99-0422

Undergraduate Borrowing

1. Historical Trends
2. How Many Students Borrow?

Minnesota Higher Education Services Office

January 6, 1999

Introduction

Students and their families pay for post-secondary education using savings, earnings, or loans. Since National Defense Student Loans became available in 1958, students have used loans to pay part of the price of post-secondary education. Borrowing has increased over time, and there is concern that debt repayment will cause problems for borrowers once they leave school. The potential problems include concern that borrowers will have a hard time repaying their student loans, that their debt will adversely affect their employment and career plans, and that debt will hamper their ability to pursue further education.

This paper will provide background information and trends in undergraduate borrowing and will answer the question, how many students borrow? Future papers in this series will examine the questions:

- How much do undergraduates borrow?
- What is the impact of borrowing on the borrowers?

Sources of Information

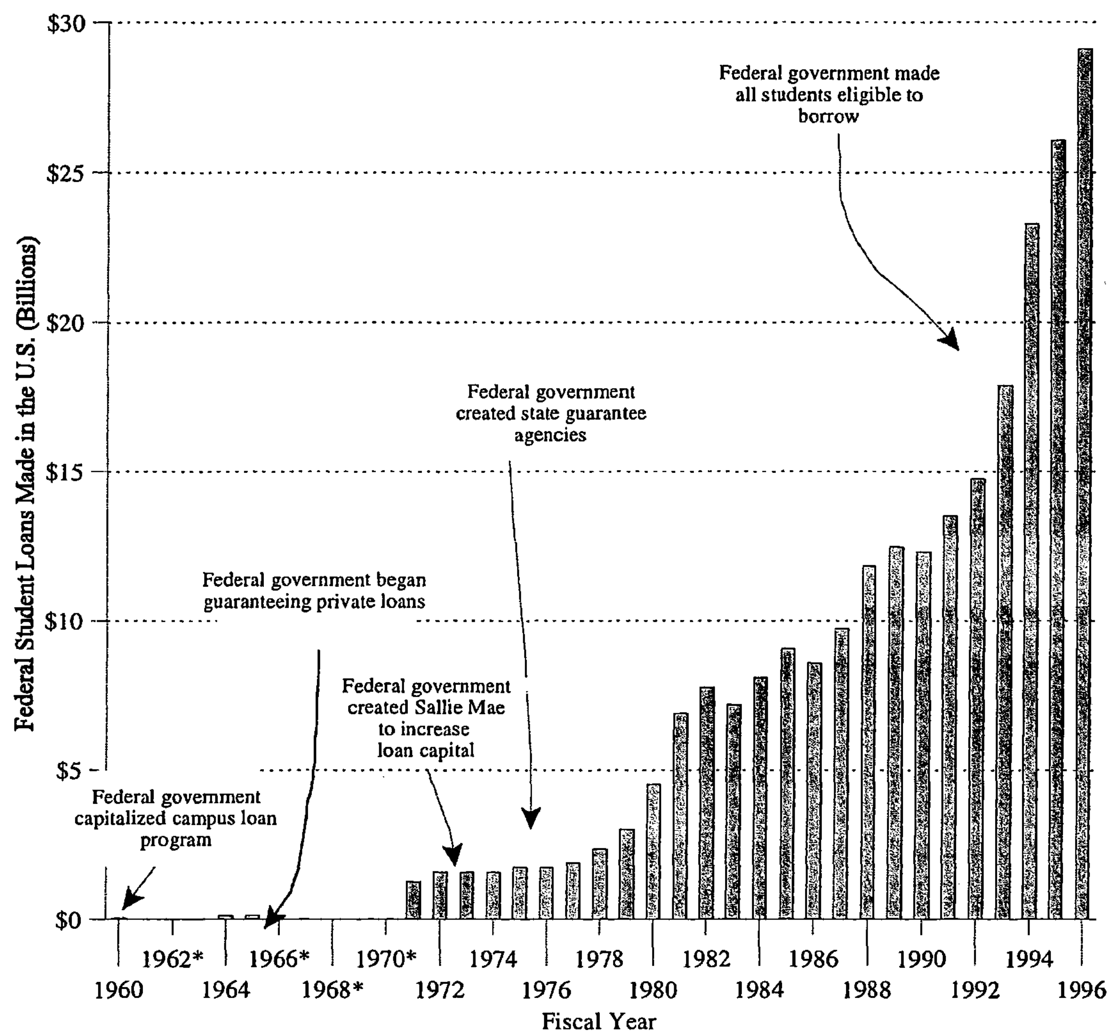
Much of the information in this paper is national. It applies to students across the United States. The primary source for the national information is the *National Postsecondary Student Aid Study, 1996* conducted by the National Center for Education Statistics in the U.S. Department of Education. Additional national information is from the ***Trends in Student Aid*** series, published by the College Board.

Some information comes from the Higher Education Services Office surveys of financial aid awarded by Minnesota post-secondary institutions from Fiscal Years 1987 through 1997. Additional sources of information are listed in the references section at the end of this paper.

Background

Nationally, federal student borrowing began with National Defense Student Loans (NDSL), as shown in Figure 1. The Higher Education Act of 1965 established a general purpose federal guaranteed student loan. The 1972 reauthorization of the Higher Education Act increased the amount of loan capital available by creating the Student Loan Marketing Association (Sallie Mae). The 1976 reauthorization phased out the Federally Insured Student Loan program and created incentives to ensure that each state designated a student loan guarantee agency. The 1992 reauthorization made all students eligible for federally guaranteed student loans by creating the Unsubsidized Federal Stafford Loan program in addition to the means-tested Subsidized Federal Stafford Loan Program.

Figure 1. Federal Government Created National Markets for Student Loans



Data for dates marked with an asterisk were not available.

Based on reported loan volume for Perkins, Stafford, Ford and SLS Loan Programs.

Source: College Board and Connor & Others (1997)

Borrowing in Minnesota and Nationally

Minnesota undergraduates have increasingly used loans from federal, state, institution, private, and other sources to help cover the price of post-secondary education, as shown in Figure 2.

Increase in Borrowing Was Greater After 1992 Changes

The amount Minnesota students borrow has increased over time, particularly since the 1992 reauthorization of the Higher Education Act, as shown in Figure 2. The 1992 Reauthorization increased the amounts many students could borrow, in addition to making all students eligible to borrow. Borrowing by undergraduates at Minnesota institutions grew by 45 percent from 1993 to 1995, and by an additional 12 percent from 1995 to 1997.

Increase in Student Borrowing Was Greater Than Increase in Tuition and Inflation

The increase in student borrowing was greater than increases in tuition from Fiscal Years 1987 to 1997. Undergraduate borrowing more than doubled from 1987 to 1997, while tuition at the University of Minnesota doubled. Tuition at Minnesota State Colleges and Universities increased by 70 to 90 percent from 1987 to 1997.

The increase in borrowing was also greater than inflation in the consumer price index. Figure 3 shows these comparisons.

