

Student Loan Debt in the US: An Analysis of the 2015 NFCS Data

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Student loans are one of the fastest growing forms of debt in the US and the most prevalent form of consumer debt after home mortgages. The number of student loan borrowers has almost doubled in the past 10 years, from 23 million to the current 43 million borrowers. And the amount of debt has increased from \$240 billion at the start of 2003 to about \$1.3 trillion as of March 2016.¹ This growth in student loan debt is linked not only to more people pursuing higher education but also to a rise in the cost of education. Average tuition and fees at public four-year colleges and universities increased by 13 percent over the five years from 2010–11 to 2015–16, faster than wage growth and inflation in the same period.² In order to finance these rising tuition costs, more students are turning to student loans, with the average 2014 graduate holding nearly \$29,000 in student loan debt, up two percent from the previous year.³

Of concern is not only that the size of student loan debt is continuously reaching higher levels, but also that many borrowers have displayed considerable difficulty paying it off. A report by the Federal Reserve Bank of New York (2014) found that student loans have the highest rate of delinquency out of all consumer debt products. Delinquency rates for student loans have risen every year since 2004, while those for other products (credit cards, for example) have decreased since the end of the Great Recession.⁴ Further, these statistics tend to underestimate actual student loan delinquency rates, given that about half of these loans are currently in deferment, in grace periods, or in forbearance and therefore not yet in the repayment cycle.⁵

Given these trends, it is apparent that student loan debt can impact individual borrowers' financial decisions and the economy as a whole. This brief uses data from the FINRA Investor Education Foundation's 2015 National Financial Capability Study (NFCS), which was released in July of 2016, to provide an overview of student debt with a focus on decision making around student loans and debt repayment challenges.

¹ Federal Reserve Bank of New York. Quarterly Report on Household Debt and Credit. August 2016.
² College Board (2016). "Trends in College Pricing." Trends in Higher Education Series. Retrieved from <https://trends.collegeboard.org/college-pricing/figures-tables/tuition-and-fees-and-room-and-board-over-time-1975-76-2015-16-selected-years/>.
³ The Institute for College Access and Success. Student Debt and the Class of 2014. October 2015.
⁴ Sánchez, J. (2014). "Why Is Credit Card Delinquency Declining?" Federal Reserve Bank of St. Louis Economic Synopses, November 25 Issue.
⁵ Federal Reserve Bank of New York. Quarterly Report on Household Debt and Credit. August 2016.

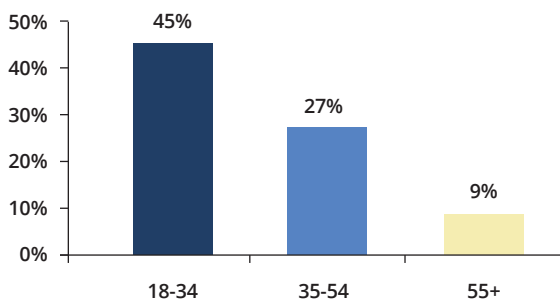
The data

The FINRA Investor Education Foundation’s National Financial Capability Study (NFCS) is a triennial, nationally representative survey that aims to benchmark key indicators of financial capability and evaluate how these indicators vary with underlying demographic, behavioral, attitudinal, and financial literacy characteristics.⁶ The most recent wave, fielded in 2015 and released in July 2016, surveyed more than 27,000 respondents and included several new questions on student loans. Responses to the new questions shed light on how individuals choose student loans and how they manage them, providing unprecedented information on behaviors and attitudes relating to student loan debt. This information is of paramount importance for understanding the rationale and circumstances behind student loan decisions and the accumulation of student loan debt.

Student loan debt is widespread

More than a quarter (26 percent) of Americans surveyed in the 2015 NFCS currently have student loans. As expected, these loans are much more prevalent among young respondents, with 45 percent of respondents age 18–34 having a student loan (Figure 1). Thus, almost half of young Americans start their working life already indebted.

Figure 1: Student loan debt by age

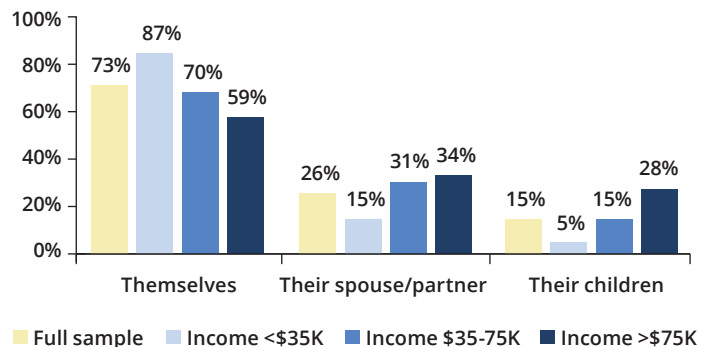


However, student loan debt is not limited to the young. Twenty-seven percent of respondents age 35–54 and 9 percent of respondents age 55 and older carry student loan debt either for themselves or for others (spouse, children, or grandchildren). This means that there are a number of individuals carrying student loan debt late in life, when they should be close to the peak of their wealth accumulation and/or preparing for retirement.

