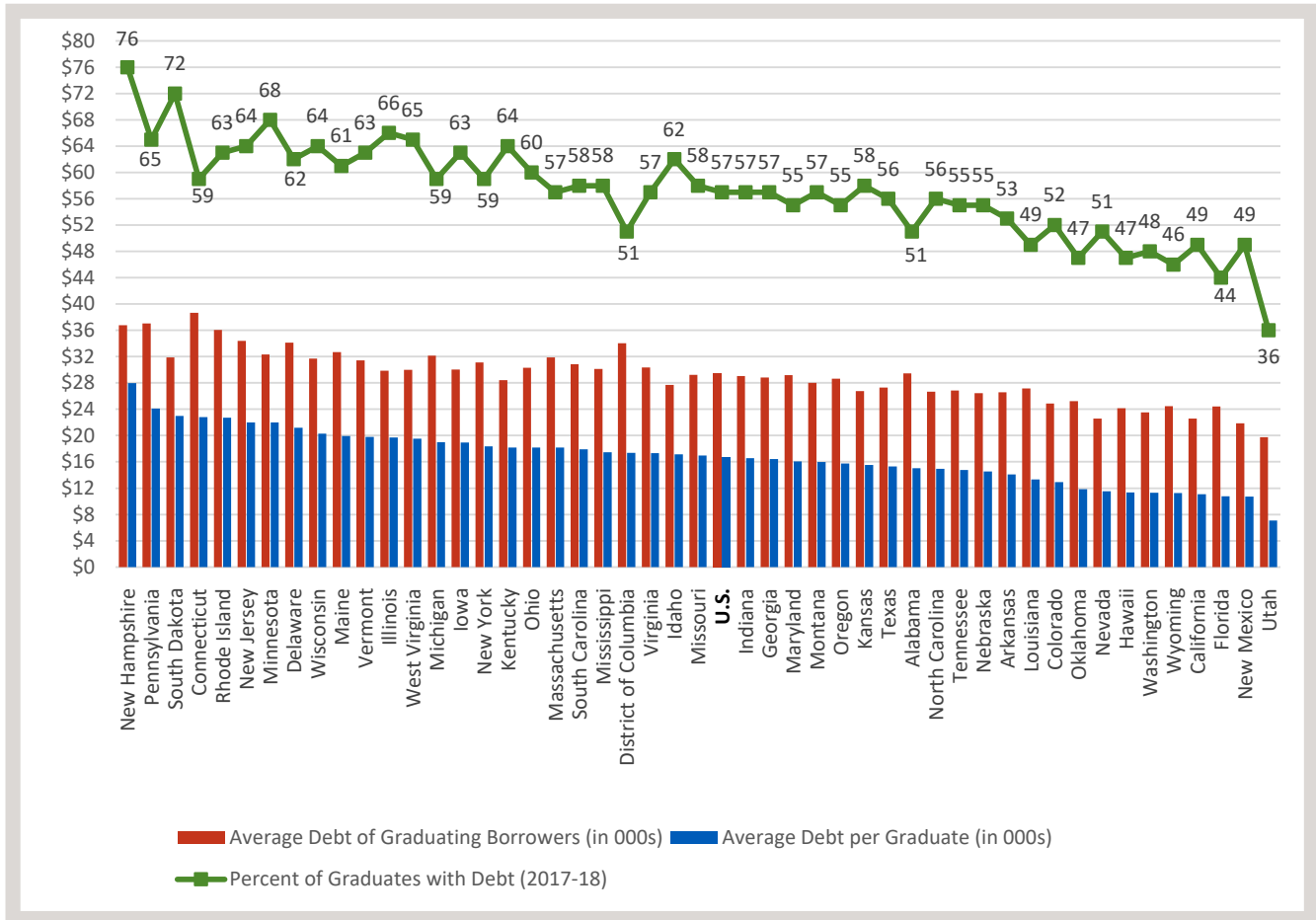
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<sup>1</sup> Author's analysis of NPSAS:16.

<sup>2</sup> The statewide percentage of 2017-18 bachelor's degrees that were awarded by institutions that reported student debt data to the Institute for College Access and Success varied across the Midwest: North Dakota (21%), South Dakota (38%), Nebraska (49%), Missouri (53%), Illinois (57%), Kansas (60%), Minnesota (68%), Wisconsin (72%), Ohio (73%), Iowa (79%), Michigan (81%), and Indiana (84%).

<sup>3</sup> Author's analysis of NPSAS:16.

**FIGURE 3. Percent of Graduates with Debt and Average Student Loan Debt Among Four-Year College Graduates, 2017-18**



Source: Institute for College Access and Success. College InSight database.  
 Note: Data are not available for North Dakota

**TABLE 1. Distribution of 2015-16 Degree or Certificate Completers by Cumulative Amounts Borrowed for Undergraduate Study**

Bachelor's Degrees	No Debt	\$1 to \$9,999	\$10,000 to \$19,999	\$20,000 to \$29,999	\$30,000 to \$39,999	\$40,000 to \$49,999	\$50,000 or More
For-Profit (9%)	13%	7%	8%	11%	14%	15%	32%
Private Nonprofit Four-Year (27%)	28%	9%	12%	19%	12%	8%	12%
Public Four-Year (60%)	31%	11%	14%	18%	12%	6%	7%
All	29%	11%	13%	17%	12%	8%	11%
Associate Degrees	No Debt	\$1 to \$9,999	\$10,000 to \$19,999	\$20,000 to \$29,999	\$30,000 to \$39,999	\$40,000 or More	
For-Profit (11%)	12%	12%	19%	25%	17%	16%	
Public Two-Year (82%)	59%	18%	12%	7%	3%	3%	
All	51%	17%	13%	10%	5%	5%	