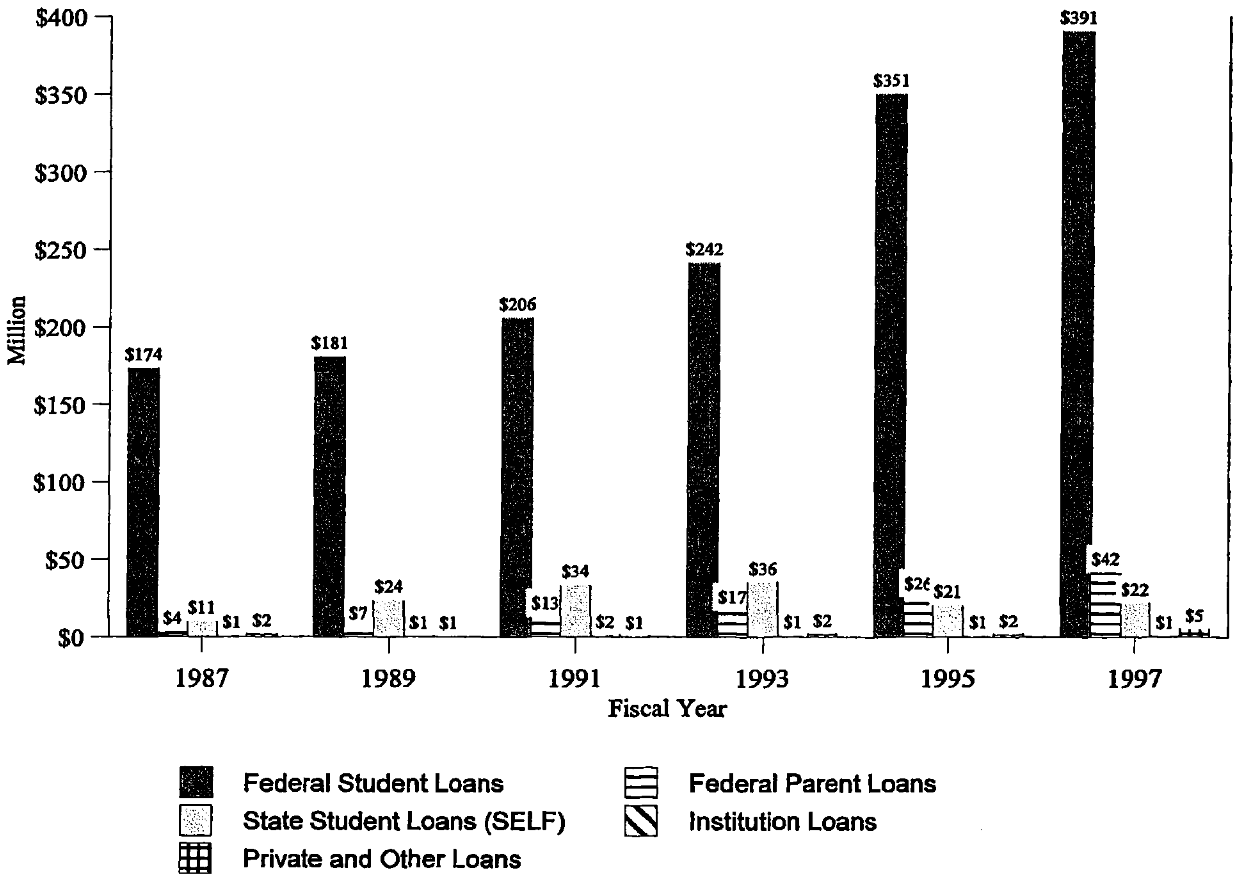
National Increase in General Consumer Debt

The increase in student borrowing was consistent with the increase in consumer installment debt in the U.S. economy. Nationally, outstanding student loans were about 9 percent of outstanding consumer installment debt in 1996. Outstanding debt includes loans taken out in the current year and loans taken out in previous years. Outstanding consumer installment debt, which excludes mortgages, increased by 74 percent from 1987 to 1996. Outstanding U.S. student loan debt increased by 159 percent over the same period. While both consumer debt and student debt increased, student debt increased more quickly than consumer debt, as shown in Figure 4.

Increase in Loans Was Less in Minnesota Than Nationally

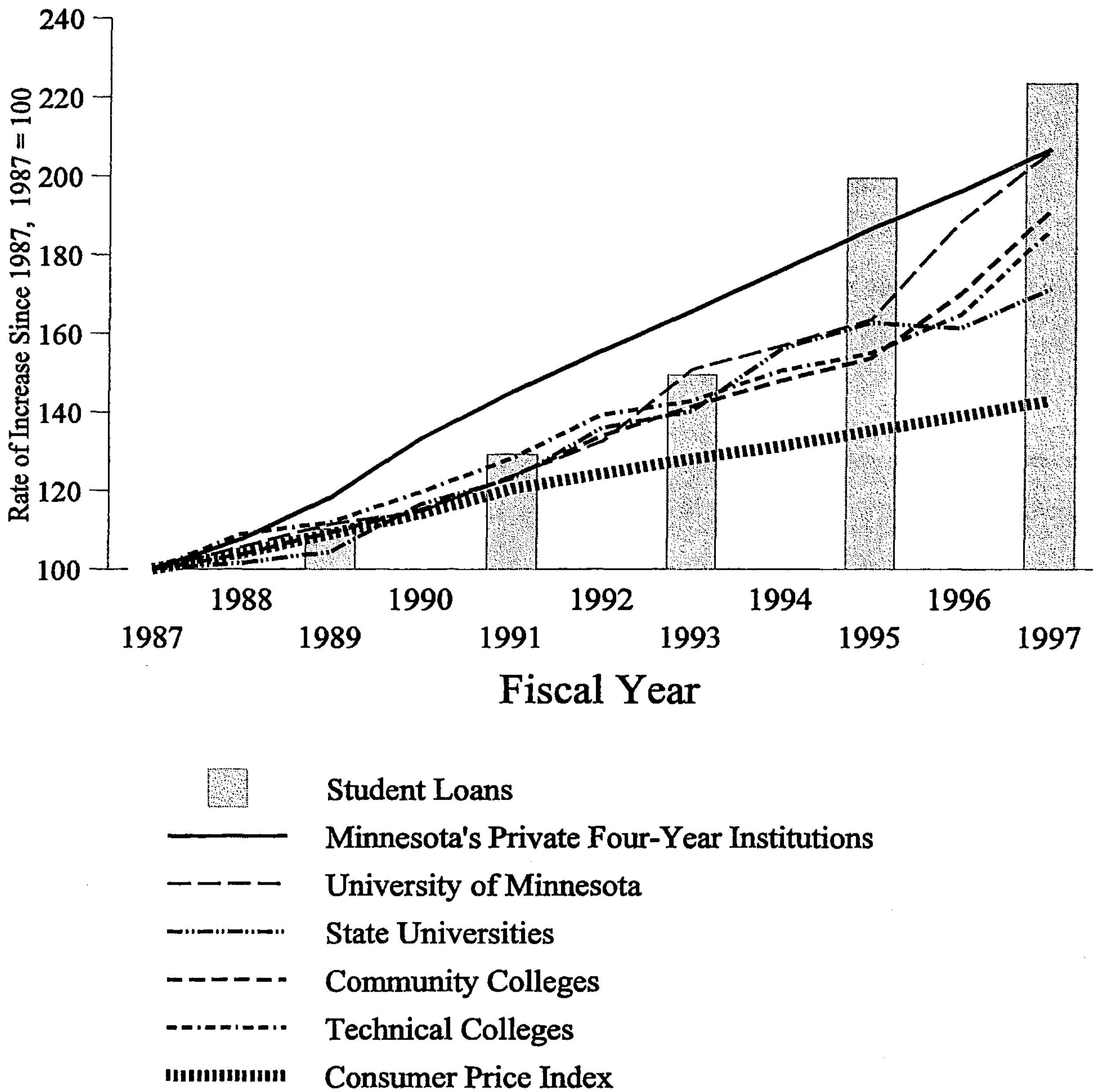
The increase in borrowing by Minnesota undergraduates also can be compared to the increase in student borrowing nationally. Nationally, students increased the amount they borrowed from $10.1 billion in Fiscal Year 1987 to $32.8 billion in 1997, an increase of 222 percent. In Minnesota, the increase was from $188 million in 1987 to $420 million in 1997, an increase of 123 percent – smaller than the national increase, but still significant, as shown in Figure 5.

