NEW AMERICA EDUCATION POLICY

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2015 COLLEGE DECISIONS SURVEY: PART IV

UNDERSTANDING STUDENT LOAN DEBT

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BACKGROUND

What do today's college students think about borrowing student loans? This brief examines students' perceptions of using loans to finance a college education, how much debt they think they will borrow, and how they plan to repay that debt. Using survey data, we will analyze students' responses to questions about student loan debt and compare these responses to broader national trends.

This is the fourth brief in New America's **College Decisions Survey**. In the fall of 2014, New America's Education Policy Program commissioned a survey that aims to refocus national attention on all students, regardless of whether they enroll right after high school or wait until their mid-thirties to attend for the first time. Over the next several months, we will publish a series of briefs that analyze the survey data, highlight specific findings, and address what students know about the college-going and financing process and how they decide where to go to college. These briefs will be released during the spring and summer of 2015 and will cover important topics including:

- Financial concerns during the postsecondary decision-making process
- The application process for different types of students
- Students' familiarity with financial aid
- Students' ability to estimate their loan debt and monthly payments
- The college search process and helpfulness of various common resources

The survey data are designed to help researchers and policymakers better understand the concerns of today's students, and the factors they consider when choosing college. Additionally, this research will help policymakers and college-access advocates tailor their resources to have greater impact.

METHODOLOGY

New America commissioned Harris Poll to create and administer the survey. A national online survey was conducted between October 7th and November 3rd, 2014. The sample included 1,011 completed interviews and consisted of U.S. residents ages 16 to 40 who do not have college degrees and plan on enrolling in a two-year or four-year college within the next 12 months. The survey also included individuals who were in the first semester of their first year at a two-year or four-year college (n=264 for recently-enrolled students; n=747 for prospective students). We did this in part to ensure we had a large enough sample size to understand college-going behavior. Recently-enrolled students are not far removed from the college search process, and thus are able to reflect on the process. In our briefs, unless explicitly noted, both the prospective and recently-enrolled students are combined, and we refer to this group as "students."

Data were weighted to ensure that it is balanced and accurately represents the population of interest for the study. Harris Poll's weighting algorithm included a propensity score which allows Harris Poll to ensure that the results obtained online are projectable to the entire population of interest. A more detailed description of the weighting, methodology, and instrument for this survey can be accessed at **www.edcentral.org/collegedecisions**.

Notes about figures/tables: Percentages may not always add up to 100 percent because of computer rounding or the acceptance of multiple answers from respondents answering that question. Data were tested at the 95 percent confidence level. Superscript letters indicate statistically significant differences between the subgroups being analyzed.

New America also conducted one follow-up focus group to ask prospective students about how they decide where to go to college and how to finance their postsecondary education. This focus group was conducted by FDR Group in Baltimore, Maryland on February 12, 2015. The focus group included nine individuals, ages 18 to 36, of various ethnicities and household incomes. Since the focus group participants were not randomly selected, their experiences and comments are not generalizable to the population of interest featured in the study. Quotes from these focus groups are used for the sole purpose of introducing student voice into the briefs. The screener and transcript can be accessed at **www.edcentral.org/collegedecisions**.

UNDERSTANDING STUDENT LOAN DEBT

Graduating from college laden with debt has become a reality for the majority of American college students. The Institute for College Access and Success reports that 69 percent of graduates in the class of 2013 who attended public and private nonprofit four-year institutions held student debt upon graduation, owing an average of $28,400.[1] Those data do not account for student debt at private for-profit college or two-year institutions nor do they account for the thousands of students who rack up debt and drop out without earning a credential.

In this brief, we will discuss prospective and recently-enrolled college students' perspectives on taking out and repaying student loans. We will compare their estimates of the amount they plan to borrow, their estimated monthly payments, and repayment strategies to current national trends.