While student loan debt is similarly distributed across income levels, there are sizeable differences among ethnic groups: African Americans and Hispanics are more likely to carry this type of debt than Whites. And, not surprisingly, educational debt is correlated with the educational level attained.

Almost three-fourths (73 percent) of student loan holders took the loan for their own education (Figure 2). However, respondents with higher income are much more likely to have taken student loans for their children (Figure 2).

Figure 2: For whose education were loans taken out?



⁶ Information about the NFCS, including surveys, data sets, and methodological documents is available at USFinancialCapability.org.

Types of student loans and repayment plans

Students can choose between different types of private and federal loans. Federal loans usually have better repayment conditions, but they are unlikely to entirely cover tuition costs. In the 2015 NFCS, a majority of student loan holders (57 percent) reported having only federal loans (e.g., Stafford, PLUS, Perkins), while more than a fifth (22 percent) reported having both federal and private loans.⁷

Just over a third (35 percent) of student loan holders indicated they have income-driven repayment plans, which are designed to make student debt more manageable. Generally, these monthly amounts are calculated as a percentage of income and any remaining loan balance is forgiven at the end of the repayment period, which ranges from 20 to 25 years.

While these plans are meant to help them, nearly one in five (19 percent) student loan holders indicated that they do not know whether their monthly payments are determined by their income.⁸ This suggests that the current repayment system for student loan debt is either too complex for the average borrower or that those taking out student loans do not collect enough information before taking on the loan.

How do individuals make student loan decisions?

The 2015 NFCS data show that many borrowers did not fully comprehend what they were taking on when they obtained their loans, further indicating that many student loan borrowers are not fully aware of the choices they made. In fact, more than half of student loan holders (54 percent) did not try to figure out how much their future monthly payments would be before taking on their loans (Figure 3).

Figure 3: Before you got your most recent student loan, did you try to figure out how much your monthly payments would be?

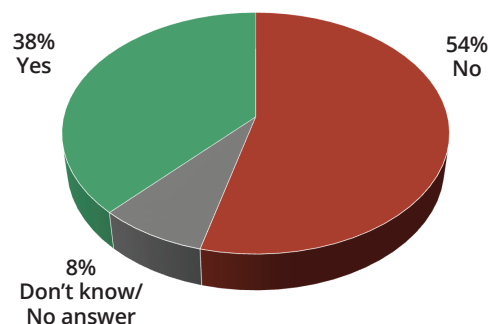
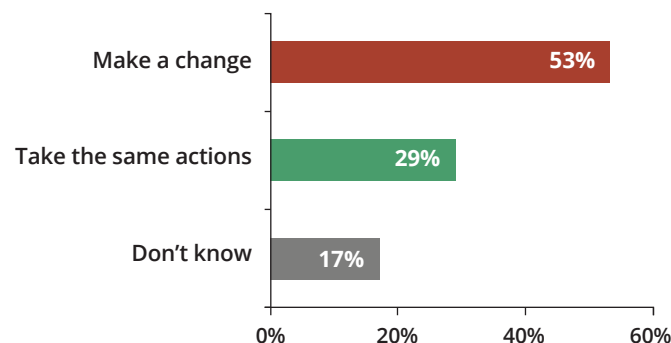


Figure 4: If you could go through the process of taking out loans to pay for your education all over again, would you take the same actions or make a change?



As further evidence that student loan decisions are not well thought out, a staggering 53 percent said that they would make a change if they could go through the process of taking out loans all over again (Figure 4). Moreover, 17 percent did not know how to answer the question, which may mean that they still do not know whether they made the right choice.

Those who tried to estimate monthly payments before obtaining the student loan are 15 percentage points more likely to report that they would take the same actions (39 percent vs. 24 percent). On the other hand, we find that borrowers with private student loans are more likely to say they would make a change in the decision-making process (60 percent compared to 51 percent among those with just federal loans).