Figure 2. Undergraduate Borrowing Increased in Minnesota



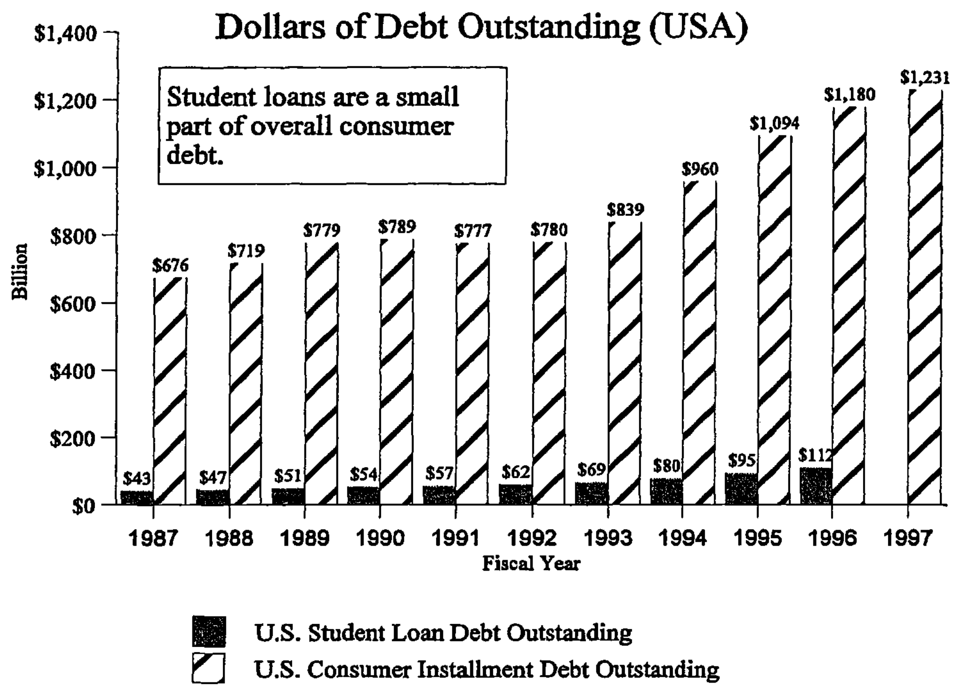
Source: Minnesota Higher Education Services Office

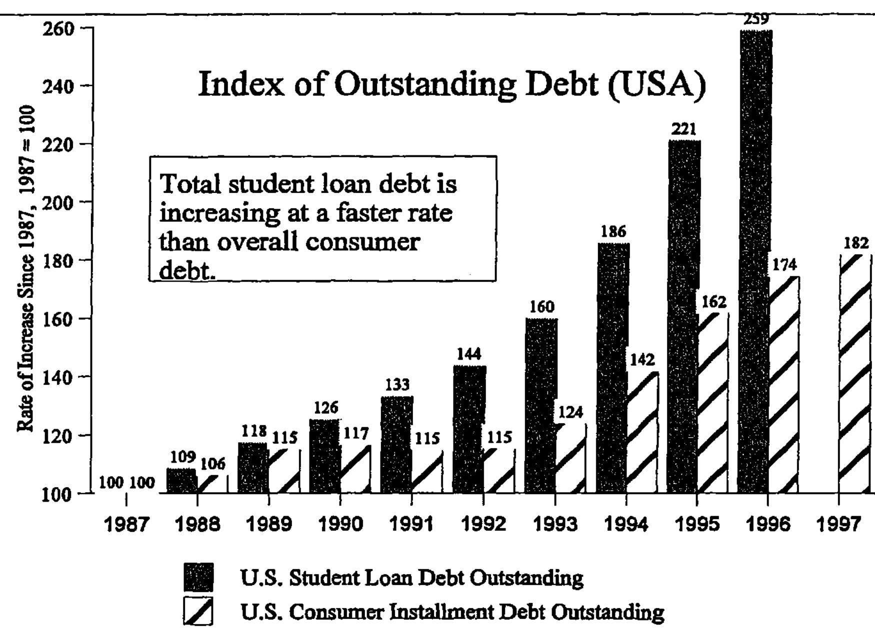
Figure 3. Undergraduate Borrowing Increased Faster Than Tuition and Inflation In Minnesota