Borrowing "Reasonably" Not a Reality for Most

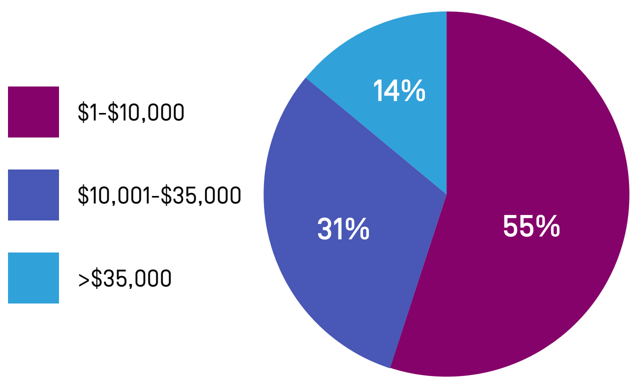
With most American students taking out loans and prospective students sizing up the price of various colleges, we sought to better understand what amount students think is reasonable to borrow for their education. Though most students (87 percent) did think that some debt was reasonable for higher education and 60 percent planned to borrow, students varied widely in their idea of how much they should borrow for their undergraduate degree. Of those who thought borrowing for an undergraduate education was a reasonable expectation, 55 percent said the total amount borrowed should be $10,000 or less, and another 31 percent indicated borrowing should be kept to between $10,001 and $35,000 (See Figure 1). The median amount students deemed reasonable was $10,000 over four years of college.

However, when students intending to borrow were asked how much debt they actually expected to borrow, the median amount jumped to $15,000 over four years. Some outlying students estimated they would borrow much more, pulling the average expected loan debt much higher to $25,295.

It's important to note that this average expected debt has implications in terms of interest accrual. Undergraduate students with financial need may qualify for federally subsidized loans, meaning that they would not pay any interest on those loans as long as they are enrolled at least half-time in a degree program.[2] The federal limit for these loans is $23,000 total, and only those students with enough financial need would qualify to take out the maximum amount of subsidized loans. If these students borrow what they expect, they would have a minimum of $2,295 in unsubsidized federal loans that accrue interest regardless of whether they are in school or in their six-month grace period before repayment.

Figure 1

Of Those Who Thought Borrowing Was an Expectation, Amount Seen as Reasonable



BASE: All Qualified Respondents (n=1011)
Q955 What do you feel is a reasonable amount of loan debt for an undergraduate student over a four-year period? Your best estimate is fine.

For the youngest students, those ages 16 to 19, the gap between reasonable debt and what they expect to borrow is considerably higher than for their older peers. On average, they believe that approximately $19,500 is a reasonable amount to borrow for four years of college. And yet, those who plan to borrow expect to go almost $33,000 in debt for their degree. In comparison, 20 to 40 year olds who believe on average that borrowing $15,000 to $18,000 is reasonable expect to take out $17,000 to $23,000 on average (See Table 1). This difference between age groups may partly be due to younger students applying to four-year schools and attending expensive residential campuses. Older students are more likely to be working and could be exploring community colleges or shorter-term credentials that cost less.

In terms of differences among white, African American, and Hispanic students, white students believe that a higher amount of debt is reasonable for an undergraduate degree ($19,862 on average) than African American ($12,459) and Hispanic students ($16,845). White students who plan to borrow also expect to take on more debt ($27,450 on average) than African Americans ($16,902) or Hispanics ($23,934). (See Table 2.)

Table 1

Mean "Reasonable" and Expected Debt, by Age

Age	A. 16-19	B. 20-23	C. 24-29	D. 30-40
Base	256	250	252	253
Mean Reasonable Debt	$19,457	$15,124	$15,137	$17,809
Mean Expected Debt of Borrowers	$32,976[BC]	$17,059	$17,725	$23,241

BASE: All Qualified Respondents (n=1011)
Q940 How much undergraduate student loan debt do you think you will/might have when you graduate? Your best estimate is fine.
Q955 What do you feel is a reasonable amount of loan debt for an undergraduate student over a four-year period? Your best estimate is fine.
Data were tested at the 95% confidence level. Capital superscript letters (A, B, C, etc.) indicate statistically significant differences between the subgroups being analyzed.

Table 2

Mean "Reasonable" and Expected Debt, by Race

	A. White	B. African American	C. Hispanic
Base	594	168	164
Mean Reasonable Debt	$19,862[B]	$12,459	$16,845
Mean Expected Debt of Borrowers	$27,450[B]	$16,902	$23,934

BASE: All Qualified Respondents (n=1011)
Q940 How much undergraduate student loan debt do you think you will/might have when you graduate? Your best estimate is fine.
Q955 What do you feel is a reasonable amount of loan debt for an undergraduate student over a four-year period? Your best estimate is fine.
Data were tested at the 95% confidence level. Capital superscript letters (A, B, C, etc.) indicate statistically significant differences between the subgroups being analyzed.

