URBAN INSTITUTE · ELEVATE · THE · DEBATE

Returning to School: Helping Students Navigate Decisions about Borrowing for College

Technical Appendix

Sandy Baum and Kelia Washington

March 2020

Adults making decisions about returning to school to earn a college credential face complicated choices. One issue that looms large is student debt. Some students borrow more than they will be able to repay and need help avoiding this trap. Others are afraid of debt and do not borrow enough.

It is inaccurate to assume that less debt is always better than more debt, but students should not borrow more than they need and should be aware of their repayment responsibilities. The additional earnings associated with a college education can make borrowing and repaying loans a reasonable option for most college students. Choices about which college to attend, how many courses to take, and how much to work can have a big impact on how much students borrow. Many factors, such as a student's major, career prospects, family circumstances, and available personal resources, affect what level of borrowing is reasonable. Students who do not complete their programs struggle most with student debt, so finding the best match for students is critical.

Many adults returning to school have spent some time in college and taken out loans. Some have paid off those loans. But others defaulted on their loans or are still paying them back. These circumstances affect whether students will have access to federal loans and how they will feel about borrowing.

The information in this resource aims to help counselors and others who work with adults returning to college to navigate these issues, sort through some of the misperceptions, and understand both the benefits and risks of borrowing for college.

Key Takeaways

- For most students, federal loans are a necessary part of paying for expenses while in college. Avoiding debt altogether or borrowing too little can be as much of a problem as overborrowing.
- The first step in avoiding problems with student debt is carefully choosing a college and a program.
- Students should think about the grant aid they are likely to receive at different institutions and the net prices they will actually pay, not just the published prices. They should consider all the expenses they will have to cover, not just tuition and fees.
- Students can use a combination of their own resources, savings, earnings, and loans to cover their expenses. Working too much while in school—or struggling to meet basic needs—can interfere with academic success and timely completion.
- Most students should rely on federal loans, not loans from banks or other private sources.
- Deciding how much to borrow requires thinking about likely future earnings. Earnings differ considerably across occupations, states, and demographic groups.

Why Borrow for College?

Careful borrowing can increase access to the best college options and provide the resources students need to succeed in college, but excessive borrowing can lead to serious problems once repayment begins.

The public conversation about student debt could lead you to think that all students borrow, that most borrow more than they will be able to repay, and that student debt is "crushing a generation." In fact, while some students—and some groups of students—are struggling with their debts, the problem is not nearly as widespread as reports suggest. As the data reported below indicate, the problems with student debt are concentrated among certain groups of students. Those who borrow but never complete their programs and those who enroll in programs without labor market value are particularly vulnerable.[1]

Reliable research shows that moderate borrowing can help students make ends meet without excessive work, increasing their chances for success.[2] Without loans, some students would not be able

to enroll at all, and others would struggle to cover their expenses. Students do not just have to pay tuition and fees when they are in college. They also have to buy books and supplies, pay rent, eat, and cover other expenses. Working too many hours, going hungry, or having other financial difficulties can interfere with their ability to succeed.

Student loans open doors for students with limited resources. The federal government provides loans to students because private credit markets do not adequately support people who have neither strong credit histories nor significant assets. The government offers loans to all students, regardless of financial circumstances, credit history, or academic preparation. Federal student loans make it possible for people who do not have money now to enroll and succeed in college and repay their loans out of the increased earnings they can expect with their college degrees.

College is an investment that pays off well for most students, and borrowing is a reasonable way to help finance that investment. In 2018, the median high school graduate ages 35 to 44 earned $35,600, and median earnings for adults of the same age with associate degrees were $45,700. The median for those with bachelor's degrees was $62,100, and those with advanced degrees earned significantly more.[3] Unemployment rates are also lower for adults with college credentials than for those without postsecondary education. Borrowing to help fund investments that are likely to pay off in the future is common for people starting businesses, and the logic for borrowing to invest in education to increase earning power over a lifetime is similar.

Protections are available for student borrowers who do not see the payoff they expect. The federal government, understanding that college does not pay off well for every student, has implemented protections against weak outcomes for borrowers. There are options that allow borrowers to defer payments in hard times or enroll in repayment plans that make payments an affordable share of income, forgiving remaining balances after 10, 20, or 25 years for borrowers whose incomes have not been adequate to repay their debts. Federal student loans are different from private loans, which do not provide the same protections.

When Is Borrowing a Bad Idea?

Not all borrowing for college is "good" borrowing. Students should think carefully about the value of the program they are choosing, their chances of succeeding, and how much debt they will be able to repay.

Students who do not complete their programs do not get much of the financial benefit of going to college and frequently struggle to repay their loans. Helping students choose their institutions and programs carefully and be realistic about their chances for success can reduce problematic borrowing.

Many institutions have low completion rates or weak employment outcomes for graduates. Students who attend for-profit institutions are disproportionately likely to end up with debt and nothing to show for it. Showing students all their options can help them avoid this pitfall.

Private loans are riskier than federal loans. Some students take private loans because they do not complete the federal aid application or because they max out on federal loans. Helping students see the risks of taking out loans that do not come with the repayment protections included in the federal student loan programs can reduce the amount of problematic borrowing.

Knowing more about how much students borrow and the differences across demographic groups, programs, and types of institutions can help counselors provide better guidance. Information about college completion and labor market outcomes for different students can inform judgments about which students need support avoiding excessive borrowing and which students need reassurance that careful borrowing can improve the chances they will achieve their goals.

How Much Do Students Borrow?

Average total debt levels vary by time in school, type of institution, and demographic group. Students who attend for-profit institutions, Black students, and students who are older when they start college tend to borrow more than others pursuing similar degrees.

Typical debt levels differ depending on the educational choices students make and their personal characteristics. Students who stay in school longer borrow more than those who leave quickly. Those who complete bachelor's degrees accumulate more debt than those who earn associate degrees or certificates. Students who leave college quickly, without earning any credential, generally borrow small amounts.

Borrowing patterns differ across demographic groups partly because of their enrollment patterns, and possibly because of intangible factors, such as cultural norms or expectations. But **inequality in financial circumstances before college is a central factor.** Social and historical realities including discrimination in housing and labor markets and unequal elementary and secondary schooling opportunities have led to significantly lower average income and wealth for Black and Hispanic families than for others. As a result, students from these groups and others in similar circumstances face barriers to financing and succeeding in higher education.

Older students tend to borrow more than recent high school graduates. The federal government has higher loan limits for students who are independent of their parents (and for dependent students

whose parents' credit histories prevent them from being eligible for federal parent loans). The tables and figures in this document focus on older undergraduate students—those who are 26 or older.

Bachelor's Degree Students

- Students who earn their bachelor's degrees from for-profit institutions are more likely than others to graduate with debt (table 1A).
- More than half of 2015–16 for-profit graduates ages 26 and older accumulated $40,000 or more in student loans. Less than 30 percent of students who graduated from public and private nonprofit colleges had this much debt.
- A larger share of Black students, as well as those from smaller racial or ethnic groups, attended for-profit colleges: 28 percent in 2015–16 compared with 19 percent overall. Patterns vary across types of institutions, but Black students are among those in each sector borrowing the most; Hispanic students are among those borrowing the least (table 1B).

TABLE 1A

Cumulative Debt of 2015–16 Bachelor's Degree Recipients Ages 26 and Older, by Sector

	No debt	$1–$9,999	$10,000–$19,999	$20,000–$29,999	$30,000–$39,999	$40,000 or more
All bachelor's degrees	20%	10%	11%	12%	13%	33%
Public four-year (48%)	22%	10%	13%	13%	14%	27%
Private nonprofit four-year (23%)	22%	12%	12%	12%	13%	29%
For-profit (24%)	14%	7%	8%	8%	11%	52%

Source: 2016 National Postsecondary Student Aid Study, PowerStats.

