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Is there a student loan debt crisis at private colleges?



This article was co-authored by Jeff Summers, left, the Dave Hansen Endowed Chair in Economics, whose research interest is the economics of higher education, and Dan Preston '83, vice president for enrollment management, who oversees admission and financial aid operations at Linfield.

We've all seen media stories about an underemployed, recent college graduate who has \$100,000 of student loan debt. Almost without fail the young person's plight is offered as proof that there is a student loan "debt crisis."

Although some student borrowers do struggle with very high debt burdens, stories of this type are misleading in at least two ways. First, there are relatively few people in this situation. Data from The College Board, a nonprofit focused on expanding access to higher education, indicate that in 2012-13 only 5 percent of all student borrowers had debt loads of \$100,000 or more, and most of those borrowers were students pursuing professional degrees in medicine or law. Second, the stories create the false impression that the "debt crisis" is manifested equally at every school regardless of its type – whether it is a private, public or for-profit institution. In this article, we lay out some facts about student loan debt at private colleges like Linfield by considering three frequently asked questions.

Are students at private colleges more indebted today than they were 10 years ago?

Data from The College Board show that measured in constant dollars, total student loan borrowing rose nationally from \$76.8 billion per year in 2003-04 to a peak of \$122.1 billion in 2010-11. Since the peak, the annual loan volume dropped to a level of about \$106 billion in 2013-14. However, the higher rate of borrowing since 2003-04 has produced an increase in student indebtedness across every part of higher education – at private schools, public schools and for-profit schools alike.

Yet the increased borrowing by students at private schools has been relatively moderate. Data from The College Board show that measured in constant dollars, the amount of debt per graduate at private schools was \$26,400 in 2003-04, rising to \$31,200 by 2012-13 – an increase of less than 2 percent per year. Additionally, the share of graduates at private schools who borrowed remained essentially unchanged at about 65 percent.

At Linfield, debt per graduate stood at \$26,870 in 2003-04 and ended up at \$27,955 in 2012-13. Over the same period, the share of Linfield graduates who borrowed fluctuated between 65 and 75 percent.

Will students at private colleges be able to pay off their student loans?

Research from The Hamilton Project, a public policy research center, shows that the student loan repayment problem is usually a short-term cash-flow problem. It occurs because student loan payments take up a much larger share of early-career earnings than they do of mid-career earnings. Income-based repayment options, where required loan payments vary by income level, may be one way to help students bridge this cash-flow gap.

Even so, loan default data available from the U.S. Department of Education suggest that students from private colleges tend to pay off their loans at higher rates than do students from any other type of institution. For example, in 2010-11 the default rate among students from public schools was 12.9 percent. For students from

for-profit schools, the rate was 19.1 percent. But only 7.2 percent of students from private schools defaulted in 2010-11. And at Linfield, the default rate was an even lower 2.8 percent.

Is a private college education still a good investment?

A study by The Hamilton Project estimates that over a lifetime the average college graduate earns roughly \$450,000 more than does the average high school graduate. This \$450,000 difference is called the “college wage premium.” Its estimated value over time is shown by the red line in the accompanying figure. The figure’s blue line shows the estimated average cost of obtaining a college education over time. Note the red line lies above the blue line by about \$350,000 in recent years, indicating that the college wage premium is more than three times greater than the average cost of obtaining a college degree. This shows that an investment in a college education provides a sizeable, annual positive rate of return.

Payscale Human Capital is a compensation research firm. Its 2014 ROI Report presents estimated annual rates of return to degrees obtained from 487 private colleges. For these schools, the median annual rate of return is around 7 percent. By comparison,

For more information:

The College Board, “Trends in Student Aid” trends.collegeboard.org/student-aid

The Hamilton Project, “Major Decisions: Graduates’ Earnings Growth and Debt Repayment” www.hamiltonproject.org/papers/major_decisions_graduates_earnings_growth_debt_repayment/

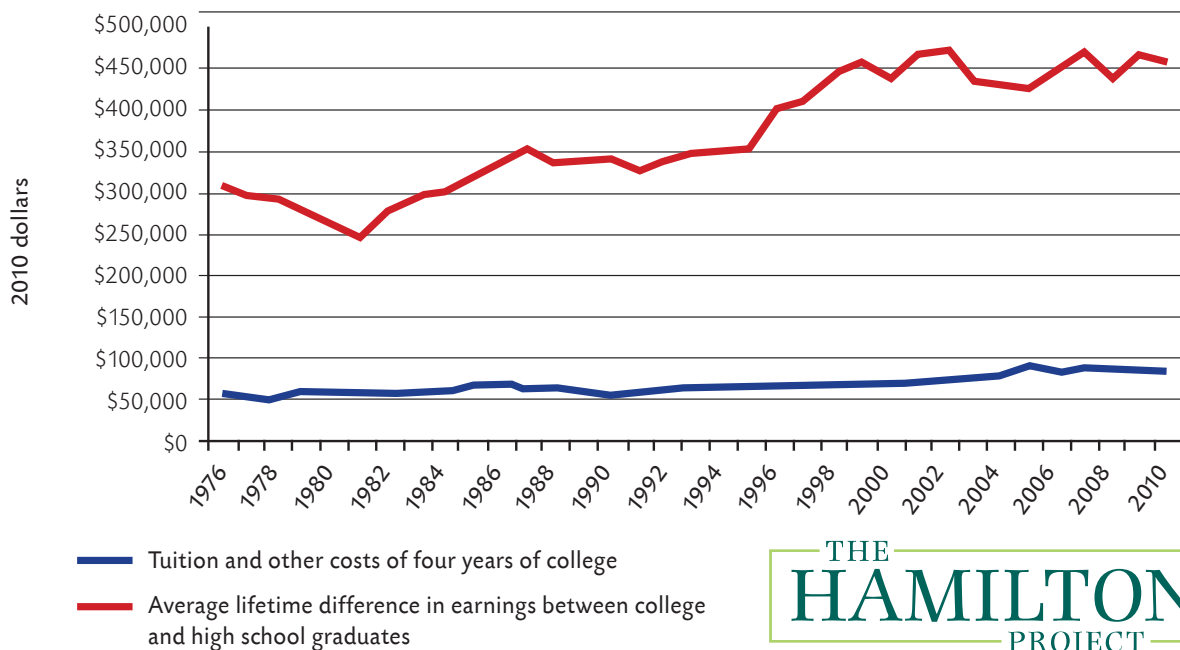
U.S. Department of Education www2.ed.gov/offices/OSFAP/defaultmanagement/cdr.html

The Hamilton Project, “Regardless of the Cost, College Still Matters” www.hamiltonproject.org/papers/regardless_of_the_cost_college_still_matters/

Payscale, “2014 ROI Report” www.payscale.com/college-roi/

Payscale reports that the investment in a Linfield College education provides an above-median, 7.5 percent annual rate of return. *That’s the Power of a Small College.*

Monetary Lifetime Costs and Benefits of Attending College



Note: Average lifetime differences in earnings are calculated by summing the difference in mean earnings for college-educated individuals and individuals with only a high school diploma at every age. Costs include tuition and fees for four years of college as well as students’ foregone income. All future costs and benefits are discounted 5 percent per year to age 18.

Sources: Tuition data are from NCES. Earnings data are from CPS for the non-institutionalized population and U.S. Census for the institutionalized population.



Graphic used with the permission of The Hamilton Project