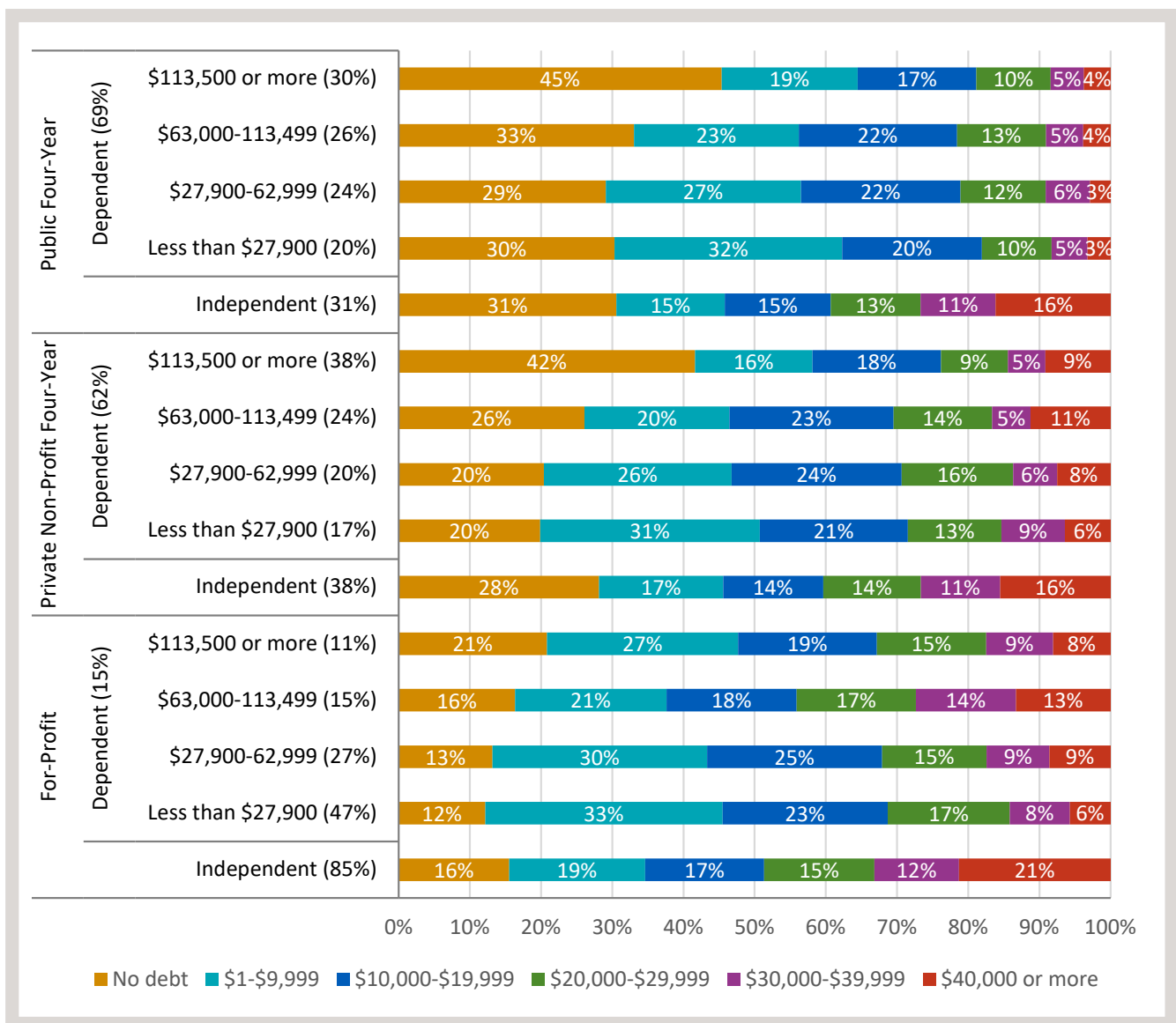
Source: NCES. NPSAS:16.



Accumulated debt patterns, however, do not necessarily follow annual borrowing patterns. As Figure 4 shows, 2015-16 bachelor's degree recipients from public four-year colleges and universities from the upper quarter of the income distribution (parents' income of \$113,500 or higher) were more likely than others to graduate without debt, but the shares graduating with \$30,000 or more in debt were similar at all levels of income. Overall, students from middle-income families had more debt than those

from either higher- or lower-income families. A large proportion of low-income students graduated from public four-year institutions with relatively low levels of debt. More than 80% of public sector bachelor's degree recipients from low-income families (annual income of less than \$28,000) graduated with less than \$20,000 of student debt. Independent students were more likely than dependent students from any income group to have high levels of debt.