Notes: Twenty-eight percent of all 2015–16 bachelor's degree recipients were 26 or older when they completed their degrees. Twenty-three percent graduated from public four-year colleges, 23 percent graduated from private nonprofit colleges, and 73 percent graduated from for-profit colleges.

TABLE 1B

Cumulative Debt of 2015–16 Bachelor's Degree Recipients Ages 26 and Older, by Sector and Race or Ethnicity

	No debt	$1–$9,999	$10,000–$19,999	$20,000–$29,999	$30,000–$39,999	$40,000 or more
All bachelor's degrees						
All	**20%**	**10%**	**11%**	**12%**	**13%**	**33%**
White (55%)	21%	9%	12%	12%	13%	34%
Black (19%)	14%	13%	9%	9%	12%	43%
Hispanic (17%)	25%	12%	14%	11%	12%	25%
Asian (7%)	28%	6%	11%	18%	14%	22%
Other (4%)	19%	16%	9%	9%	14%	34%
Public four-year						
All	**22%**	**10%**	**13%**	**13%**	**14%**	**27%**
White (58%)	19%	9%	13%	13%	14%	31%
Black (16%)	20%	14%	10%	11%	16%	30%
Hispanic (16%)	29%	10%	18%	13%	13%	18%
Asian (7%)	35%	7%	12%	22%	11%	12%
Other (4%)	19%	15%	11%	9%	18%	28%
Private nonprofit four-year						
All	**22%**	**12%**	**12%**	**12%**	**13%**	**29%**
White (62%)	24%	11%	12%	14%	13%	27%
Black (17%)	10%	14%	7%	8%	8%	53%
Hispanic (14%)	24%	17%	18%	10%	18%	14%
Asian (3%)	20%	6%	9%	26%	24%	16%
Other (3%)	31%	19%	4%	3%	10%	34%
Private for-profit						
All	**14%**	**7%**	**8%**	**8%**	**11%**	**52%**
White (43%)	15%	6%	7%	9%	10%	53%
Black (22%)	9%	7%	9%	7%	14%	54%
Hispanic (22%)	16%	11%	9%	9%	10%	45%
Asian (7%)	10%	3%	10%	3%	16%	57%
Other (5%)	11%	14%	8%	12%	8%	47%

Source: 2016 National Postsecondary Student Aid Study, PowerStats.

Associate Degree Students

- Students earning associate degrees are in school for a shorter period and borrow less than those who earn bachelor's degrees, but the patterns by sector and race or ethnicity are similar (tables 2A and 2B).
- Students who earn their associate degrees at public two-year colleges are less likely to borrow and to accumulate high levels of debt than those who attend for-profit institutions (table 2A).
- Black associate degree students and those from smaller racial or ethnic groups are more likely to borrow and to borrow more than others earning their degrees at similar institutions (table 2B).

- Asian and, to a lesser extent, Hispanic students borrow less than those from other groups pursuing the same types of degrees at the same types of institutions.

TABLE 2A

Cumulative Debt of 2015–16 Associate Degree Recipients Who Completed Their Degrees at Age 26 or Older, by Sector

	No debt	$1–$9,999	$10,000–$19,999	$20,000–$29,999	$30,000–$39,999
All associate degrees	37%	17%	14%	14%	8%
Public two-year (77%)	45%	19%	14%	12%	5%
For-profit (16%)	11%	10%	14%	23%	20%

Source: 2016 National Postsecondary Student Aid Study, PowerStats.

Notes: Forty-four percent of all 2015–16 associate degree recipients were 26 or older when they completed their degrees. Forty-one percent graduated from public two-year colleges, and 61 percent graduated from for-profit colleges.

TABLE 2B

Cumulative Debt of 2015–16 Associate Degree Recipients Who Completed Their Degrees at Age 26 or Older, by Sector and Race or Ethnicity

	No debt	$1–$9,999	$10,000–$19,999	$20,000–$29,999	$30,000–$39,999
All associate degrees					
All	**37%**	**17%**	**14%**	**14%**	**8%**
White (55%)	37%	17%	17%	14%	7%
Black (22%)	26%	17%	14%	15%	12%
Hispanic 16%)	49%	19%	9%	11%	7%
Asian (5%)	58%	13%	8%	11%	4%
Other (4%)	32%	16%	10%	17%	13%
Public two-year					
All	**45%**	**19%**	**14%**	**12%**	**5%**
White (55%)	43%	18%	17%	13%	5%
Black (20%)	35%	22%	14%	13%	7%
Hispanic (16%)	60%	21%	10%	6%	2%
Asian (5%)	67%	14%	5%	13%	0%
Other (4%)	37%	19%	10%	15%	7%
Private for-profit					
All	**11%**	**10%**	**14%**	**23%**	**20%**
White (43%)	12%	13%	13%	26%	18%
Black (33%)	7%	6%	15%	19%	23%
Hispanic (15%)	13%	12%	11%	27%	21%
Asian (4%)	22%	12%	17%	5%	9%
Other (4%)	14%	6%	8%	27%	26%

Source: 2016 National Postsecondary Student Aid Study, PowerStats.

Certificate Students

- Students attending for-profit institutions borrow more than those completing certificates at public two-year colleges (table 3A).
- Black students who earn certificates borrow more than others earning similar credentials (table 3B).
- In 2015–16, when one-third of Black students ages 26 and older who completed certificates at public two-year colleges avoided borrowing, only 7 percent of those earning similar credentials at for-profit institutions did so. Sixteen percent of Black public two-year graduates and 28 percent of Black for-profit certificate recipients borrowed $20,000 or more (table 3B).

TABLE 3A

Cumulative Debt of 2015–16 Certificate Recipients Who Completed Their Degrees at Age 26 or Older, by Sector

	No debt	$1–$9,999	$10,000–$19,999	$20,000–$29,999	$30,000–$39,999
All certificates	32%	27%	20%	11%	5%
Public two-year (39%)	48%	23%	10%	9%	5%
For-profit (46%)	17%	31%	30%	13%	5%
Other (13%)	39%	25%	17%	10%	3%

Source: 2016 National Postsecondary Student Aid Study, PowerStats.

Notes: Fifty-one percent of all 2015–16 certificate recipients were 26 or older when they completed their degrees. Sixty percent graduated from public two-year colleges, and 47 percent graduated from for-profit colleges.

TABLE 3B

Cumulative Debt of 2015–16 Certificate Recipients Who Completed Their Degrees at Age 26 or Older, by Sector and Race or Ethnicity

	No debt	$1–$9,999	$10,000–$19,999	$20,000–$29,999	$30,000–$39,999
All certificates					
All	**32%**	**27%**	**20%**	**11%**	**5%**
White (47%)	33%	28%	17%	11%	5%
Black (21%)	18%	29%	25%	16%	7%
Hispanic (22%)	37%	27%	21%	9%	3%
Asian (7%)	56%	9%	24%	7%	1%
Other (4%)	24%	33%	21%	15%	6%
Public two-year					
All	**48%**	**23%**	**10%**	**9%**	**5%**
White (53%)	45%	28%	7%	9%	5%
Black (15%)	34%	32%	18%	11%	5%
Hispanic (17%)	60%	17%	N/A	N/A	N/A
Asian (12%)	N/A	N/A	N/A	N/A	N/A
Other (3%)	N/A	N/A	N/A	N/A	N/A
Private for-profit					
All	**17%**	**31%**	**30%**	**13%**	**5%**
White (39%)	15%	31%	29%	14%	7%
Black (24%)	7%	29%	30%	20%	8%
Hispanic (29%)	25%	32%	30%	8%	2%
Asian (4%)	38%	22%	24%	10%	2%
Other (4%)	9%	38%	30%	15%	8%
Other					
All	**39%**	**25%**	**17%**	**10%**	**3%**
White (52%)	48%	21%	16%	8%	1%
Black (27%)	25%	25%	20%	9%	8%
Hispanic (10%)	39%	30%	12%	16%	2%
Asian (2%)	N/A	N/A	N/A	N/A	N/A
Other (9%)	N/A	N/A	N/A	N/A	N/A

Source: 2016 National Postsecondary Student Aid Study, PowerStats.