Source: Minnesota Higher Education Services Office

Figure 4. U.S. Consumer and Student Loan Debt Increased*

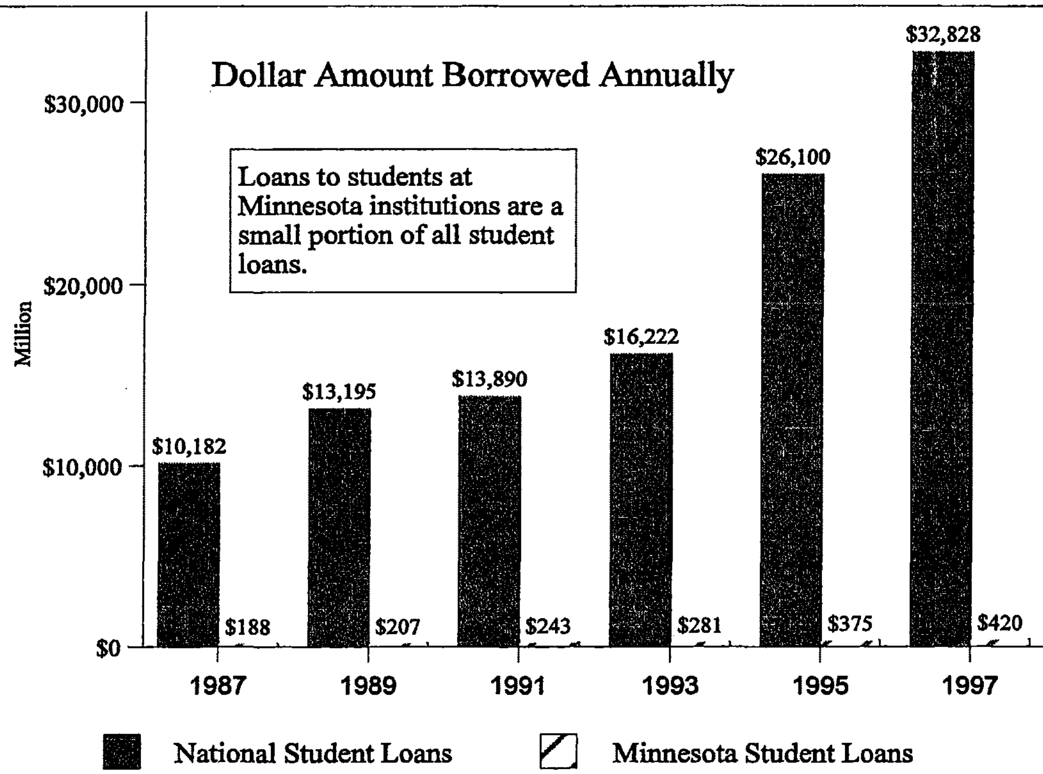


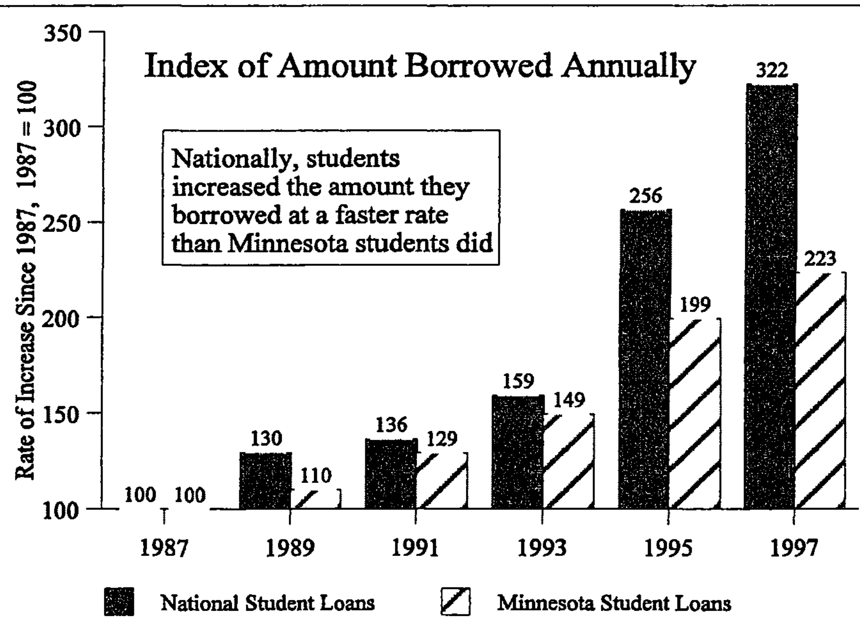


*U.S. consumer installment debt includes student loan debt, retail credit cards and auto loans. Consumer installment debt does not include mortgages.

Source: Economic Report to the President for 1997 and U.S. Department of Education

Figure 5. Undergraduate Borrowing Increased at a Slower Rate in Minnesota Than Nationally





Source: College Board and Minnesota Higher Education Services Office

How Many Students Borrow?

The previous section of this report described background information and aggregate trends in undergraduate borrowing. Looking within the trends, some students borrow, and some do not borrow. This section will present information on the percentage of undergraduates who borrow.

This section will examine whether borrowing behavior differs by:

- full-year, full-time status as compared to part time status
- how much students work
- number of years enrolled
- price of attendance
- income

This section also includes a chart showing the percentage of students who borrowed at several Minnesota four-year institutions.

Overall, What Proportion of Students Borrow?

There is a perception that most students have student loans. Many students borrow. Yet, there are also many students who do not borrow.

Percent Who Borrowed in One Year

- More than one-fourth (26 percent) of undergraduates borrowed in Fiscal Year 1996.[1]

Percent Who Had Borrowed in That Year or a Previous Year

- About 38 percent of undergraduates in Fiscal Year 1996 had borrowed during 1996 or in a previous year.[2]

Full Year - Full Time Status As Compared to Part Time Status

The percentage of students who borrowed varied according to how much time they spent on post-secondary education. Many students did not attend full-time for a full academic year.

Percent Who Borrowed in One Year

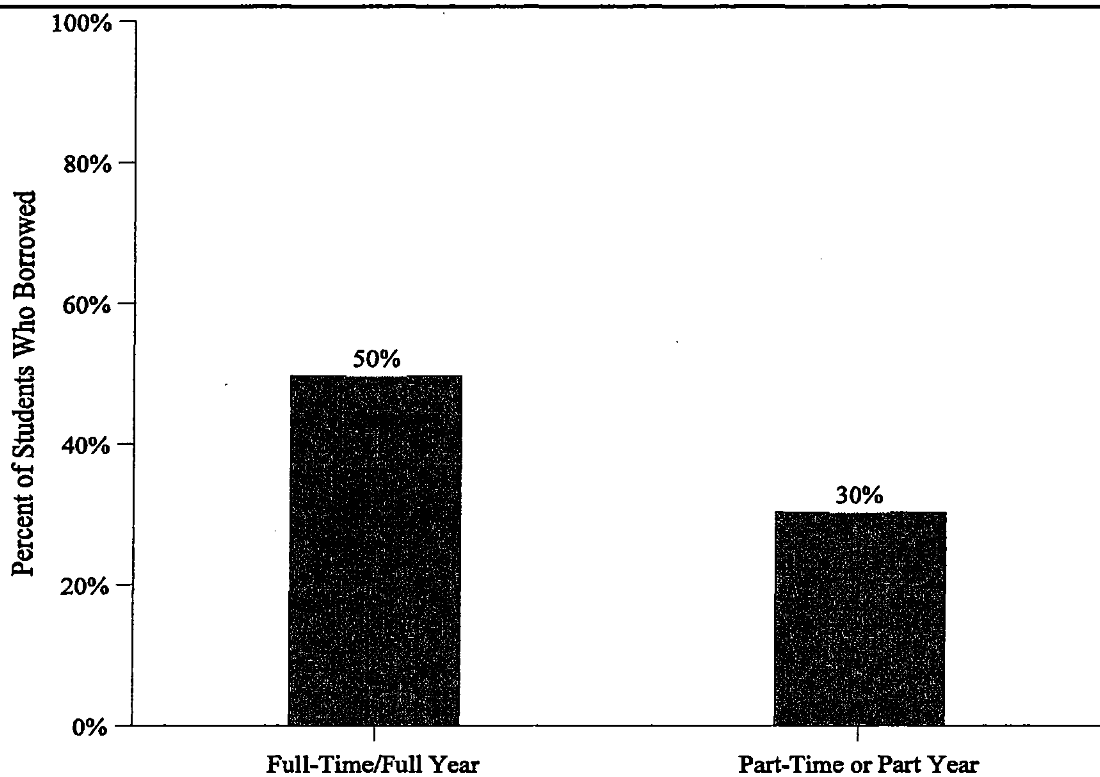
- More than 60 percent of all undergraduates were enrolled part-time or for only part of an academic year in 1995-96; thus their price of attendance was less than it would have been for full-time, full-year attendance.[3]
  - Undergraduates who attended full-time for the full year in 1995-96 were 38 percent of all undergraduates.
  - Undergraduates who attended part-time or for part of the year were 62 percent of all undergraduates.
- Undergraduates who attended full-time/full year were more likely to borrow.
  - About 43 percent of full-time/full year undergraduates borrowed in Fiscal Year 1996.
  - About 14 percent of undergraduates who attended part-time or for part of the year borrowed in Fiscal Year 1996.