Table 3

Mean “Reasonable” and Expected Debt, by Gender

	Male	Female
Base	292	719
Mean Reasonable Debt	$17,410	$17,893
Mean Expected Debt of Borrowers	$29,240	$21,879

BASE: All Qualified Respondents (n=1011)
Q940 How much undergraduate student loan debt do you think you will/might have when you graduate? Your best estimate is fine.
Q955 What do you feel is a reasonable amount of loan debt for an undergraduate student over a four-year period? Your best estimate is fine.

Some differences between male and female students surfaced as well. Male students who expect to borrow anticipate taking out nearly 70 percent more than the average they feel is a reasonable amount of debt ($17,410 reasonable debt compared to $29,240 expected debt). In contrast, female respondents expected to borrow less than their male counterparts ($21,879 on average). But like their male peers, there is a disconnect between what they feel is a reasonable amount of debt ($17,893 on average) and what they expect to borrow. (See Table 3.)

Managing Loans and Envisioning Repayment

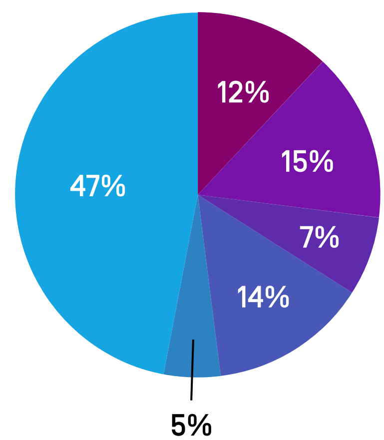
Even with several years before repayment begins, more than half of students who plan to borrow for their higher education (55 percent) voiced concern that they would have difficulty repaying their student loans.

That finding is perhaps less surprising when we look at how much students think their monthly payments will be under the standard repayment plan. Of those who anticipate borrowing, the median expected payment is $250 with 47 percent estimating that their monthly payment will be $250 or higher. However the median monthly payment for those with student debt is actually only $160, according to an analysis of student loan debt by the Brookings Institution.[3] In fact, according to the same data, the current mean loan payment is $242 per month, less than half borrowers’ mean monthly expenditure on food ($588) and approximately one sixth of their monthly housing costs ($1,407). Yet, the prospective and recently-enrolled students in our survey

Figure 2

Estimated Monthly Student Loan Payment, Among Those Who Have Debt

$0-$50
$51-$100
$101-$150
$151-$200
$201-$250
$250+



Mean: $545
Median: $250

BASE: Will Have Debt (n=607)
Q957 How much do you estimate your standard monthly student loan payment will be? Your best estimate is fine.

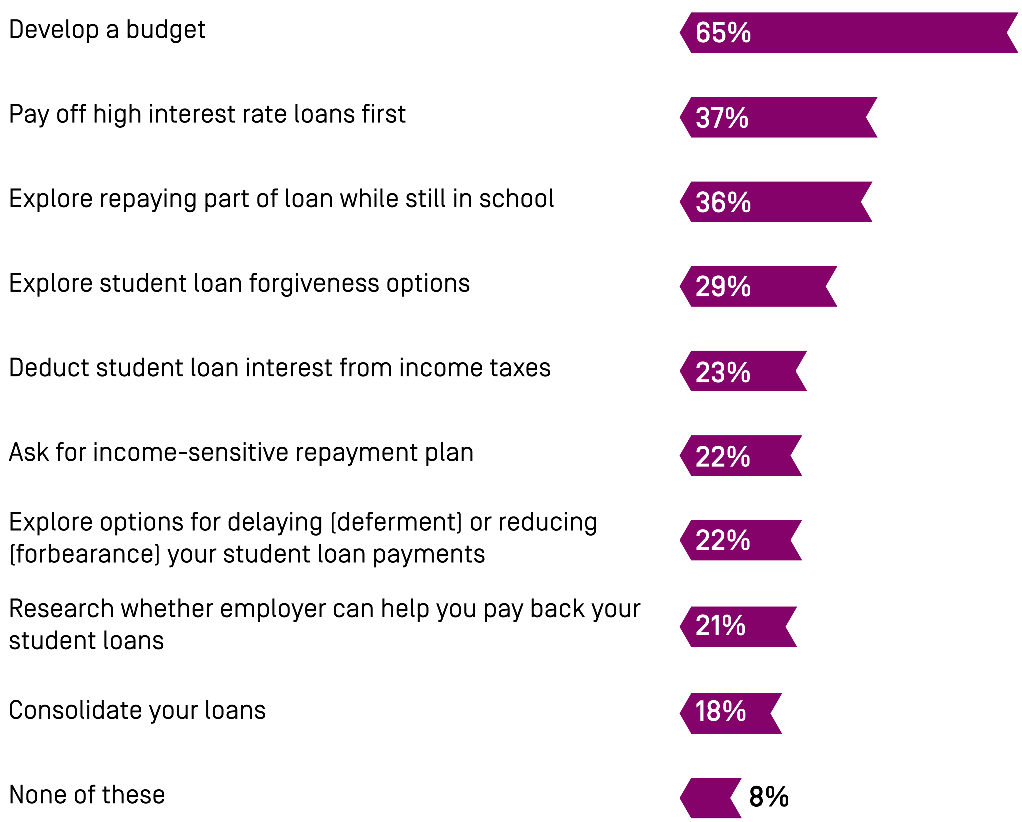
estimated their mean expected monthly payment would be $545 per month, more than twice the national average. (See Figure 2.)