Why Do Loan Levels Differ by Race or Ethnicity?

Several factors contribute to the high levels of debt among Black students. In particular, average income and wealth are lower for Black and Hispanic households than for white and Asian families. Moreover, Black students enroll disproportionately in for-profit institutions and take longer to complete their degrees than others.

Household Income and Wealth

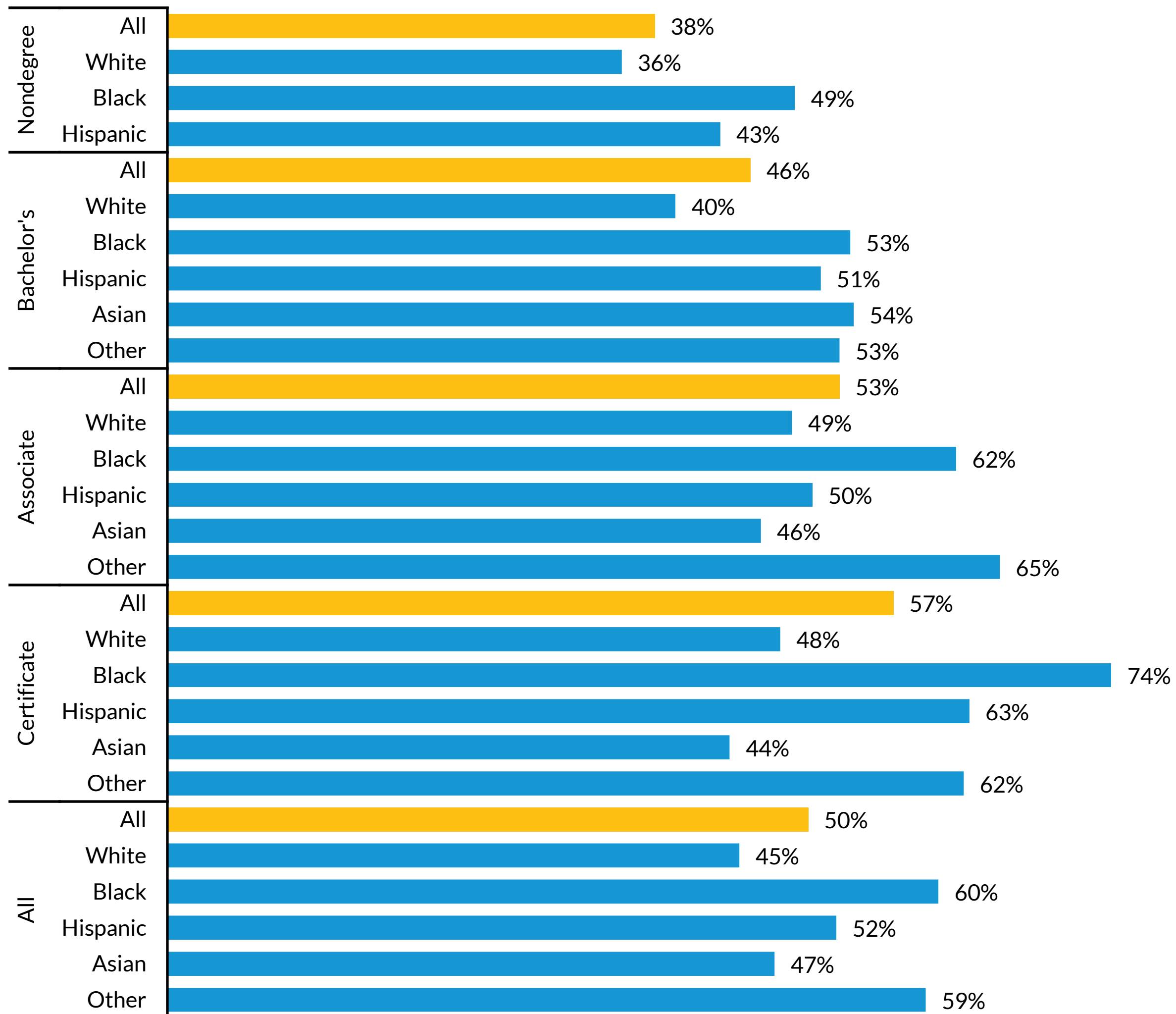
Older Black students and those from smaller racial and ethnic groups have lower household incomes than most others. In 2015–16, when half of all undergraduate students ages 26 and older had household incomes below $27,300, 60 percent of Black students and those from smaller racial or ethnic

groups had incomes this low, compared with 45 percent of white, 47 percent of Asian, and 52 percent of Hispanic students.

Students in certificate and associate degree programs tend to have lower incomes than those in bachelor's degree programs. Black students in these programs were disproportionately from low-income households, but among bachelor's degree students, differences by race or ethnicity were small (figure 1).

FIGURE 1

Share of Students Ages 26 and Older in the Lower Half of the Income Distribution (Earning Less Than $27,300 a Year)

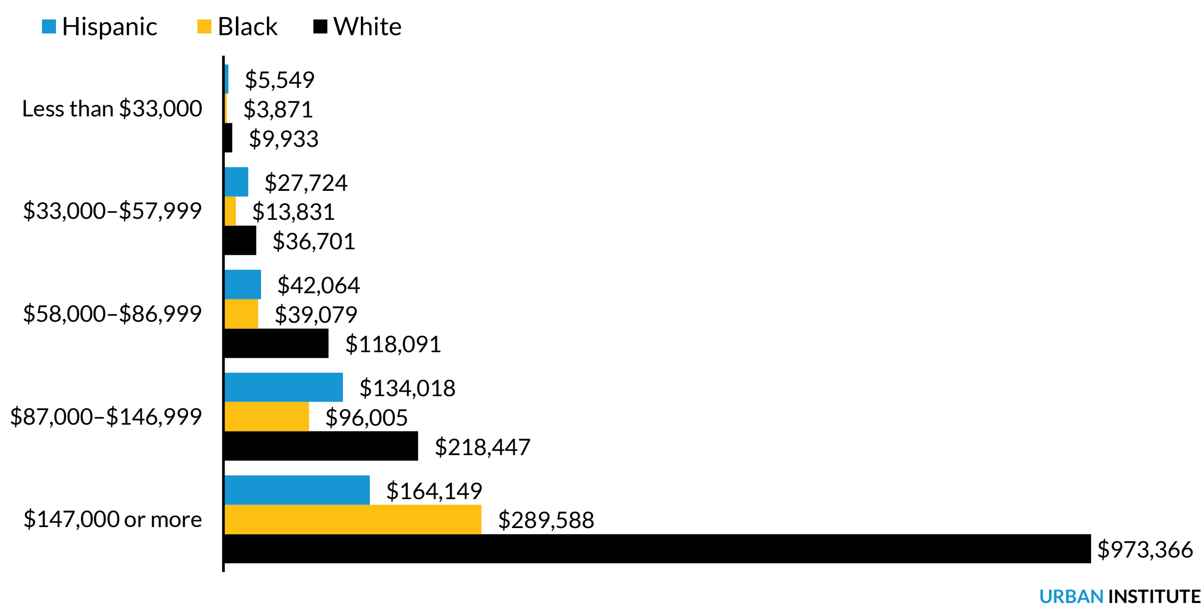


Source: 2016 National Postsecondary Student Aid Study.