**FIGURE 4. Total Debt Levels of 2015-16 Bachelor's Degree Recipients by Sector, Family Income, and Dependency Status**

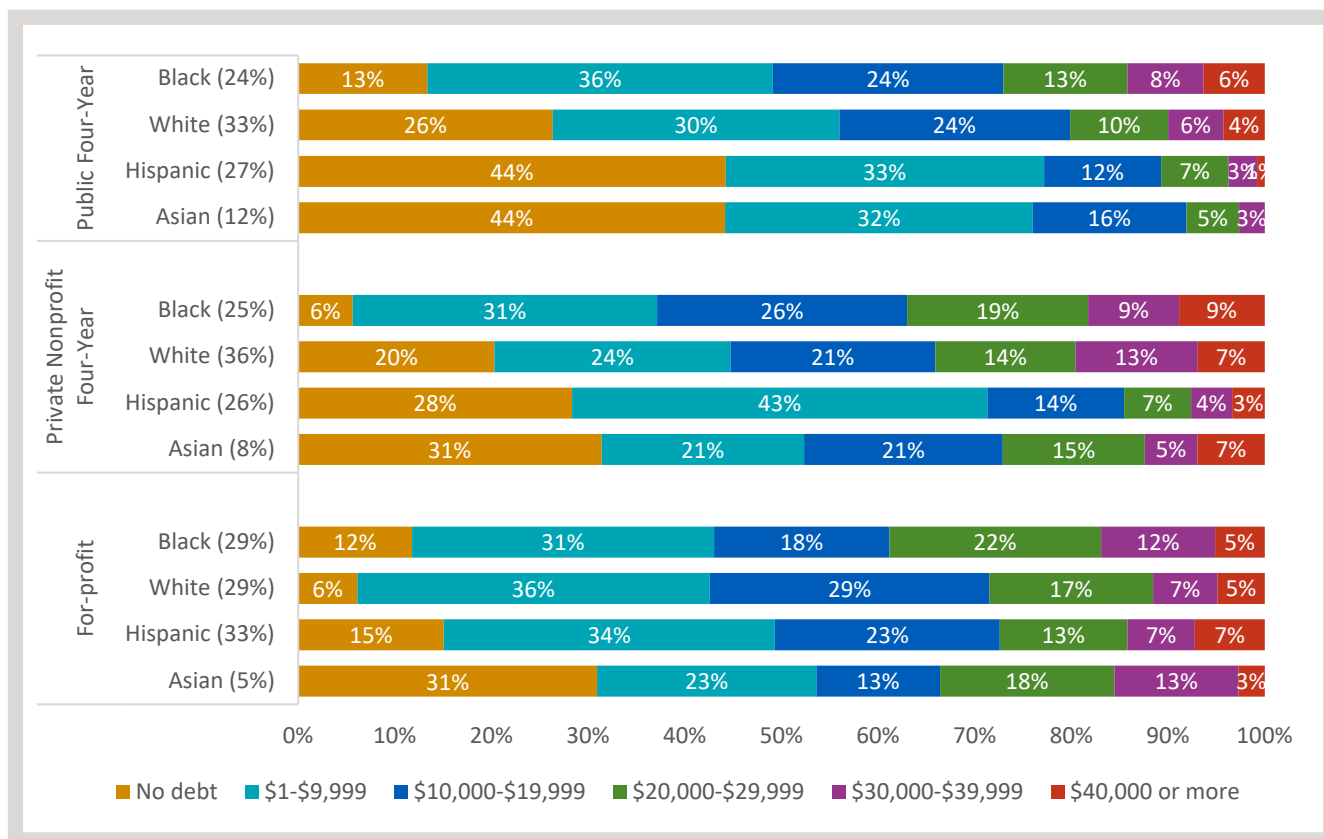


Source: NCES. NPSAS:16.

There are stark differences in borrowing patterns across students from different racial and ethnic groups who are in similar financial circumstances. These patterns—evident even within sectors—suggest that cultural attitudes toward borrowing interact with financial circumstances to determine borrowing patterns (Boatman et al., 2017; Cunningham & Santiago, 2008). For example, Figure 5 indicates that among 2015-16 dependent public

four-year bachelor’s degree recipients from families in the lowest income quartile (below \$27,900), the share graduating without debt ranged from 13% among Black students to 44% among Hispanic students and Asian students; 14% of Black students in this income range borrowed \$30,000 or more, compared with 4% of Hispanic students and 10% of White students.

**FIGURE 5. Total Debt Levels of 2015-16 Bachelor’s Degree Recipients from Families with Incomes Below \$27,900 by Sector, Race, and Ethnicity**



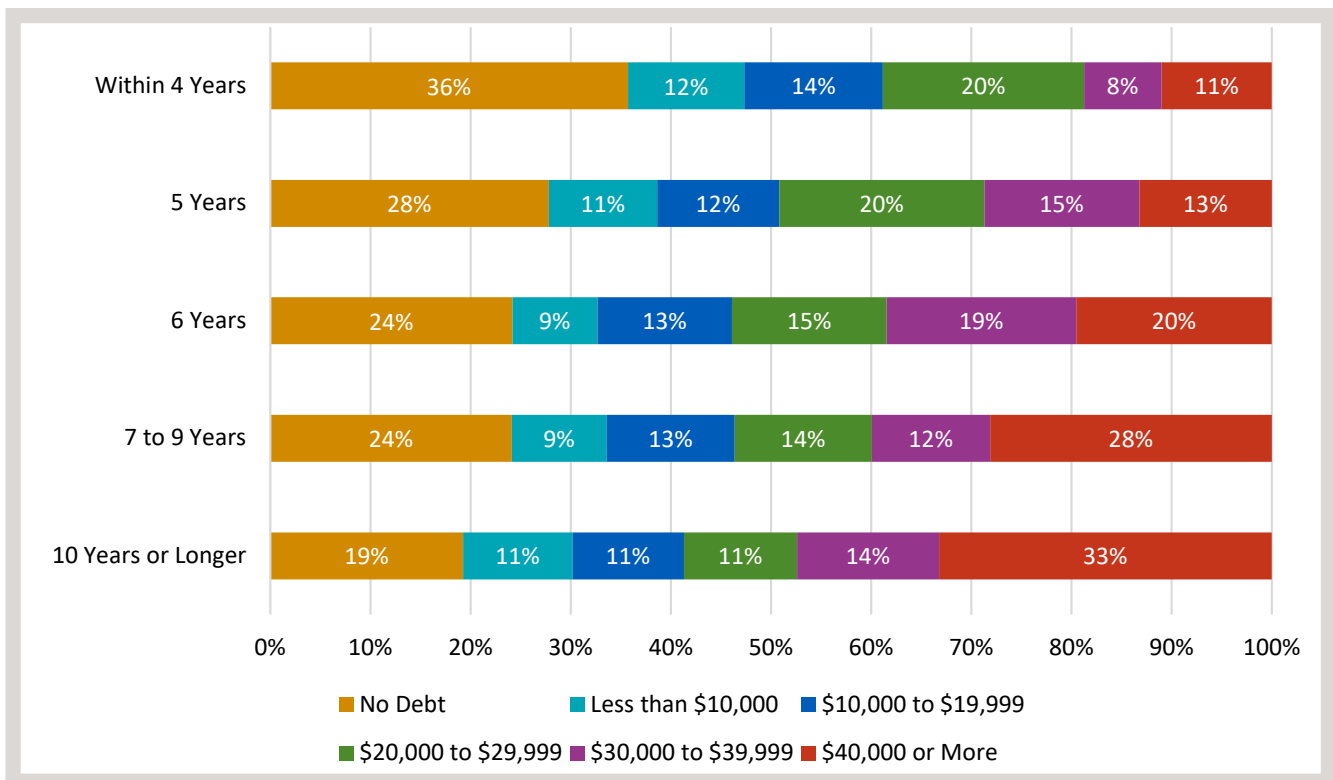
Source: NCES. NPSAS:16.