Students in our sample vastly overestimated their monthly payment in terms of how much they expect to borrow. Using the repayment estimator that the U.S. Department of Education's Federal Student Aid office provides, we found that the monthly payment for the mean estimated debt of our prospective and recently-enrolled students ($25,295) at current interest rates would be $260 on the ten year standard repayment plan.[4] Students are likely so far off because they lack information on the front-end for figuring out their monthly payment. As the debt accumulates year after year, students have a hard time understanding the total amount of debt accumulated, let alone what their monthly payment will look like.[5]

In the survey, students indicated many ways that they plan to manage their loans. When asked about how they plan on dealing with their student loan debt, 65 percent of student said they plan on making a budget, the most popular answer. Though fewer students indicated they would explore income-sensitive repayment options like Income-Based Repayment or Pay as You Earn (22 percent), that is still higher than the current number of borrowers using these plans at 17 percent.[6] (See Figure 3.)

Figure 3

Options Considered for Repaying Student Loans, Among Those Who Have Debt



BASE: Will Have Debt (n=607)
Q950 In order to pay back your student loans, which of the following have you done/are you considering doing? Please select all that apply.

DISCUSSION

Framing College Price and Student Debt

During our focus group with students, they reported that they thought about the price of college more in terms of a per year expense than the total price for a degree. Yet, the general framing of student loan debt by the media tends to look at total aggregate debt as opposed to year-over-year debt accumulation. In order for students to estimate and plan for reasonable borrowing, information about loans and repayment, as well as college price, should be presented clearly in a way that is aligned with per year debt and year-over-year debt accumulation.

One way of aligning information would be to give students early access to the price they will pay for a full degree. Right now, students fill out the Free Application for Federal Student Aid (FAFSA) each year using their prior year tax data to see what their financial aid package will be. This means that their Expected Family Contribution (EFC), aid awards, and consequently their net price change yearly. A system that used an average of several years of income to produce an aid package valid over the course of a degree would make it possible for students to interpret their aid amount in cumulative terms. If aid packages were locked in for an entire degree program, institutions could also set, or at minimum estimate, students' price for their entire degree. There is already positive momentum around using two year old tax information, known as prior-prior-year data, to complete the FAFSA, so students can apply for financial aid sooner. This is just one step on the long road to locking in multi-year prices and financial aid packages.

In addition, colleges should follow the example of Indiana University, which sends student borrowers a letter each year detailing how much debt they have already accrued.[7] This gives students several opportunities to see, not just the amount of their new loan each year, but their total loan balance as they progress to graduation. If colleges communicated price and loan totals in this way, students could keep up with what they have paid for college, how much financial aid they have received, and how much debt they have.

Student Loan Counseling

Currently, new borrowers are required to go through federal loan entrance counseling, which includes information on borrowers' rights and responsibilities, other potential financial resources to pay for college, and what it means to take out a direct loan.[8] But students are often given relatively little front-end information on how loan repayment works and what they can expect when the time comes to enter repayment. Entrance counseling for federal loans could be enhanced by providing information to students each time they take out new loans detailing their cumulative loan balance, interest rates, and estimates of time to repayment, much like the letters Indiana University sends to its student borrowers.