In 2016, the typical white family had about 10 times the wealth of the typical Black family and about 7.5 times the wealth of the typical Hispanic family.[4] These differences are, to some extent, associated with income levels. But even within income groups, Black and Hispanic families have much less wealth than white families. For example, between 2010 and 2016, median wealth for white families with incomes between $33,000 and $58,000 with children ages 12 to 17 was about $37,000. Median wealth was $28,000 for similar Hispanic families and $14,000 for Black families in this group (figure 2). This reality means that Black students are less likely than others to be able to rely on their families for financial support.

FIGURE 2

Median Wealth by Income and Race or Ethnicity, 2010–16



Source: Urban Institute calculations from data on households with children ages 12 to 17 in the 2010, 2013, and 2016 Surveys of Consumer Finances.

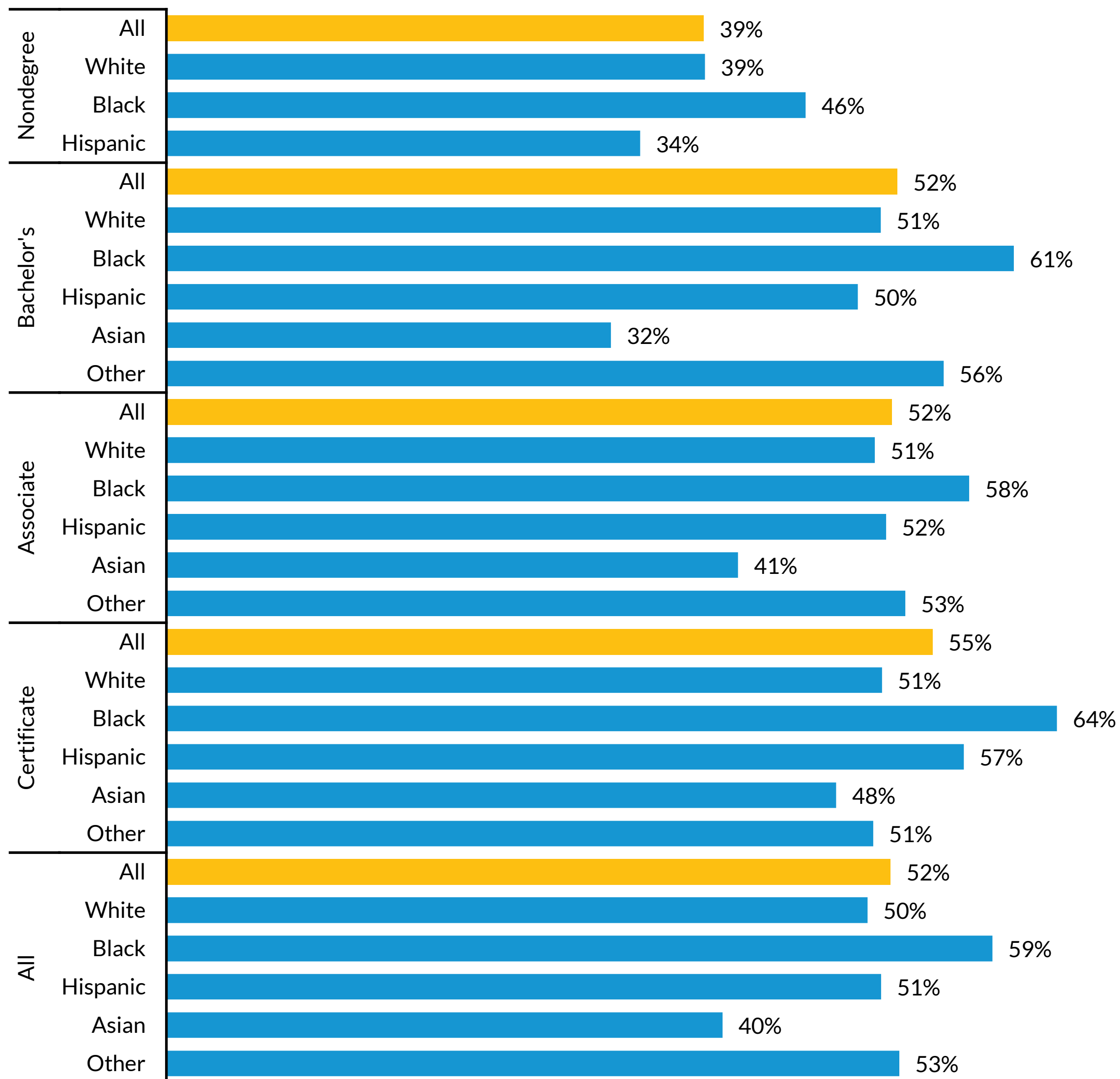
Notes: Net worth is measured as in Signe-Mary McKernan, Caroline Ratcliffe, C. Eugene Steuerle, Caleb Quakenbush, and Emma Kalish, "Nine Charts about Wealth Inequality in America (Updated)," Urban Institute, last updated October 5, 2017, http://apps.urban.org/features/wealth-inequality-charts/. All values are in 2018 dollars, and household income quintile ranges in this figure are for 2016. Data are pooled across the 2010, 2013, and 2016 surveys to increase precision.

Family Responsibilities

About half of all undergraduates ages 26 and older have dependent children for whom they are responsible while they are in college. The share of students who are parents varies widely by race or ethnicity. In 2015–16, the range was from 40 percent of older Asian students to 59 percent of older Black students. The pattern is the same within each undergraduate program level (figure 3).

FIGURE 3

Share of Undergraduate Students Ages 26 and Older with Dependent Children



Source: 2016 National Postsecondary Student Aid Study.

Types of Institutions

Black college students are more likely than others to attend for-profit institutions. For-profit institutions charge higher prices than public four-year colleges and much higher prices than community colleges. Private nonprofit institutions also charge more than public institutions, but many private nonprofit colleges and universities provide generous financial aid, lowering the prices students actually

pay. This is less true at for-profit institutions, where both the sticker prices and the net prices students pay are higher than at public—and frequently private nonprofit—institutions they could attend.

Average net prices at for-profit institutions are only a little lower, on average, than average net prices for independent students at all private nonprofit institutions, including those that are selective and have higher-than-average sticker prices. In 2015–16, for example, the average one-year full-time net tuition price for independent students at for-profit institutions was $12,100, compared with $1,400 at public two-year colleges and $4,700 at public four-year institutions (table 4).

TABLE 4

Average Net Tuition and Fees by Sector and Parents' Income, 2015–16 Independent Students

	Average published tuition and fees	Average net tuition and fees
Public two-year	$3,400	$1,400
Public four-year	$9,430	$4,670
Private nonprofit four-year	$32,340	$13,160
For-profit	$14,190	$12,100

Sources: Jennifer Ma, Sandy Baum, Matea Pender, and CJ Libassi, *Trends in College Pricing 2019* (New York: College Board, 2019), table 2 and figures 11 and 12; and 2018 Digest of Education Statistics, table 330.10.