## TIME TO DEGREE COMPLETION

Students do not all stay in school for the same length of time, even to earn the same degree at the same type of institution. Focusing only on those who earn bachelor's degrees, Figure 6 shows that those who take longer to earn their degrees graduate with higher debt levels. For

example, only 19 percent of graduates who had completed their degrees within four years had debt levels in excess of \$30,000, compared to 39 percent of graduates who took six years to complete their degrees.

**FIGURE 6. Cumulative Student Debt of 2015-16 Bachelor's Degree Recipients by Time Elapsed Between First Enrollment and Degree Completion**



Source: NCES. NPSAS:16.

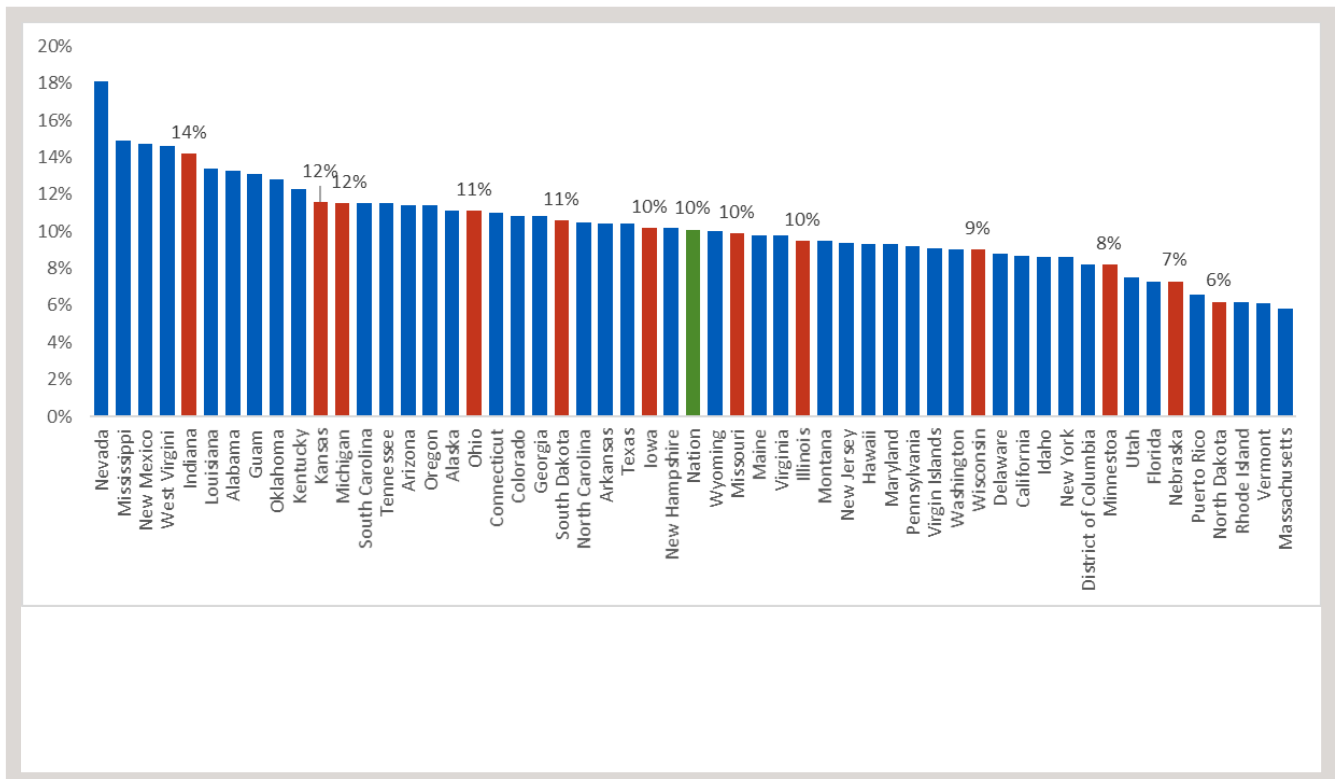
## PREVALENCE OF STUDENT LOAN DEFAULT

Loan default rates provide an important indicator of whether students are accumulating unmanageable levels of debt. Borrowers who default risk seeing their credit scores fall, making it difficult to get a credit card, borrow for a house or a car, or even rent an apartment or get a job. They are likely to have their wages and tax refunds garnished. Figure 7 shows that default rates vary dramatically by state (borrowers are associated with the locations of the institutions for which they borrowed, not the states where they resided before college or where they currently live). Three-year default rates for borrowers entering repayment in 2015-16 ranged from 5.8% in Massachusetts and 6.1% in Vermont to 14.9% in Mississippi and 18.1% in Nevada. Among Midwestern states, default rates ranged from 6.2% in North Dakota and 7.3% in Nebraska to 11.6% in Kansas and 14.2% in Indiana.