Additionally the Department of Education's student loan website now offers a Financial Awareness Counseling Tool in which borrowers and prospective borrowers can create a budget, explore repayment options, estimate monthly payments, and learn about financial planning above and beyond loan management.[9] Though this awareness counseling is currently voluntary for borrowers, requiring them to participate in this type of exercise, or making it the new required entrance counseling moving forward, could offer the clarity borrowers need to deal with their loans during and after college, giving them ample time to prepare for repayment.

Simplifying Repayment Options

It's not surprising that students have a hard time envisioning how they will repay their loans, considering how little information they get about their options. But with such a complex repayment system in place, providing that information can be tricky. There are currently seven different federal repayment plans, each with different terms and conditions, as well as the option of obtaining a federal consolidation loan. Because each repayment plan involves different tradeoffs, students may have trouble deciding which will work best for them.

For example, Income-Based Repayment was designed to make loan repayment affordable, since payments are set at 10 to 15 percent of the borrower's discretionary income.[10] But when we explained Income-Based Repayment to students in our focus group, they expressed reservations about the plan, no matter how it was described. They didn't like the trade-off of repaying their loans for up to 20-25 years, even if they only had to pay a small percentage of their income each month. The students struggled to understand that they'd likely pay off their loans well before 20-25 years had passed:

> Female: "25 years, though?"
> Male: "That's a long time."
> Randall: "That's murder. Murder is like 25 to life."
> Ann (moderator): "So, you see it as a prison sentence?"
> Randall: "I'm just saying that's a long time."

We must simplify our federal loan repayment system so that there are only, at maximum, three options--the ten-year standard repayment, income-based repayment, and a consolidation option that will extend the payment horizon. Limiting the number of options available would make it easier to explain to students before enrolling what their choices will be after they leave school, whether they are looking for an affordable monthly payment or looking to pay the lowest amount in total.

CONCLUSION

When it comes to borrowing loans for college, students differ in how much they think is a reasonable amount of debt versus what they expect they'll borrow for their college education. It's clear that students who plan on borrowing estimate they will borrow more than they think is reasonable. This has wide implications for how we structure repayment to ensure students understand their accumulating student loan debt and their options for dealing with that debt.

The next and final brief in the College Decisions series will analyze how and where students get information about different colleges. It addresses whether students think that important information is easily accessible and helpful.

NOTES

[1] Matthew Reed and Debbie Cochrane, *Student Debt and the Class of 2013* (Washington, DC: The Institute of College Access and Success, 2014), **http://ticas.org/sites/default/files/legacy/fckfiles/pub/classof2013.pdf**.

[2] "Subsidized and Unsubsidized Loans," Federal Student Aid, U.S. Department of Education, accessed July 30, 2015, **https://studentaid.ed.gov/sa/types/loans/subsidized-unsubsidized**.

[3] The debt and repayment numbers used included both undergraduate and graduate debt. Beth Akers, "The Typical Household with Student Loan Debt," *The Brown Center Chalkboard* (blog), June 19, 2014, **http://www.brookings.edu/research/papers/2014/06/19-typical-student-loan-debt-akers**.

[4] We used Federal Student Aid's repayment estimator located here: **https://studentloans.gov/myDirectLoan/mobile/repayment/repaymentEstimator.action**. We input $25,295 in unsubsidized loans at an interest rate of 4.29 percent.

[5] Elizabeth Akers and Matthew Chingos, *Are College Students Borrowing Blindly?* (Washington, DC: Brown Center on Education Policy at Brookings, 2014), **http://www.brookings.edu/~/media/research/files/reports/2014/12/10-borrowing-blindly/are-college-students-borrowing-blindly_dec-2014.pdf**.

[6] New America analysis of U.S. Department of Education data. Data represents borrowers in the Direct Loan program only and includes enrollment in Income-Based Repayment, Income-Contingent Repayment, and Pay as You Earn as of Q2 2015.

[7] Libby Nelson, "Indiana University Used This One Weird Trick to Cut Student Debt," Vox, July 26, 2015, **http://www.vox.com/2015/7/26/9041283/indiana-university-debt-letters**.

[8] "Entrance Counseling," Federal Student Aid, U.S. Department of Education, accessed July 30, 2015, **https://studentaid.ed.gov/sa/fafsa/next-steps/entrance-counseling**.

[9] You can access the Financial Awareness Counseling here: **https://studentloans.gov/myDirectLoan/counselingInstructions.action**.

[10] Discretionary income is defined as the borrower's Adjusted Gross Income minus an allowance for the federal poverty level for their family size.

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