Overall, more than a quarter of older Black undergraduates are enrolled in for-profit institutions, the highest of any racial or ethnic group. More than half of both Black and Hispanic students—but less than 30 percent of white and Asian students—in certificate programs who are 26 or older attend for-profit institutions. Among those studying for associate degrees, 19 percent of Black students, but less than 10 percent of students from every other group, were in the for-profit sector in 2015–16 (table 5).

TABLE 5

Enrollment of 2015–16 Undergraduates Ages 26 and Older, by Sector and Race or Ethnicity

	Public four-year	Private nonprofit four-year	Public two-year	For-profit	Other
All older undergraduates					
All	17%	11%	52%	18%	3%
White	18%	12%	53%	14%	3%
Black	14%	10%	46%	27%	3%
Hispanic	16%	9%	53%	20%	3%
Asian	18%	6%	60%	14%	2%
Other	19%	10%	50%	17%	3%
Certificate					
All	N/A	N/A	48%	38%	14%
White	N/A	N/A	55%	27%	18%
Black	N/A	N/A	36%	51%	13%
Hispanic	N/A	N/A	40%	54%	6%
Asian	N/A	N/A	61%	28%	11%
Other	N/A	N/A	46%	34%	16%
Associate degree					
All	N/A	N/A	83%	11%	6%
White	N/A	N/A	85%	9%	6%
Black	N/A	N/A	75%	19%	6%
Hispanic	N/A	N/A	86%	9%	5%
Asian	N/A	N/A	90%	6%	4%
Other	N/A	N/A	85%	10%	2%
Bachelor's degree					
All	46%	28%	N/A	21%	5%
White	47%	30%	N/A	17%	1%
Black	39%	27%	N/A	30%	1%
Hispanic	47%	27%	N/A	21%	2%
Asian	60%	17%	N/A	21%	1%
Other	48%	25%	N/A	22%	1%

Source: 2016 National Postsecondary Student Aid Study.

Some community colleges do not participate in federal student loan programs. About a million community college students—9 percent of all students in this sector—attend institutions that deny them access to federal student loans. Native American (22 percent), Black (13 percent), and Hispanic (11 percent) community college students are the most likely to lack access, as are students in nonurban areas. In eight states, more than 20 percent of community college students are enrolled at nonparticipating institutions.[5]

Other community colleges participate but discourage students from borrowing.[6] Some of these institutions fear that high default rates will cause them to lose eligibility for federal student aid, including both loans and Pell grants.

Many community college students do not complete the Free Application for Federal Student Aid (FAFSA), which prevents them from receiving Pell grants or any other federal aid. Completing the FAFSA can also be a crucial step for qualifying for scholarships. At degree-granting for-profit institutions, 87 percent of independent students applied for federal student aid in 2015–16. At community colleges, 57 percent of these students completed the FAFSA.[7]

The lack of access to federal loans may lead students to take fewer courses and to work more while they are in school, hurting their chances of graduating on time. So the low loan levels in this sector may not be entirely good news for students.

Living Expenses

Living expenses lead many students to borrow. Many low-income students receive grant aid from federal and state governments and from their institutions that partially or entirely covers their tuition and fees, but they still have to pay for housing, food, and other expenses. At public two-year and four-year institutions, living expenses make up more than half the budget even for students who do not receive any grants or scholarships. Two-thirds of 2015–16 public-sector bachelor's degree recipients who paid no tuition borrowed an average of $24,000 to earn their degrees.[8]

Time to Degree

Students who begin college at older ages spend more time enrolled than younger students, and Black and Hispanic students tend to spend more time in school earning their degrees than others (table 6). Part-time enrollment, remedial coursework, course withdrawal or failure, and changing majors are among the factors that can increase time to degree and the cost of a college education.

TABLE 6

Time to Degree

	Months enrolled before completing degree		
	40 or fewer	41 to 50	51 or more
Age at college entry			
18 or younger	41%	39%	19%
19 to 22	38%	42%	21%
23 to 29	34%	31%	35%
30 or older	16%	27%	57%
Race or ethnicity			
White	43%	39%	18%
Black	31%	42%	27%
Hispanic	31%	40%	29%
Asian	39%	41%	20%
Other	39%	38%	23%

Source: Beginning Postsecondary Students Longitudinal Study, 2012/17.

There is a high correlation between debt levels and time to degree. Some of this difference can be explained by the different characteristics of the students who are in school longer. But the pattern appears within racial and ethnic groups. Twenty percent of Black graduates who earned their bachelor's degrees within four years graduated without student debt, and 17 percent borrowed $40,000 or more. Twelve percent of those for whom more than 10 years elapsed graduated without debt, and 44 percent borrowed $40,000 or more.

Repaying Student Loans

Borrowing for college means repaying loans after college, regardless of whether students complete their programs. Many students struggle with this responsibility. Understanding how the repayment system works can relieve much of the stress.

Once students leave school, they face a complicated array of options for repaying their loans. Those who do not choose an alternative are placed in the standard 10-year repayment plan, under which they are expected to make equal payments every month, retiring their debt after 10 years—or in fewer years if the balance is low enough to be repaid more quickly with the $50 minimum monthly payment.

About one-third of borrowers are now enrolled in income-driven repayment plans that set their monthly payments at $0 if their incomes are below 150 percent of the federal poverty level, or at 10 percent (or in some cases 15 percent) of the amount by which their incomes exceed that threshold.

Income-driven repayment plans should prevent borrowers from defaulting because of low incomes. But there are bureaucratic hurdles to enrolling in these plans and meeting the ongoing income verification requirements.

Borrowers enrolled in other repayment plans still can defer payments when they are back in school or have inadequate incomes or can receive forbearance because of economic hardship. Those who do not make required payments for 270 days are considered to have defaulted on their obligations.

Struggling to Repay

Higher levels of debt are not necessarily associated with greater repayment difficulties. One measure of difficulty is the default rate. Another measure is whether borrowers reduce the amount they owe—whether they make payments that are larger than the amount necessary to cover interest charges. But borrowers can struggle even if they are making payments. It is not easy to quantify the difficulties borrowers may face, but higher incomes—and more family support—make it easier to handle education debt.

Overall, default rates are highest among those with low levels of debt. Among borrowers entering repayment in 2010–11, 24 percent of those who owed less than $5,000 defaulted within three years, compared with 7 percent of those who owed $40,000 or more (Baum et al. 2016, figure 12B).

The reason for this pattern is that most borrowers with high debt levels were in school for a long time and earned valuable degrees that ease debt repayment. The highest default rates are among borrowers who left college without a degree or certificate.

Although repayment seems far off for students enrolling in or returning to a college or university, it is important for all potential borrowers to understand both that they will have to use some of their future income to make payments and that there are affordable repayment options.

How Many Students Leave College without Completing Their Programs?

Students who leave college without a degree or certificate have the lowest repayment rates and the highest default rates.

The borrowers who have the most difficulty repaying their debts are those who leave school without a degree or certificate, not those with high levels of debt. Most students who stay in college

long enough to accumulate a lot of debt complete at least a bachelor's degree and are likely to have the earnings they need to cover the repayment costs.

Students who enroll at older ages have lower completion rates than those who enroll shortly after high school. Among those who began college in 2011–12, 53 percent of those who were 24 or older had left college with no credential six years later; 28 percent of those who enrolled when they were 20 or younger were in this situation.

Older students from all racial and ethnic groups face significant barriers to completion. Among students enrolling in 2011–12, the share leaving without a credential ranged from 46 percent of smaller groups and 51 percent of Asian and white students to 56 percent of Black students and 57 percent of Hispanic students (table 7).

