

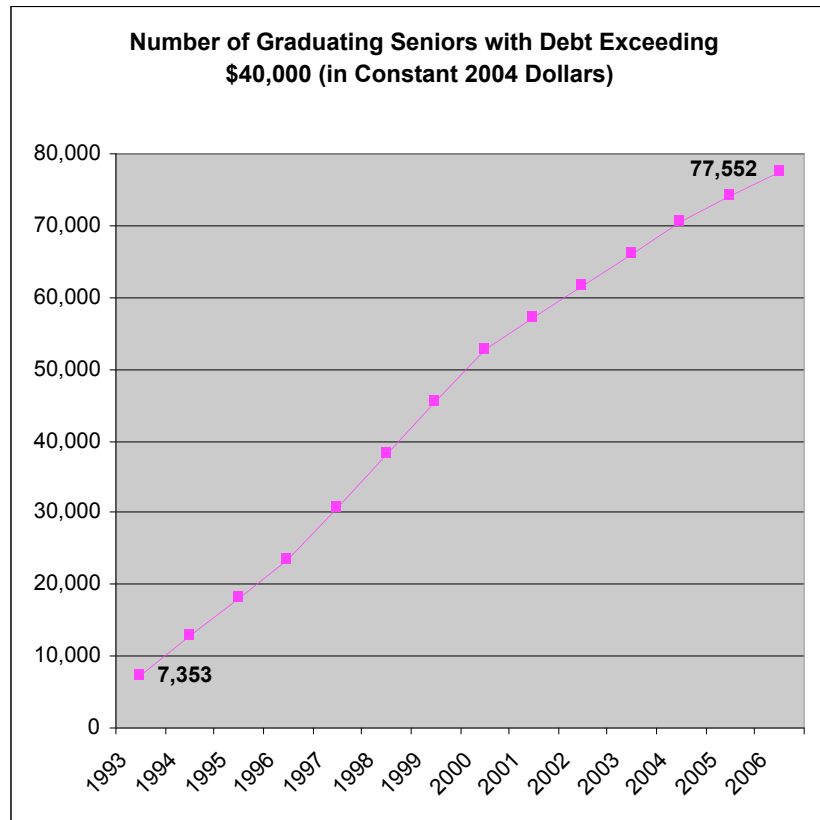
THE PROJECT ON STUDENT DEBT

HIGH HOPES, BIG DEBTS

Summary: The number of college graduates with high levels of student debt has skyrocketed since the early 1990s, even after accounting for inflation. In 1993, 1.3% of graduating seniors with student loans owed at least \$40,000 (in 2004 dollars). In 2004, 7.7% owed \$40,000 or more. That represents a 10-fold jump from approximately 7,000 to 77,550 new graduates with high debt. At double the national average, \$40,000 is more than most people can manage to repay in 10 years

The growth of student loans tends to be described in totals and averages, which tell an important story. By the time they graduate, nearly two-thirds of students at four-year colleges and universities now have student loan debt. In 1993, fewer than half of graduating seniors had loans. Among those with loans, average debt since 1993 has more than doubled from \$9,250 to \$19,200 (a 58% increase after accounting for inflation).¹

This is not, however, the whole story. Behind the averages is a changing mix of larger and smaller debts. *Are more people carrying unmanageably high student loan debt?* To answer this question, we analyzed federal data to find the proportion of student loan borrowers with debt of at least \$40,000 (in constant 2004 dollars). A useful cutoff, \$40,000 is more than double the *average* debt of graduating seniors with loans in 2004. It is also more than most full-time workers age 25-34 with a bachelor's degree can manageably repay in 10 years – the standard repayment period -- at the 6.8% interest rate taking effect on July 1, 2006.²



¹ Except where otherwise noted, all figures in this issue brief are calculations by the Project on Student Debt from the National Center for Education Statistics (NCES), National Postsecondary Student Aid Study (NPSAS), Data Analysis System (DAS). Adjustments for inflation are based on the Consumer Price Index.

² This assumes a maximum reasonable payment of about 13% of income (20% of income exceeding 150% of the poverty level for a single person). This is the benchmark developed by Sandy Baum and Saul Schwartz, *How Much Debt is Too Much: Defining Benchmarks for Manageable Student Debt*, The College Board, 2006. Income distribution data are drawn from the U.S. Census Bureau, Current Population Survey, 2005 Annual Social and Economic Supplement.

While most students today do not graduate with \$40,000 or more in loans, the proportion with such high debt has been growing steadily at both public and private colleges.

- In 1993, 1.3% of all graduating seniors with loans had borrowed at least \$40,000 (in 2004 dollars). By 2004, the proportion had risen to 7.7%.
- At private, non-profit colleges and universities, the proportion of high borrowers grew from 2.6% in 1993 to 11% in 2004.
- Public universities have gone from having almost no high borrowers in 1993 (0.3%) to having 5.4% in 2004.³

Given the number of graduating seniors, an estimated 7,000 of 1993's college graduates had student loan debt equal to or exceeding today's equivalent of \$40,000. *In 2004 there are more than 10 times as many: an estimated 77,552.*⁴

Another way to look at high debts for undergraduates is to break the data into percentiles and see how they change over time. Our analysis shows *that high-level borrowing has grown much faster than low-level borrowing*. Of seniors graduating with debt in 2004:⁵

- *The top 10% had debt of more than \$35,563*, an increase of \$12,041 compared to the top 10% of 1993 graduating borrowers.
- The top 25% had debt of more than \$25,000, an increase of \$9,316 compared to the top 25% of 1993 graduating borrowers.
- The median (half had more debt, half had less) was \$17,120, an increase of \$6,714 compared to the median for 1993 graduating borrowers.
- The bottom 25% had debt of less than \$10,000, an increase of \$4,772 compared to the bottom 25% of 1993 graduating borrowers.
- *The bottom 10% had debt of less than \$5,250*, an increase of \$2,626 compared to the bottom 10% of 1993 graduating borrowers.

The numbers above show that among graduating seniors with loans, those with the lowest debt levels owed just \$2,626 more in 2004 than in 1993, after accounting for inflation. However the amount owed rose more than \$12,000 for those with the highest debt levels.

The conclusion: Compared to a decade ago, more people are borrowing large amounts to pay for college than they ever have before, even after accounting for inflation. Students with the most debt today have much heavier burdens than the biggest borrowers of 10 years ago.

³ For-profit colleges show even larger percentages of high-debt borrowers than other types of institutions, but the sample sizes in NPSAS are small and therefore the differences are not statistically significant.

⁴ Data on the number of graduating seniors is from the Digest of Education Statistics, U.S. Department of Education, National Center for Educational Statistics.

http://nces.ed.gov/programs/digest/d04/tables/dt04_247.asp

⁵ All numbers are inflation-adjusted.