Percent Who Borrowed in That Year or a Previous Year

- Undergraduates who attended full-time/full year in Fiscal Year 1996 were also more likely to have borrowed that year or in a previous year, as shown in Figure 6.[4]

The next section will examine another indicator of how much time students spend on post-secondary education – the number of hours they work each week.

Figure 6. Nationally, Students Who Attended Full-Time/Full Year Were More Likely to Borrow in One or More Years



**These results are based on NPSAS 96, a US Department of Education survey of a sample of undergraduates attending post-secondary institutions in the US during academic year 1995-96 (Fiscal Year 1996).

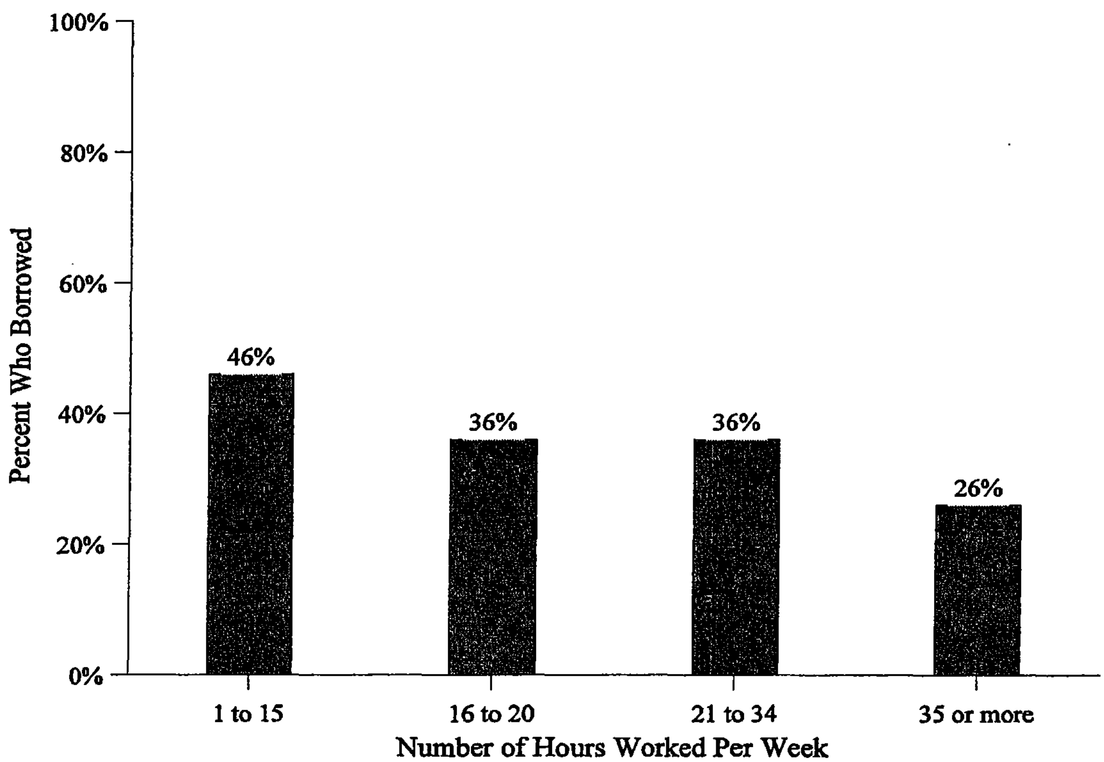
Source: National Center for Education Statistics

Work

Undergraduates who worked more hours while attending were less likely to borrow.

- The National Postsecondary Student Aid Study (NPSAS) asked whether they described themselves primarily as students who work, employees who study, or students who did not work while enrolled.
  - Fiscal Year 1996 undergraduates identified themselves as:
    - Students Who work - 50 percent
    - Employees Who Study - 29 percent
    - Students Who Did Not Work While Enrolled - 21 percent.[5]
- Among "Students Who Work," about 35 percent had taken out a student loan.[6]
  - Within the group of "Students Who Work," borrowing behavior varied with the number of hours worked.[7]
  - Students who worked more were less likely to borrow, as shown in Figure 7.
- Among students who "Did Not Work While Enrolled" about 33 percent had taken out a student loan.[8]

Figure 7. Nationally, Undergraduates Who Work More, Were Less Likely to Borrow,* Fiscal Year 1996



*This data is for students who identified themselves as "Students Who Work," as opposed to "Employees Who Study." Students who work represent about half of the undergraduate population.

**These results are based on NPSAS 96, a US Department of Education survey of a sample of undergraduates attending post-secondary institutions in the US during academic year 1995-96 (Fiscal Year 1996).

Source: National Center for Education Statistics

Number of Years Enrolled

Undergraduates who spent more years enrolled were more likely to borrow.

Borrowing Among Those Who Completed Their Programs

- Program completers were those undergraduates who had completed their 2-year, 4-year, or other program.
- Over half (52 percent) of undergraduates who completed their programs borrowed in Fiscal Year 1996.[9]
- About 51 percent of **dependent** students who completed their programs borrowed.[10]
- About 71 percent of **independent** students who completed their programs borrowed.[11]
    - The data reported here group all independent students together. Independent students include groups that face distinctly different net prices under the federal need analysis: 1) single independent students without children, 2) married independent students without children, 3) single independent students with children, and 4) married independent students with children. The data presented here do not show the differences among independent students.

Students Who Took Longer to Complete Were More Likely to Borrow

- In Fiscal Year 1993, students who took longer to complete their post-secondary education were more likely to borrow, as shown in the upper part of Figure 8.[12]