TABLE 7

Share of Students Beginning College in 2011–12 at Age 24 or Older, Not in School and with No Credential after Six Years

	No degree, not enrolled
All	53%
Black	56%
Hispanic	57%
Asian	51%
Other	46%

Source: Beginning Postsecondary Students Longitudinal Study, 2012/17.

Earnings after College

There is considerable variation in postcollege earnings, even among students with similar credentials. Some of the differences are predictable and should factor into borrowing decisions.

The ability to repay student loans depends on postcollege earnings. Comparing students with similar levels of education, it is reasonable to assume that higher levels of debt will put more strain on postcollege finances.

Despite the clear pattern of higher earnings for adults who have completed more education, there is considerable variation among people who have completed similar degrees. Different occupations pay differently. Students studying to be engineers or medical professionals can safely borrow more than those preparing for careers in early childhood education or social services. The Bureau of Labor Statistics has information on projected earnings for college majors and career paths.[9] The federal government also provides information on earnings on its College Scorecard website.[10]

Persistent labor market discrimination and other structural factors generate significant earnings differences across racial and ethnic groups. In 2018, median earnings for adults ages 35 to 44 whose highest degree was a bachelor's degree ranged from $51,700 for Hispanic adults and $54,900 for Black adults to $65,200 for white adults and $71,500 for Asian adults. For associate degree holders, the range was from $40,100 for Black adults to $47,800 for white adults (table 8).

TABLE 8

Median Earnings, Adults Ages 34 to 44, by Education Level and Race or Ethnicity, 2018

	Some college	Associate degree	Bachelor's degree or more	Bachelor's degree
All	$41,100	$45,700	$70,600	$62,100
White	$43,300	$47,800	$71,200	$65,200
Black	$35,800	$40,100	$60,400	$54,900
Asian	$37,400	$42,800	$86,100	$71,500
Hispanic	$40,000	$42,500	$57,500	$51,700

Source: US Census Bureau, Current Population Survey, table PINC-03.

Both average earnings and differences among demographic groups vary widely across states. In 2017, average earnings for adults with at least a bachelor's degree ranged from $95,600 in Washington, DC, and $87,000 in Connecticut to $57,300 in West Virginia and $55,800 in Mississippi (table 9). Average earnings for Black adults with at least a bachelor's degree ranged from just 50 percent of those for white adults in Vermont and 59 percent in DC, Rhode Island, and Montana to 95 percent in Idaho and 107 percent in Utah. Average earnings for Hispanic adults ranged from 58 percent of the average for white adults in North Dakota and 64 percent in New Jersey to 88 percent in Missouri and 94 percent in New Hampshire.

The dollar gaps in median income between Black and white bachelor's degree holders ranged from $44,800 in Washington, DC, to $3,100 in Idaho, while in Utah, the median earnings were slightly higher for Black college graduates than for white college graduates. The dollar gaps in median income between Hispanic and white bachelor's degree holders ranged from $32,400 in New Jersey to $4,500 in New Hampshire (table 9).

These gaps mean that, on average, Black and Hispanic college graduates have less income with which to repay their student loans than white and Asian college graduates.

TABLE 9

Average Income of Adults with Bachelor's Degrees, by State, 2017

	Average income of adults with bachelor's degrees		Average income of adults with bachelor's degrees
Mississippi	$55,800	Wisconsin	$65,100
West Virginia	$57,300	Tennessee	$65,200
Maine	$58,100	Arizona	$65,400
Montana	$58,300	North Carolina	$65,400
New Mexico	$58,800	Michigan	$66,200
Arkansas	$59,100	Ohio	$66,700
Idaho	$59,200	Georgia	$68,900
Oklahoma	$59,700	Pennsylvania	$69,800
Wyoming	$59,800	Alaska	$70,200
Vermont	$60,400	Colorado	$70,800
South Dakota	$60,500	Rhode Island	$70,800
Indiana	$61,600	New Hampshire	$71,600
South Carolina	$62,000	Minnesota	$72,000
North Dakota	$62,100	Texas	$72,000
Alabama	$62,200	Delaware	$73,600
Nebraska	$62,200	Illinois	$74,100
Louisiana	$62,800	Washington	$74,400
Utah	$62,900	Virginia	$78,700
Iowa	$63,000	California	$79,700
Kentucky	$63,000	New York	$80,300
Oregon	$63,300	Massachusetts	$80,400
Nevada	$63,700	Maryland	$81,100
Florida	$63,800	New Jersey	$83,200
Missouri	$63,900	Connecticut	$87,000
Kansas	$64,200	Washington, DC	$95,600
Hawaii	$64,600		

Source: American Community Survey.

TABLE 10

Racial or Ethnic Gaps in Median Earnings for Adults with at Least a Bachelor's Degree, 2018

Black/white		Hispanic/white		White-Black		White-Hispanic	
Vermont	0.50	North Dakota	0.58	Washington, DC	$44,791	New Jersey	$32,435
Washington, DC	0.59	New Jersey	0.64	Connecticut	$31,653	California	$31,471
Rhode Island	0.59	California	0.65	New York	$30,676	Connecticut	$30,103
Montana	0.59	Rhode Island	0.67	Vermont	$30,568	New York	$28,544
New York	0.65	Arkansas	0.67	Rhode Island	$30,385	North Dakota	$26,577
Massachusetts	0.65	Nevada	0.67	New Jersey	$29,607	Texas	$25,935
Mississippi	0.65	Connecticut	0.67	Massachusetts	$28,934	Massachusetts	$25,450
Connecticut	0.66	New York	0.68	California	$25,772	Rhode Island	$24,669
South Carolina	0.66	Texas	0.68	Montana	$24,189	Illinois	$23,277
Florida	0.67	West Virginia	0.68	Georgia	$23,383	Nevada	$23,144
New Jersey	0.68	Oklahoma	0.69	New Hampshire	$23,261	Delaware	$23,069
New Hampshire	0.68	Nebraska	0.69	Illinois	$23,220	Maryland	$22,599
Louisiana	0.68	Mississippi	0.69	Florida	$22,801	Washington, DC	$22,455
Alabama	0.69	Massachusetts	0.70	Texas	$22,562	Georgia	$21,419