Contrary to popular belief, default is not associated with high debt levels. Not completing college is the best predictor of default, and borrowers with low debt levels are more likely than those who borrowed more—and stayed in school longer—to default on their loans (Baum et al., 2016). Five years after entering repayment, 67% of those who completed a credential have reduced the amount they owe by at least \$1, compared with just 41% of those who left school without a credential. Similarly, among borrowers who entered repayment in 2011-12, 24% of those who left school without a degree or certificate—compared with 9% of those who completed a credential—had defaulted on their loans within two years (Baum et al., 2015).

Loan default rates rise as the time frame over which they are measured increases. Results from a 12-year longitudinal survey of students who began college in 2003-04 show that loan default rates were highest among students who began at for-profit institutions, those from

**FIGURE 7. Three Year-Default Rates by State, 2015-16 Cohort**

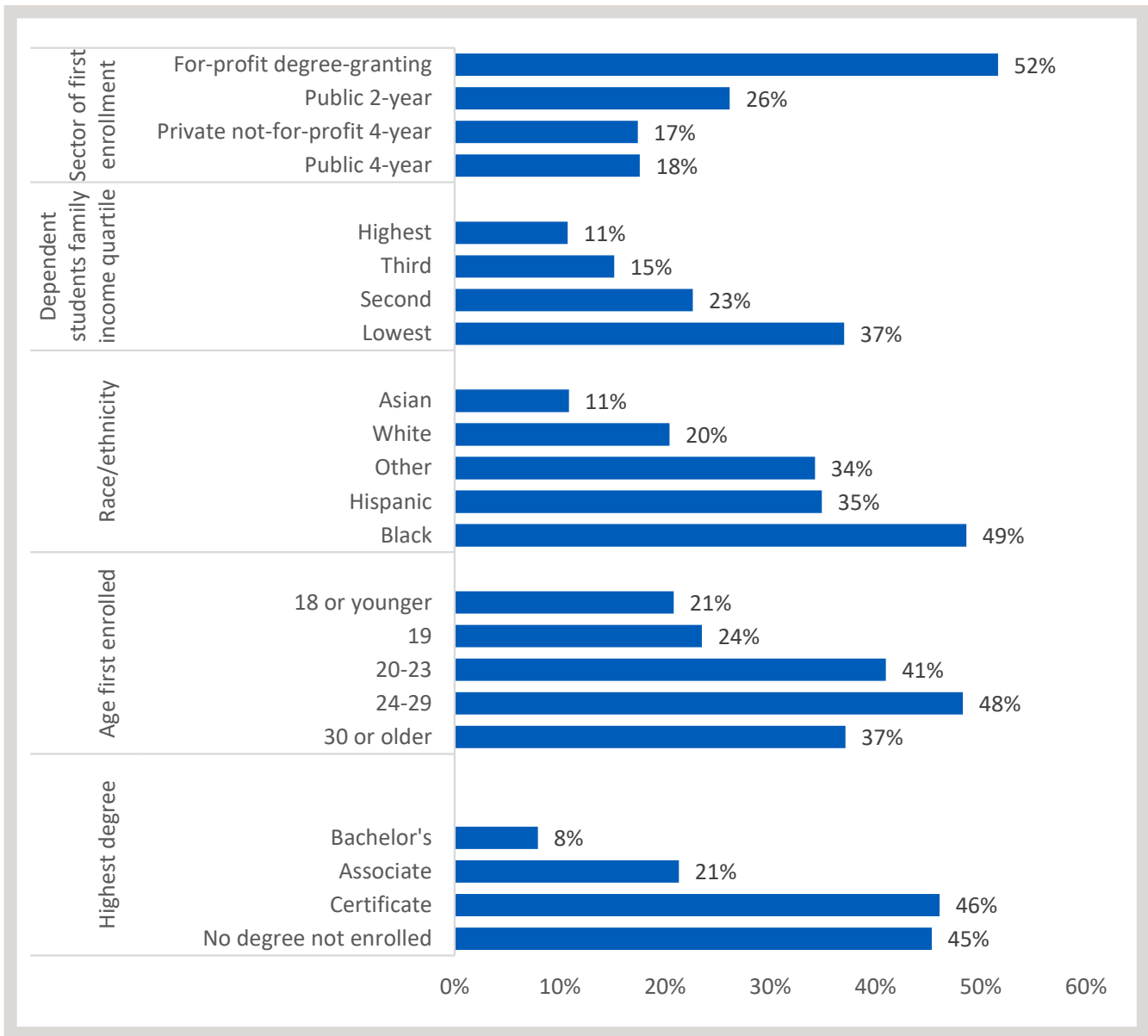


Source: US Department of Education. (2020). *FY 2016 Official Cohort Default Rates by State/Territory*.

low-income families, Black borrowers, those who began college at age 20 or older, and those who either earned only a certificate or left school without a credential (see Figure 8). For example, 52% of students who enrolled at a for-profit institution defaulted on a federal student loan, compared with 26% of those who enrolled at public

two-year colleges. Differences by race and ethnicity are also striking. Nearly half of Black students ultimately defaulted on a federal loan, compared to 20 percent of White students.