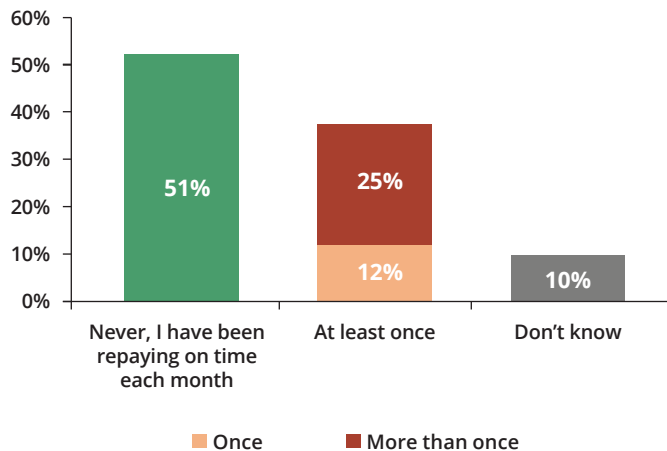
⁷ As explained in the report “Financial Capability in the United States 2016” by the FINRA Investor Education Foundation, some respondents may have been confused about the type of loan they have because the Health Care and Education Reconciliation Act of 2010 changed the manner in which loans were distributed in 2010.

⁸ The large and increasing number of income-based repayment plans may be a source of confusion for some respondents.

Student loan debt and late payments

One of the most concerning findings about student loan debt in the NFCS is the reported difficulty in paying it off. Of borrowers with payments due, only half (51 percent) said they have been on time with their payments. Meanwhile, nearly two in five (37 percent) have been behind on payments at least once in the past twelve months, and 25 percent have been late more than once (Figure 5).

Figure 5: How many times have you been late with a student loan payment in the past 12 months?



Minorities (African Americans and Hispanics) and lower income respondents are more likely to be behind with payments. Moreover, student loan holders who did not complete the educational program for which they borrowed money (who account for nearly 30 percent of student loan holders) report serious difficulties in repaying their student loan debt. For example, 53

percent of those who dropped out of their educational program have been late with their payments at least once in the previous year.⁹ In addition, 67 percent say they would make changes in the process of taking out loans if they were to do it again.

Concerns with repayment

Evidence so far shows that many borrowers are unprepared when taking out their student loans and are not fully aware of the debt burden they are assuming. As a result, many borrowers have difficulty managing their debt, fall behind on their payments, and report being concerned about whether they will be able to pay off their debt.

Almost half of student loan holders (48 percent) express concern about their ability to pay off their student debt. We find that the subgroups who most often reported being late with their payments are also those who are most likely to be concerned about repayment (Figure 6). However, even though the NFCS data show that women are as likely as men to be behind on their payments, they are 9 percentage points more likely to be worried about not being able to pay off their student loan debt burden (53 percent of women vs. 44 percent of men express concern).

Implications

New data from the 2015 NFCS shows that many Americans carry student loan debt. This liability has become commonplace among young adults, implying that they are starting their financial life in debt, and even many older Americans are taking out loans for

Figure 6: Respondents concerned that they might not be able to pay off their student loans

| TOTAL | Gender | | Age | | | Income | | | Ethnicity | | | | |
|-------|--------|--------|-------|-------|-----|--------|----------|--------|-----------|------------------|----------|-------|-------|
| | Male | Female | 18–34 | 35–54 | 55+ | <\$35K | \$35–75K | >\$75K | White | African American | Hispanic | Asian | Other |
| 48% | 44% | 53% | 51% | 47% | 43% | 61% | 48% | 33% | 46% | 55% | 51% | 46% | 50% |

⁹ Statistic calculated among respondents with payments due.

themselves or a family member. The ubiquity of student loan debt could represent an impediment to financial stability both for individuals and the economy.

For many individuals, taking out student loans is a worthwhile investment in human capital. However, a sizeable share of Americans do not complete the education for which they borrow money. Moreover, many student loan holders did not try to figure out the monthly payments they would eventually have to make to repay the loans. Thus, it is not just the amount of outstanding debt that is of concern, but also the evidence that many borrowers decide to take out student loans without being fully aware of what they are getting into. Our analysis also shows that some groups of the population are much more vulnerable to defaulting on their student loans than others.

What makes the student loan situation especially concerning is borrowers' difficulty with repayment and the potential for loan defaults and delinquencies, which have increased steadily since before the recession, to become commonplace. These concerns represent a growing risk not only to student loan borrowers and their families but also to the economy as a whole. Weak personal financial conditions do more than make borrowers vulnerable, they are costly for all of society.

The findings presented in this brief paint a troubling picture of student loan debt and indicate that changes are necessary to improve Americans' capacity to deal with this type of debt. Such changes can help improve the financial capability of Americans, particularly the young.

About GFLEC

Founded in 2011 at the George Washington University School of Business, the Global Financial Literacy Excellence Center (GFLEC) has positioned itself to be the world's leading center for financial literacy research and policy. Through rigorous scholarship and research, wide-reaching education, and global policy and services, the Center works with partners in Washington, DC, throughout the United States, and across the globe to raise the level of financial knowledge.

The Center builds on more than fifteen years of academic research on financial literacy by Director Annamaria Lusardi, an early contributor to financial literacy as a field of study. GW's unparalleled location at the heart of the US capital, where both national and global policy decisions are made, elevates the Center's influence.

For more information, please visit GFLEC website at www.gflec.org.