Black/white		Hispanic/white		White-Black		White-Hispanic	
Pennsylvania	0.69	Delaware	0.70	Pennsylvania	$22,289	North Carolina	$20,661
Georgia	0.69	North Carolina	0.70	South Carolina	$22,256	Alaska	$20,577
North Carolina	0.70	Illinois	0.70	Louisiana	$21,605	Arkansas	$20,492
Illinois	0.71	Utah	0.71	Mississippi	$21,337	Florida	$20,152
Wisconsin	0.71	Florida	0.71	North Carolina	$20,916	Nebraska	$19,783
Nevada	0.71	Georgia	0.72	Alabama	$20,721	Oklahoma	$19,556
California	0.71	Idaho	0.72	Nevada	$20,360	Colorado	$19,330
Texas	0.72	South Dakota	0.72	Maryland	$20,167	Virginia	$19,039
Kentucky	0.72	Alaska	0.72	Virginia	$20,023	Mississippi	$19,016
Arkansas	0.72	Colorado	0.73	Wisconsin	$19,098	Utah	$18,682
Tennessee	0.72	Maryland	0.74	Tennessee	$18,979	West Virginia	$18,332
Oklahoma	0.73	Arizona	0.75	Colorado	$18,361	South Dakota	$17,361
Kansas	0.74	Tennessee	0.76	Minnesota	$18,194	Arizona	$17,188
West Virginia	0.74	Wyoming	0.77	Kentucky	$18,136	Idaho	$16,919
South Dakota	0.75	Virginia	0.77	Kansas	$17,335	Tennessee	$16,284
Indiana	0.75	South Carolina	0.77	Arkansas	$17,221	Washington	$16,054
Colorado	0.75	Kentucky	0.77	Oklahoma	$16,937	Minnesota	$15,255
Missouri	0.75	Kansas	0.77	Missouri	$16,416	South Carolina	$15,072
Minnesota	0.75	Maine	0.78	Indiana	$15,979	Kansas	$14,986
Virginia	0.76	Ohio	0.78	South Dakota	$15,805	Ohio	$14,896
North Dakota	0.76	Oregon	0.78	West Virginia	$15,077	Kentucky	$14,694
Maryland	0.77	Washington	0.79	Ohio	$14,925	Wyoming	$14,175
Maine	0.78	Minnesota	0.79	Michigan	$14,920	Pennsylvania	$14,088
Michigan	0.78	Washington, DC	0.79	North Dakota	$14,766	Oregon	$13,891
Ohio	0.78	Indiana	0.80	Hawaii	$14,442	Indiana	$12,875
Nebraska	0.80	Iowa	0.80	Maine	$13,115	Hawaii	$12,805
Wyoming	0.80	Pennsylvania	0.80	Nebraska	$12,822	Maine	$12,801
Hawaii	0.80	Montana	0.81	Wyoming	$12,242	Iowa	$12,620
Arizona	0.83	Hawaii	0.82	Washington	$12,144	Montana	$11,001
Oregon	0.84	Vermont	0.82	Arizona	$11,759	Vermont	$10,699
Washington	0.84	Wisconsin	0.84	Delaware	$10,999	Wisconsin	$10,529
Delaware	0.86	Michigan	0.85	Oregon	$10,396	Michigan	$10,146
Alaska	0.90	New Mexico	0.85	Alaska	$7,589	Louisiana	$9,895
Iowa	0.90	Louisiana	0.85	Iowa	$6,522	New Mexico	$9,262
New Mexico	0.90	Alabama	0.87	New Mexico	$5,990	Alabama	$8,492
Idaho	0.95	Missouri	0.88	Idaho	$3,103	Missouri	$8,140
Utah	1.07	New Hampshire	0.94	Utah	-$4,226	New Hampshire	$4,497

Source: American Community Survey.

How Successfully Do Borrowers Repay Their Student Loans?

Repayment and default rates differ by credentials completed, types of institutions attended, and demographic groups.

Two measures of successful loan repayment are default rates and repayment rates. The federal government reports the share of borrows entering repayment in a given year who default on their loans within three years. The default rate among those entering repayment in 2015–16 was 10.1 percent, ranging from 6.3 percent for borrowers from private nonprofit four-year colleges and 6.8 percent for those from public four-year institutions to 15.2 percent for those from for-profit institutions and 15.9 percent for those from public two-year colleges.[11]

Default rates differ quite a bit by state, ranging from 5.8 percent for those who borrowed in Massachusetts and 6.1 percent in Vermont to 14.9 percent in Mississippi and 18.1 percent in Nevada (table 11).

TABLE 11

Fiscal Year Official Cohort Default Rates, by State or Territory

	Borrower default rate		Borrower default rate
Alabama	13.3%	Montana	9.5%
Alaska	11.1%	Nebraska	7.3%
Arizona	11.4%	Nevada	18.1%
Arkansas	10.4%	New Hampshire	10.2%
California	8.7%	New Jersey	9.2%
Colorado	10.8%	New Mexico	14.7%
Connecticut	11.0%	New York	8.6%
Delaware	8.8%	North Carolina	10.5%
DC	8.2%	North Dakota	6.2%
Florida	7.3%	Ohio	11.1%
Georgia	10.8%	Oklahoma	12.8%
Guam	13.1%	Oregon	11.4%
Hawaii	9.3%	Pennsylvania	9.2%
Idaho	8.6%	Puerto Rico	6.6%
Illinois	9.5%	Rhode Island	6.2%
Indiana	14.2%	South Carolina	11.5%
Iowa	10.2%	South Dakota	10.6%
Kansas	11.6%	Tennessee	11.5%
Kentucky	12.3%	Texas	10.4%
Louisiana	13.4%	Utah	7.5%
Maine	9.8%	Vermont	6.1%
Maryland	9.3%	Virgin Islands	9.1%
Massachusetts	5.8%	Virginia	9.8%
Michigan	11.5%	Washington	9.0%
Minnesota	8.2%	West Virginia	14.6%
Mississippi	14.9%	Wisconsin	9.0%
Missouri	9.9%	Wyoming	10.0%

Source: US Department of Education.
Note: Calculated August 4, 2019.

Borrowers who leave school without completing their programs and those who earn short-term certificates have particularly high default rates. Within each category of educational attainment, Black borrowers have higher default rates than others.

Almost half the students who started school in 2003–04 earned a certificate or left without a credential defaulted on a student loan within 12 years of enrolling in college. In contrast, 8 percent of those who earned bachelor's degrees (and 21 percent of those whose highest degree was an associate degree) defaulted within 12 years. (Those who stayed in school to earn more advanced degrees had less time to default on their loans within 12 years after enrolling.)

About one-fifth of borrowers had paid off all their loans without a default within 12 years of starting college. About one quarter of those who borrowed and earned bachelor's degrees and 15 percent of those who left school with debt but no degree had completely repaid their loans.

Within each level of educational attainment, repayment patterns vary considerably by race or ethnicity. Default rates are highest for black borrowers. For example, 23 percent of Black bachelor's degree recipients defaulted, compared with 12 percent of Hispanic students and 8 percent overall. Sixty-four percent of Black borrowers who left school without a credential defaulted, compared with 46 percent of Hispanic students in the same situation and 45 percent overall.

Among bachelor's degree recipients with student debt, 37 percent of Asian graduates, 30 percent of white graduates, 18 percent of Hispanic graduates, and 5 percent of Black graduates had paid off their loans after 12 years (table 12).

TABLE 12

Default Rates by Race or Ethnicity and Degree Attainment among Students First Enrolling in 2003–04

	Ever defaulted	Paid off all loans without default
All	**28%**	**19%**
White	20%	24%
Black	49%	3%
Hispanic	35%	16%
Asian	11%	33%
American Indian/Alaska Native	39%	8%
Native Hawaiian/Pacific Islander	16%	14%
Other	24%	14%
More than one race	40%	14%
Bachelor's degree	**8%**	**26%**
White	6%	30%
Black	23%	5%
Hispanic	12%	18%
Asian	3%	37%
Associate degree	**21%**	**17%**
White	17%	21%
Black	32%	N/A
Hispanic	20%	11%
Asian	30%	38%
Certificate	**46%**	**22%**
White	40%	26%
Black	54%	7%
Hispanic	51%	27%
Asian	N/A	N/A
Not enrolled, no degree	**45%**	**15%**
White	37%	21%
Black	64%	3%
Hispanic	46%	11%
Asian	30%	31%

Source: Beginning Postsecondary Students Longitudinal Study, 2004/00.

Advising Students

Older students beginning college or returning to college after a break face questions about what type of college to choose and what program of study to pursue. Some will return to complete programs they began earlier; others will begin on a new path. Many students need help articulating their goals: Do they want a short program preparing them for a specific occupation, or do they want a four-year liberal arts program? How important is geographic location? Few students who begin college in their midtwenties or later go on to earn bachelor's degrees. But this is a reasonable goal for some. Regardless of their choices, most students must determine how they will pay for a college education. For many, borrowing is likely to be part of the picture.

The following ideas should help develop a productive approach to providing useful advice for students as they face decisions that can significantly affect their lives for years to come.