**FIGURE 8. Share of Borrowers Defaulting on a Federal Loan within Twelve Years of Beginning College**



Source: NCES. BPS: 2003/09.

## THE EFFECTS OF UNDER-BORROWING AND OVER-BORROWING

A number of studies have examined the impact of loan availability and student borrowing on college enrollment and success as well as post-college consumption (see Perna & Hillman, 2017). There is little doubt that grant aid is more effective than loans in promoting college enrollment and degree completion (Gross et al., 2019). But the challenging question is whether students are better off borrowing or not given the amount of grant aid available to them.

It is easy to understand that students who borrow without considering the impact on their future lifestyles can run into problems. It may be harder to imagine the potential negative impact of avoiding debt altogether or not borrowing enough. But a number of experimental studies confirm the reality of this situation. For example, Marx and Turner (2019) found that including non-binding loan offers in community college students' financial aid award letters increased borrowing and increased GPAs and credits earned by about 30%. The information also significantly increased the share of students who transferred to four-year institutions the following year (Marx & Turner, 2019).

Under-borrowing has been associated with weaker academic performance, a lower probability of completion or transfer from a community college, and higher rates of student loan default (Barr et al., 2019; Dunlop, 2013; Wiederspan, 2016). Similarly, several studies have shown positive effects of borrowing on both GPA and the probability of graduating, though high levels of borrowing can have the opposite effect (Dwyer et al., 2012; Schmeiser et al., 2015; Zhan, 2014). However, the impact of borrowing may differ across demographic groups, and there is some evidence that without the availability of student loans, the racial gap in college completion would be larger (Chen & DesJardins, 2010; Jackson & Reynolds, 2013).

Researchers have also investigated the relationship between student debt and post-college consumption. Discussions of the student debt "crisis" frequently take as a given the idea that student debt explains a wide range of diminished spending and savings options for borrowers. Headlines like CNBC's "Why buying a home can be almost impossible with massive student loan debt" are not hard to find (Nova, 2018). But the research behind this assertion

is far from conclusive. Rigorous empirical work on the subject is difficult because people with student loans are systematically different from those without loans; the characteristics of those who have gone to college and of those who have borrowed have changed over time; and it is difficult to construct a counterfactual to test what would have happened to borrowers had they not borrowed.

Overall, the most rigorous studies in this area have revealed mixed effects of student debt on post-college consumption and savings. For example, researchers using longitudinal data from 1997 to 2011 found that the amount of student debt had no effect on subsequent homeownership once differences between debtors and non-debtors were taken into account (Houle & Berger, 2015). However, a more recent study from researchers at the Federal Reserve Board found that a \$1,000 increase in student loan debt lowers the homeownership rate by about 2 percentage points for public four-year college-goers during their mid-20s, equivalent to an average delay of about four months in attaining homeownership (Mezza et al., 2020). One study found that student loan balances were not associated with retirement asset levels at age 30, and individuals with large loan balances were actually more likely than others to participate in an employer-sponsored retirement plan (Rutledge et al., 2016).

The key points to keep in mind in considering the impact of student debt on borrowers are that making loan payments always takes funds away from other possible uses, that the return to a college education remains very high even for those who borrow (Abel & Deitz, 2014), and that a large share of the serious problems with student loans are among borrowers who did not complete degrees. The demographic differences in borrowing patterns and in repayment patterns are also critical. In particular, Black students are most at risk for accumulating levels of debt that will cause them problems.

## STRATEGIES FOR REDUCING PROBLEMS WITH STUDENT DEBT

The federal government, states, and institutions all have a role to play in mitigating the problems some former students face as a result of their student loan obligations. Addressing these issues involves both preventing unproductive and high-risk borrowing in the future and

supporting borrowers with unsustainable payments. The discussion below focuses on several approaches, including income-driven repayment plans, controlling tuition increases, need-based grant aid, pre-college guidance, and college student support.

### *Income-driven Repayment*

The federal government has made significant progress in designing repayment plans to minimize students' vulnerability. Under the income-driven repayment (IDR) plans in which 30% of borrowers and half of all federal student loans are now enrolled, monthly payments are limited to an affordable share of borrowers' incomes. Borrowers in IDR plans owe monthly payments only if their incomes exceed 150% of the federal poverty level. The most recent plans require 10% of any income above that level and forgive remaining balances after 20 years for those with only undergraduate debt and after 25 years for those who have borrowed for graduate study. These programs are far from perfect. There are multiple programs with somewhat different terms as well as significant bureaucratic barriers to enrolling in and staying in IDR plans. It is also important to note that these plans apply only to federal loans, not to loans from banks or other private lenders.

In addition, some states have sought to create their own IDR plans or make payments for some students under federal IDR plans. The NYS Get on Your Feet Loan Forgiveness Program provides up to 24 months of federal student loan debt relief to recent college graduates with incomes less than \$50,000 who are participating in a federal IDR plan (NYS, 2020). A bill in front of the Colorado State Legislature would implement a similar policy (Hernandez, 2020).

While state policymakers should support improvements to the federal system, it is likely to be counterproductive for states to create their own income-driven repayment programs. First, providing additional loans that can be repaid through a separate state-based IDR program would necessitate adding the percentage of income required for state loan repayment to the percentage required for federal loan repayment, likely generating unaffordable payments for many borrowers. Programs like the one in New York are problematic because borrowers with low incomes already have no or low payment obligations, so these state plans will not provide them with significant subsidies. For example, a single borrower earning \$20,000 a year would

owe just \$7 a month, but her friend earning \$50,000 would owe \$257 under the same IDR plan. Borrowers in a family of three do not owe payments until their incomes reach \$32,580. Borrowers whose incomes are high enough to require large payments under the federal IDR plans will be the primary beneficiaries of these state programs. The creation of a state-based IDR program would be an inefficient use of scarce taxpayer funds since borrowers can usually make federal IDR payments without undue burden.