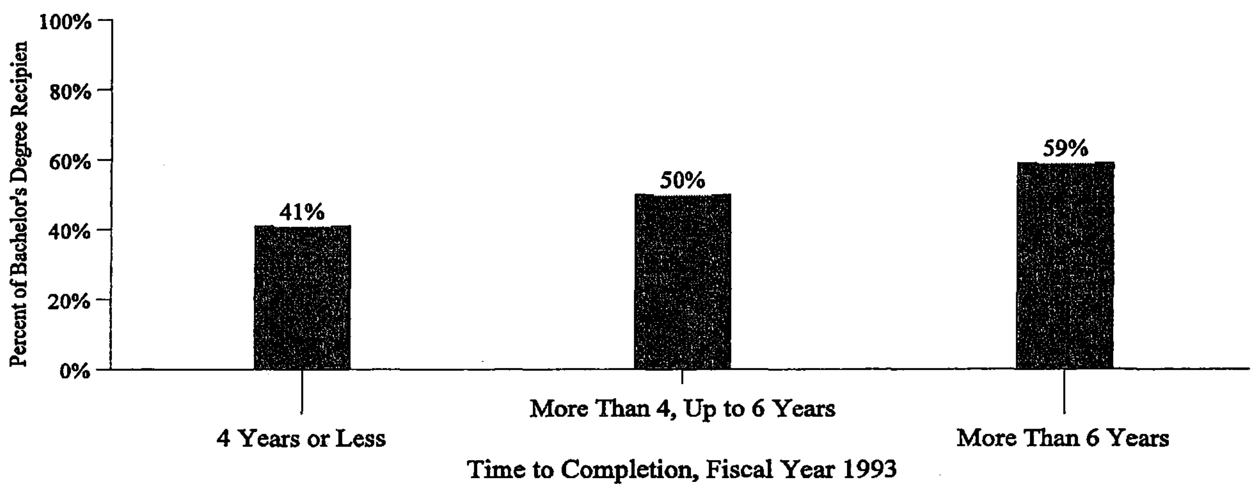
Undergraduate Class Level

- In Fiscal Year 1996, students who attended school for several years were more likely to have taken out a federal loan in that year or in a previous year, as shown in the bottom part of Figure 8.[13]

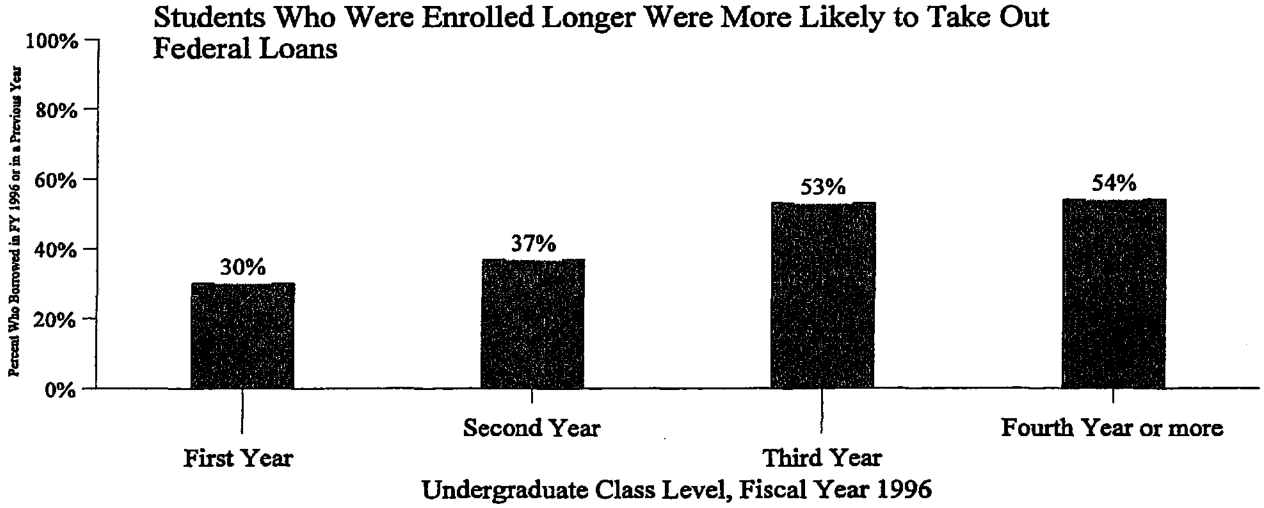
While some of the variation in the percentage of students who borrow was explained by how much time they spent on post-secondary education, the price of attendance explained more of the variation in borrowing rates than any other variable. The next section will look at borrowing rates and the price of attendance.

Figure 8. Nationally, Undergraduates Who Attended Longer Were More Likely to Borrow

Students Who Took Longer to Complete Were More Likely to Borrow



Students Who Were Enrolled Longer Were More Likely to Take Out Federal Loans



**These results are based on NPSAS 93 and NPSAS 96, US Department of Education surveys of undergraduates attending post-secondary institutions in the US during academic years 1992-93 (Fiscal Year 1993) and 1995-96 (Fiscal Year 1996).

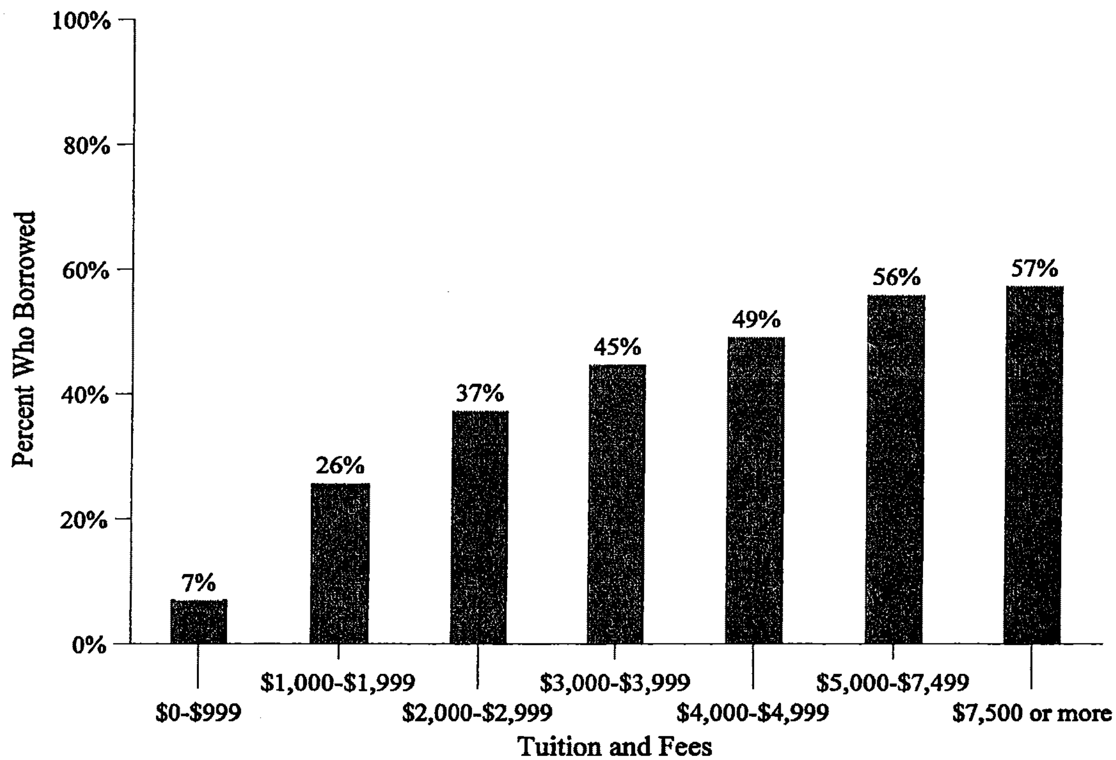
Source: National Center for Education Statistics

Price of Attendance

Borrowing rates varied more with the price of attendance than with any other variable. Tuition and fees make up a large portion of the price of attendance. The data presented here show that borrowing increased as tuition and fees increased.