Choosing a College

- There are significant differences among colleges offering programs that sound similar. For example, students can pursue associate degrees in business at either a community college or a for-profit institution. They can earn a bachelor's degree in English or engineering at a regional public university, a flagship public university, or a private nonprofit college or university. Counselors should help students articulate their goals and give them clear information about the various paths toward those goals.
- It is not enough to look at the tuition and fees a college posts on its website. Some of the colleges with the highest published prices have the most generous grant aid, lowering the net prices students actually pay. The Department of Education's College Navigator website has useful information about the net prices paid by students at different income levels at each institution. Each college's website has a net price calculator that students should be able to access on their own.
- Information about average net prices does not tell students how much they will actually pay. They should not reject schools because of high prices but should apply and see how much aid the school offers.
- It is important to think hard about choosing a school that asks you to pay a higher price because it is likely to mean borrowing more. But the cheapest school may not be the best choice. It is helpful to look at the school's graduation rate and the amount of time it takes most students to complete degrees. A low graduation rate is a red flag about the chances of succeeding. And paying for five years at a low-price college may be more expensive than paying for four years at a higher-price school, even before considering the lost wages from spending extra time in college.
- For many students, one consideration is the best living arrangments. Price is an important element of this decision, but so is the extent to which students can develop meaningful engagement with the college community and can be in an environment conducive to serious study.

- Most importantly, students should choose colleges and programs that fit their interests, preferences, and level of academic preparation. College should be a satisfying experience that both challenges students and helps them fulfill their aspirations.

Borrowing for College

- Each year students are in college, they must pay tuition, buy books and supplies, and cover living expenses, including housing, food, and transportation. All these items add up to the total student budget, or the "cost of attendance." For many students, the amount of assistance they can get from their families and the grant aid they receive from the federal government, the state government, their employer, and their college or university does not add up to this total budget. The main options are working more hours for pay or borrowing.
- Students should understand the pros and cons of both working and borrowing. Working too many hours can interfere with academic success. It takes time to study—it is not enough just to go to class. And taking fewer courses will extend the amount of time it takes to earn a degree. Borrowing can relieve some of the pressure. Struggling with food and housing because of a shortage of funds also makes it hard to succeed in school.
- Borrowing for college is an investment in the future. It is worth helping students understand the difference between this type of borrowing and borrowing to go on a vacation or piling up credit card debt that accumulates exorbitant interest charges.
- Students should understand the difference between federal loans (that come with regulated interest rates and repayment protections, including income-driven repayment) and other student loans. Private loans are riskier and are appropriate only in special circumstances.
- It is not easy to provide a precise answer about how much a student should borrow. The federal government allows independent students—including all undergraduates ages 24 and older—to borrow $4,000 to $5,000 more each year than dependent students, for a total of $57,500 instead of $31,000. It may be tempting to borrow whatever funds are offered and use some of the money to help family members or pay expenses not related to college. A reasonable rule of thumb is to consider anticipated annual earnings over the first few years after college and keep total debt to about that level.
- Part-time students who are enrolled at least half time are allowed to borrow as much as full-time students, but most students should limit their borrowing each year in proportion to the number of courses they are taking. Otherwise, they will accrue debt that is disproportionate to

the amount of education they have completed and may exhaust their eligibility for federal loans before they are able to graduate.

- In general, students should borrow only as much as they need to cover their own expenses. Student loans are not designed to support parents and siblings, and students should be cautious about using them this way, which may generate problems when repayment begins.
- Counselors should help students think about how much they are likely to earn after they graduate from college. This means considering career aspirations, field of study, geographic and demographic realities, and the likelihood that the students will earn their degrees.
- Students should know that the federal government will protect them from unmanageable debt payments through income-driven repayment—but that failing to repay federal loans has serious implications, including loss of access to credit, wage garnishment, and even difficulty getting a job or renting an apartment.
- It is important to guide students to borrow responsibly, not accepting loans only because they are available. But it is equally important to help students see the wisdom of moderate borrowing that can help them succeed in college.

Notes

1 For an excellent summary of the "crisis," see Looney and Yannelis (2015).

2 Benjamin Marx and Lesley Turner, "The Benefits of Borrowing: Evidence on Student Loan Debt and Community College Attainment," *Education Next*, Winter 2019, 71.

3 US Census Bureau, 2019 Current Population Survey, table PINC-03.

4 Ana Kent, Lowell Ricketts, and Ray Boshara, "What Wealth Inequality in America Looks Like: Key Facts and Figures," *Open Vault Blog* (blog), Federal Reserve Bank of St. Louis, August 14, 2019, https://www.stlouisfed.org/open-vault/2019/august/wealth-inequality-in-america-facts-figures.

5 Alabama, Alaska, Georgia, Louisiana, Montana, North Carolina, Tennessee, and Utah are the eight states. See TICAS (2016).

6 Marx and Turner, "The Benefits of Borrowing."

7 2016 National Postsecondary Student Aid Study, PowerStats.

8 Sandy Baum and Michael McPherson, "Free College Does Not Eliminate Student Debt," *Urban Wire* (blog), Urban Institute, August 22, 2019, https://www.urban.org/urban-wire/free-college-does-not-eliminate-student-debt.

9 See also "Five Rules of the College and Career Game: College Major Earnings Tool," Georgetown University, Center on Education and the Workforce, accessed January 27, 2020, https://cew.georgetown.edu/cew-reports/5rules/#interactive.

10 See https://collegescorecard.ed.gov/.

11 "Comparison of FY 2016 Official National Cohort Default Rates to Prior Two Official Cohort Default Rates," US Department of Education, last updated August 4, 2019, https://www2.ed.gov/offices/OSFAP/defaultmanagement/schooltyperates.pdf.

References

Baum, Sandy, Jennifer Ma, Matea Pender, and Meredith Welch. 2016. *Trends in Student Aid 2016*. New York: College Board.

Looney, Adam, and Constantine Yannelis. 2015. *A Crisis in Student Loans? How Changes in the Characteristics of Borrowers and the Institutions They Attended Contributed to Rising Loan Defaults*. Washington, DC: Brookings Institution.

TICAS (The Institute for College Access and Success). 2016. "States of Denial: Where Community College Students Lack Access to Federal Student Loans." Oakland, CA: TICAS.

Acknowledgments

This research was funded by the Annie E. Casey Foundation. We are grateful to them and to all our funders, who make it possible for Urban to advance its mission.

We thank the Casey Foundation for their support but acknowledge that the findings and conclusions presented in this appendix are those of the authors alone and do not necessarily reflect the opinions of the Foundation.

The views expressed are those of the authors and should not be attributed to the Urban Institute, its trustees, or its funders. Funders do not determine research findings or the insights and recommendations of Urban experts. Further information on the Urban Institute's funding principles is available at urban.org/fundingprinciples.

For more information on this project, see https://www.urban.org/policy-centers/center-education-data-and-policy/projects/racial-and-ethnic-differences-student-loan-borrowing.

500 L'Enfant Plaza SW
Washington, DC 20024

www.urban.org

ABOUT THE URBAN INSTITUTE

The nonprofit Urban Institute is a leading research organization dedicated to developing evidence-based insights that improve people's lives and strengthen communities. For 50 years, Urban has been the trusted source for rigorous analysis of complex social and economic issues; strategic advice to policymakers, philanthropists, and practitioners; and new, promising ideas that expand opportunities for all. Our work inspires effective decisions that advance fairness and enhance the well-being of people and places.

Copyright © March 2020. Urban Institute. Permission is granted for reproduction of this file, with attribution to the Urban Institute.