### *Controlling Tuition Increases*

Rapid increases in prices over time have increased the out-of-pocket expenses of students and families and made it difficult for most to successfully prepare in advance to meet the challenges of paying for college. But starving institutions by holding tuition down in the face of rising enrollments and stagnant appropriations is not a solution. Inadequate resources at the campus level explain a significant share of student success problems (Bound & Turner, 2007; Deming & Walters, 2017; Kelchen, 2017). Keeping prices down is only feasible if state and local governments provide enough funding to adequately supplement tuition revenues.

The reality is that even eliminating tuition altogether would not eliminate student debt or the problems associated with it. Living expenses are significantly larger than tuition and fees for most public college students. On average, tuition and fees constitute just 20% of the budget for full-time community college students and about 40% for in-state students at public four-year institutions, even if they pay the full sticker price with no grant aid (Ma et al., 2019). Two-thirds of 2015-16 bachelor's degree recipients whose grant aid covered their tuition and fees still graduated with debt averaging about \$24,000 (Baum & McPherson, 2019).

### *Need-based State Grant Aid*

All students do not face the same financial struggles. It is very reasonable to expect those with the means to do so to fund a larger share of their own postsecondary education than is required of students whose families are not able to help them. An obvious way to differentiate among students when providing subsidies is through state grant aid. The goals of state grant programs are wide ranging; many of the states with the most generous funding rely primarily on non-need-based programs, allocating the bulk of their dollars to students with strong high school academic

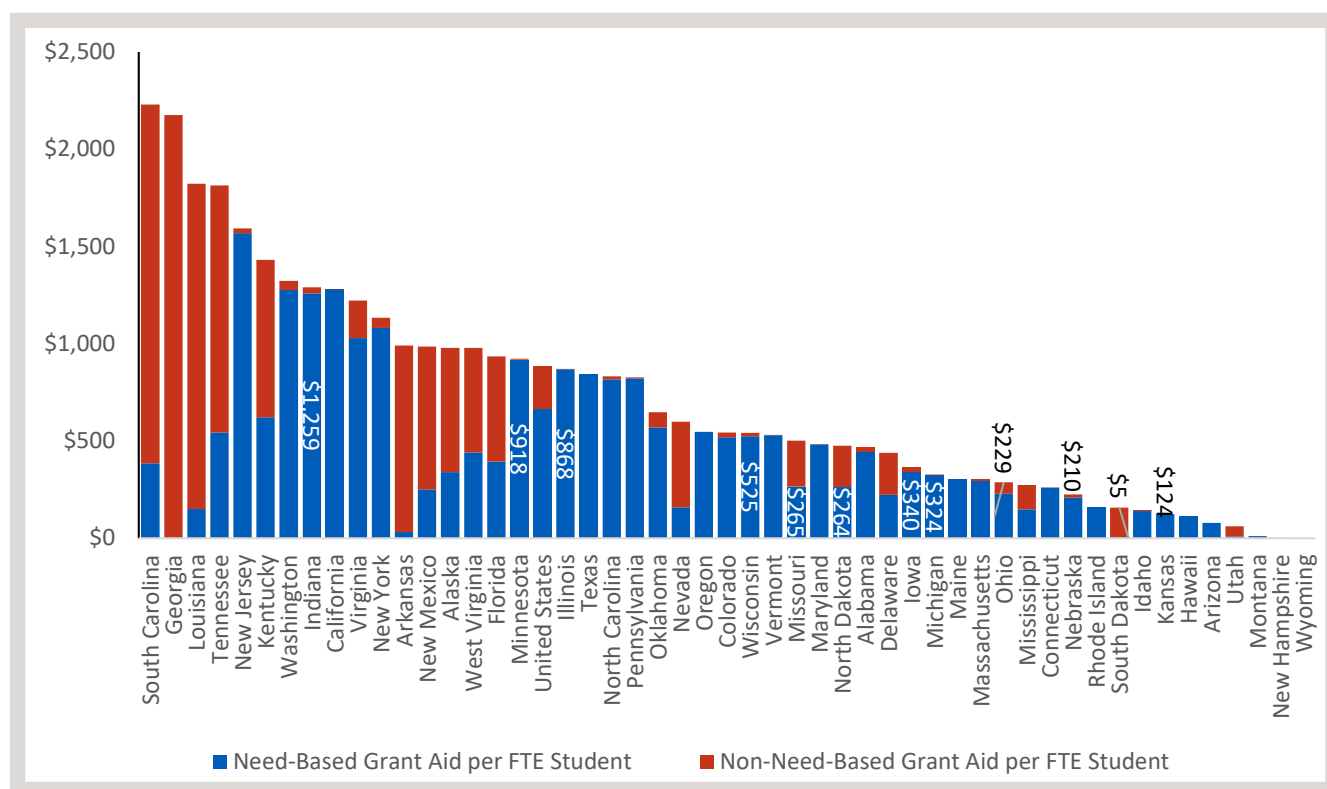
records. These programs are less likely than those based on students' financial circumstances to alleviate the need for students to borrow to make ends meet. They fail to direct funding to the students whose enrollment and success is most likely to be affected by the aid (Baum et al., 2012). Most state grant aid in the Midwest is distributed on the basis of financial circumstances, with Indiana being most generous at \$1,259 per student (see Figure 9).<sup>4</sup>

### Pre-college Guidance

Providing pre-college guidance about appropriate choices of institutions and programs may not sound like a student debt relief program. But enrolling in for-profit institutions when public institutions can

provide education that is at least as valuable at a much lower price is too frequently a component of students overborrowing, failing to complete their programs, and/or finding that their credentials do not pay off well in the labor market (Holzer & Baum, 2017). In addition, many students are ill equipped to accurately estimate their chances of succeeding in the programs to which they aspire. It may be problematic to discourage students from pursuing their dreams but failing to incorporate realistic estimates of students' preparation for and chances of succeeding in academically challenging programs accounts for a considerable share of unacceptably high dropout rates and student loan repayment problems (Holzer & Baum, 2017).