- Nationally, about 79 percent of undergraduates paid tuition and fees of $4,000 or less.
  - Students with low amounts in tuition and fees paid may have:
    - attended part-time or part of the year, or
    - attended institutions with very low tuition and fees (such as community colleges in California).
- Undergraduates who paid more in tuition and fees were more likely to borrow, in Fiscal Year 1996, as shown in Figure 9.[14]

Figure 9. Nationally, Undergraduates Who Paid More in Tuition Were More Likely to Borrow, Fiscal Year 1996



**These results are based on NPSAS 96, a US Department of Education survey of a sample of undergraduates attending post-secondary institutions in the US during academic year 1995-96 (Fiscal Year 1996).

Source: National Center for Education Statistics

Income

Borrowing behavior also varied with the income of the student or the student's family. However, about one-third to one-fourth of the students from the highest income groups borrowed.

Income Groups Among Undergraduates in Fiscal Year 1996

- The National Postsecondary Student Aid Survey, 1996, analyzed the population of dependent and independent undergraduates using the following income groups:[15]

  - Dependent Students:

    - Students from the bottom income quartile were those parents had less than $25,000 in income.

    - Students from the middle two income quartiles were those whose parents had incomes from $25,000 to $69,999.

    - Students from the top income quartile were those whose parents had incomes of $70,000 or more.

  - Independent Students:

    - Students from the bottom income quartile had incomes of less than $10,000.

    - Students from the middle two income quartiles had incomes of $10,000 to $34,999.

    - Students from the top income quartile had incomes of $35,000 or more.

Annual Borrowing Rates by Dependent and Independent Students

Students from the highest income quartile were less likely to take out a student loan than students from the lowest income quartile among both dependent and independent students.

- **Dependent** students from the bottom and middle income quartiles took out federal loans at about the same rate in Fiscal Year 1996:[16]

  - Bottom quartile (Less than $25,000) - 36 percent borrowed

  - Middle quartiles ($25,000 - $69,999) - 34 percent borrowed

- Top quartile ($70,000 or more) - 19 percent borrowed

- There was more variation in the rate at which **independent** students took out federal loans in Fiscal Year 1996:
    - Bottom quartile (Less than $10,000) - 34 percent borrowed
    - Middle quartiles ($10,000 - $34,999) - 19 percent borrowed
    - Top quartile ($35,000 or more) - 8 percent borrowed

Cumulative Borrowing Rates by Dependent and Independent Students

- About 40 percent of **dependent** students in most income groups borrowed in 1996 or a previous year:
    - Bottom quartile (Less than $25,000) - 44 percent borrowed
    - Middle quartiles ($25,000 - $69,999) - 40 percent borrowed
    - Top quartile ($70,000 or more) - 25 percent borrowed

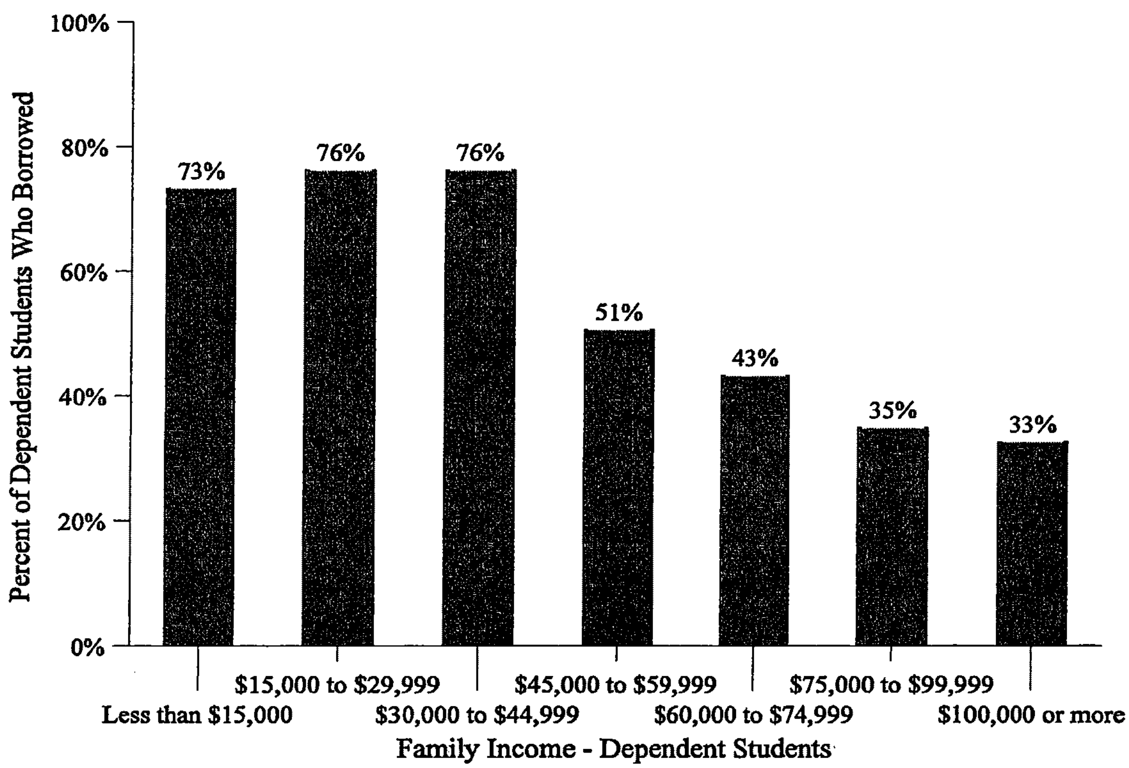
- Borrowing in 1996 or a previous year among **independent** students varied more with income:
    - Bottom quartile - 48 percent borrowed
    - Middle quartiles - 38 percent borrowed
    - Top quartile - 27 percent borrowed (National Postsecondary Student Aid Study, 1996[17])

Borrowing by Students Who Completed Their Programs

- About 75 percent of **dependent** program completers from families with incomes of $45,000 or less borrowed,[18] as shown in Figure 10.
    - Students with parental income less than $15,000 – 73 percent borrowed.
    - Students with parental income from $15,000 - $29,999 – 76 percent borrowed.
    - Students with parental income from $30,000 - $44,999 – 76 percent borrowed.

- Students with parental income from \$45,000 - \$59,999 – 51 percent borrowed.
- Students with parental income from \$60,000 - \$74,999 – 43 percent borrowed.
- Students with parental income from \$75,000 - \$99,999 – 35 percent borrowed.
- Students with parental income more than \$100,000 – 33 percent borrowed.

Figure 10. National Borrowing Rates by Parental Income Among Dependent Undergraduates Who Completed Their Programs,* Fiscal Year 1996



* *Undergraduates who completed their programs* were students who had completed their 2-year, 4-year or other programs.

**These results are based on NPSAS 96, a US Department of Education survey of a sample of undergraduates attending post-secondary institutions in the US during academic year 1995-96 (Fiscal Year 1996).