**FIGURE 9. State Need-Based and Non-Need-Based Grant Aid per Full-Time Equivalent Undergraduate Student, 2017-18**



Source: NASSGAP. Annual Survey, 2017-18.

<sup>4</sup> The share of state grant aid that was need based in Midwestern states was: South Dakota 3%, Missouri 53%, North Dakota 56%, Nebraska 93%, Iowa 94%, Wisconsin 97%, Indiana 98%, Michigan 99%, and Minnesota, Illinois, and Kansas 100%.



## College Student Support

A critical debt management strategy for states and public institutions is to focus on providing guidance and support so students complete degrees of value in a timely manner. Failing to complete is the best predictor of student loan default (Looney & Yannelis, 2015). Even among those who do earn certificates and degrees, the time it takes to accomplish this can significantly affect the levels of debt with which students leave college. In addition to paying extra tuition and fees, students must cover living expenses for a longer period of time and wait longer to benefit from the wage premium associated with a college degree. There is strong evidence that support systems that provide intrusive advising and create a sense of community in addition to sufficient financial support can have a major impact on student success (Gupta, 2017).

## CONCLUSION

Broad discussions of the burden of student debt miss the dramatic differences in both borrowing patterns and repayment problems across groups of students. They run the risk of generating fear of borrowing among students for whom it is—under current funding practices—the only viable option for earning valuable college credentials. Students who borrow typical amounts and earn bachelor's degrees or advanced degrees can generally repay their loans out of their increased earnings without undue difficulty. On the other hand, many of those who borrow small amounts but leave school without a credential or earn certificates or associate degrees that do not end up paying off well in the labor market struggle to meet their repayment obligations (Belfield & Bailey, 2017; Kim & Tamborini, 2019). And students who are the victims of misleading or even fraudulent recruiting and marketing practices are particularly vulnerable (see GAO, 2010).

Failing to differentiate between the borrowers who are really struggling and those who would be merely happier if they had more discretionary income leads to policy ideas that would give large subsidies to many relatively well-off borrowers who took out a lot of loans but are reaping the economic benefits of their postsecondary education. Rather, policy should focus assistance on

those who did not get a significant return on their investments and are really struggling to make ends meet.

In general, states will be better served by providing adequate funding for students from low-income households and for the public colleges and universities they attend as well as working to prevent students from making unproductive borrowing decisions than by attempting to design programs for the specific purpose of supporting loan repayment. The federal government has policies that keep loan payment manageable for most students. These policies need improvement but adding separate state programs is unlikely to achieve the desired goals.

State strategies that can diminish students' reliance on loans include appropriate regulation of the for-profit sector and incentives for institutions in the state to develop effective support programs that increase completion rates. States can also provide constructive personalized guidance about choosing institutions and programs, making decisions about financing higher education, and repaying student loans. Specifically, states should consider the following recommendations for policy and practice to reduce problems with student debt:

- **Provide personalized guidance about college and major choice to students before they enroll.**

Students need advice about whether and when to go to college and the most appropriate institutions, programs, and majors. High school guidance counselors frequently lack the time and expertise to give good advice. Older adults returning to school lack even that resource. Making good decisions about enrollment and an academic major can help students avoid excessive borrowing and can increase the chances that they will complete credentials of value.

- **Make sure educational institutions are appropriately regulated to minimize the number of students enrolling in institutions that don't serve students well.**

Too many institutions, particularly in the for-profit sector, have central goals other than providing high-quality educational opportunities. Regulation can limit the extent of fraud, abuse, and exposure to school closings.

- **Keep tuition and fees in check.** High and rapidly rising tuition prices increase the financial barriers students face in paying for college. However, holding tuition down in the face of rising enrollments and stagnant appropriations is not a solution, and tuition is only one piece of the puzzle. Students borrow to finance their living expenses even when they do not face tuition charges.
- **Offer a strong need-based aid program.** Low tuition is not enough to make college financially viable for the least well-off students. It is the net prices they pay after grant aid that matter—not so much the sticker price. Moreover, living expenses make up a large share of student budgets, particularly at public colleges and universities. Well-targeted need-based aid can increase the effectiveness of the state’s limited dollars.
- **Provide adequate and equitable support for public colleges and universities.** Institutions need sufficient funding to provide students with the academic and social supports that will increase their chances of successfully completing their programs. The institutions that enroll disproportionate shares of low-income and at-risk students frequently have the lowest resource levels at the same time that they face the biggest challenges in this area.
- **Provide high-quality loan counseling during college and when students leave school.** Advice about optimal borrowing may need to include cautions about both under-borrowing and over-borrowing. It is certainly responsible to warn students of the potential burdens of over-borrowing and the repercussions of failure to repay. But if, for example, students drop out to avoid further borrowing or work excessive hours, diminishing their chances for academic success, the warnings can be counterproductive. Students should understand that when they borrow, they are accepting future repayment responsibilities. They should understand the advantages of federal student loans relative to other sources of borrowing, including private student loans. As

they enter the repayment period, they need clear information about income-driven repayment and other repayment options and available protections. They should also know about the penalties for defaulting on student loans and where to get help if they are struggling.

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