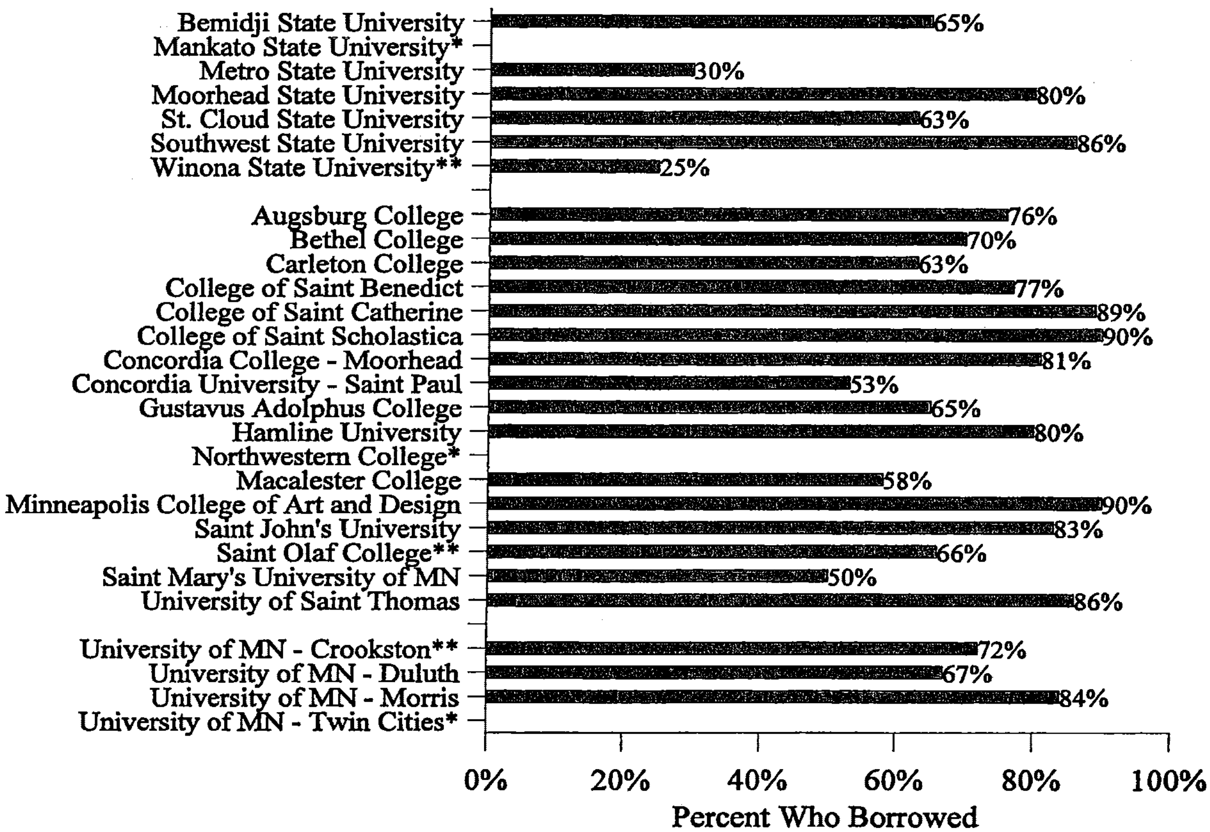
Source: National Center for Education Statistics

Percent Who Borrowed at Selected Minnesota Four-Year Institutions

Most of the data in this section about the percentage of students who borrow has been national data. While comprehensive current data about borrowing by students at individual Minnesota institutions is not available, ***U.S. News and World Report*** Magazine reports information about borrowing rates at some Minnesota institutions on its Internet site.

- The ***U.S. News and World Report*** Internet site has information about four-year institutions across the country in its *College and Career Center, College Rankings* section.
    - On the Financial Aid page for each institution, the following question is listed:
        - *Percent of 1997 graduating class with debt?*
    - They do not list information on debt for all Minnesota four-year institutions:
        - For some institutions, they list the answer to the question as "Information not available."
        - Some institutions are not listed in the article.
- For the Minnesota institutions that provided information to *U.S. News and World Report,* the percent of the 1997 Graduating class with debt ranged from 25 percent at Winona State University to 90 percent at the College of Saint Scholastica, as shown in figure 11.

Figure 11. Percent Who Borrowed at Selected Minnesota Four Year Institutions,* Class of 1997



*Some four-year institutions in Minnesota are not listed because the U.S. News and World Report article lists the information as "not available" or because the article did not include the institutions .

**Information for Winona State University and the University of MN - Crookston is for the Class of 1996.

Source: U.S. News and World Report

Conclusion

Undergraduates have increasingly used loans to finance post-secondary education since 1987. While many students borrowed, many did not.

- The more time students spent on post-secondary education, the more likely they were to borrow.
  - Those who attended full-time for the full year were more likely to borrow than those who attended part-time or for part of the year.
  - Students who worked more were less likely to borrow.
  - Students who were enrolled longer were more likely to borrow.
- As the price of attendance increased, the rate of borrowing increased.
  - Price of attendance explained more of the variation in the percentage of students who borrow than any other variable.
- Borrowing behavior varied surprisingly little with income.

References

1. Berkner, Lutz. and Malizio, Andrew G, *Student Financing of Undergraduate Education 1995-96*, Statistical Analysis Report of the National Postsecondary Student Aid Study, 1996, Publication Number NCES 98-076, National Center for Education Statistics, September 1998, p. 3.

2. Berkner, see note number 1 above, p. 45.

3. Berkner, see note number 1 above, p. 45.

4. Berkner, see note number 1 above, p. 45.

5. Horn, Laura J., ***Undergraduates Who Work***, analysis of the National Postsecondary Student Aid Study, 1996, Publication Number NCES 98-137 prepared by MPR Associates, Inc. for the National Center For Education Statistics, July 1998, p. 3.

6. Horn, see note number 6 above, p. 10.

7. Horn, see note number 6 above, p. 11

8. Cuccaro-Alamin, Stephen, and Choy, Susan P., ***Postsecondary Financing Strategies: How Undergraduates Combine Work, Borrowing, and Attendance***, analysis of the National Postsecondary Student Aid Study, 1996, National Center for Education Statistics publication number NCES 98-088, prepared by MPR Associates, February 1998, p. 22.

9. General Accounting Office (GAO), United States General Accounting Office, ***Students Have Increased Borrowing and Working to Help Pay Higher Tuitions***, analysis of the National Postsecondary Student Aid Study, 1996, Publication Number GAO/HEHS-98-63, 1998, p. 6.

10. GAO, see note number 10 above, p. 40.

11. GAO, see note number 10 above, p. 41.

12. Choy, Susan P., ***Early Labor Force Experiences and Debt Burden***, analysis of National Postsecondary Student Aid Study, 1993, chapter prepared by MPR Associates, Inc. for ***Student Loan Debt: Problems and Prospects***, Proceedings from a National Symposium, Washington, D.C., December 1997, p. 63.

13. Berkner, see note number 1 above, p. 45.

14. National Center for Education Statistics (NCES), analysis of National Postsecondary Student Aid Study, 1996, National Postsecondary Student Aid Study: Student Financial Aid Estimates for 1995-96, Publication Number NCES 97-570, August 1997, p. 7.

15. Berkner, see note 1 above, pp. 7, 8.

16. Berkner, see note number 1 above, p. 45.

17. Berkner, see note number 1 above, p. 45.December 2, 1998

18. GAO, see note number 10 above, p. 47.