



Research Brief

BY JENNIE HAY WOO, EDFUND RESEARCH & POLICY ANALYSIS

Why Students Borrow So Much — Factors That Make a Difference

Students are borrowing at record levels. The amount of debt that students leave school with has risen steadily since the loan programs began in 1966, but it soared in the 1990s. In 1995-1996, the latest year available, the average cumulative undergraduate loan amount for borrowers at four-year public institutions in the nation was \$11,800. For California, where public tuition is lower, it was \$10,200. What factors determine how much a student borrows? Are poor students borrowing more and putting themselves at risk? We examined data on borrowers at EdFUND in 2000 to answer these questions.

Type of School is Most Important

The type of school and thus the tuition charges faced by the student have the biggest influence on how much a student borrows. The more expensive the school and the longer the program, the more the student borrows. At independent (private, nonprofit) four-year schools, which in California charge an average \$16,592 in tuition, undergraduate students borrowed an average of \$15,421. At four-year public schools they borrowed \$10,196. At two-year public schools, where the annual fees are \$390, the average amount borrowed was \$5,507. Graduate and professional students borrow the most because they attend the most expensive schools and have the longest programs, especially if they borrowed at the undergraduate level, as well. Similarly, the number of schools a student attends greatly affects the total amount the student borrows. Even at the undergraduate level, the more schools attended, the higher the amount borrowed.

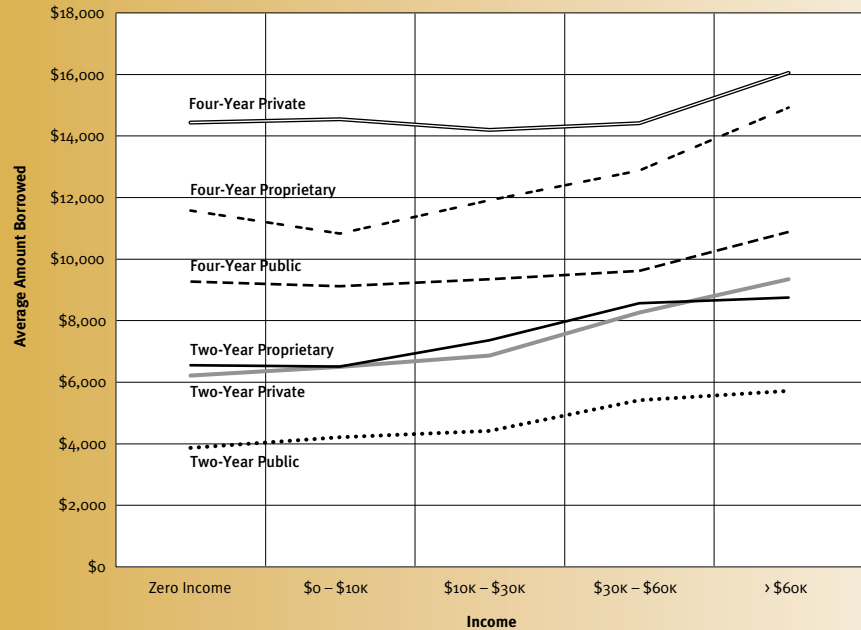
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The Prosperous Have Higher Loan Balances

The higher the income of the student and family, the more the student is likely to borrow. Even controlling for the type of school that a borrower attends, the students from better off backgrounds borrowed more. Of course, this is compared only to other borrowers. Truly wealthy students are generally not borrowers. A government survey of college students found that only 19 percent of undergraduates who came from families with incomes over \$100,000 borrowed for college.

In this study, the borrowers whose families received welfare borrowed less and borrowers whose fathers attended college borrowed more. This could be because borrowers with higher incomes are less likely to qualify for grants. It could also be that they are more willing to borrow high amounts, having more confidence in their own ability to repay in the future. Either way, the borrowers who are taking on large debts are generally in the middle class.

WHO BORROWS WHAT: Dependent Undergraduates by Parents' Income in 2000



Independent Students Borrow More

Borrowers who are financially independent from their parents tend to borrow higher amounts. In our study, 56 percent of borrowers were independent. They were more likely to be older and to be graduate and professional students. But for even for undergraduates, the relationship was significant. Independent students, in general, probably have fewer places to turn for college payments.

Predicting Who Will Borrow is Different

Since our sample contains only borrowers, we can't compare them with non-borrowers. So we can't tell what type of students are more likely to borrow. Other studies indicate that a higher percentage of low-income students borrow, as opposed to middle or high income, but low-income students borrow smaller amounts. So while most borrowers come from modest backgrounds, the ones that borrow the most are from prosperous backgrounds. Our work also indicates that high-balance borrowers are less likely to default. This points to the conclusion that borrowers who have accumulated large amounts of debt generally come from well-off families, are attending longer programs, getting more schooling and are generally successful. Heavy debt load is not, by itself, a signal of distress. It's usually a sign that students are confidently using the loan program for its intended purpose—to secure a postsecondary education!

NOTE: This data is from a cohort of 273,064 students who borrowed in 1994-95, whose loans were guaranteed by EdFund and who had matching data from the Free Application for Federal Student Aid. The figures do not represent total amounts borrowed even in the Guaranteed Student Loan Program, since students may have loans guaranteed by other agencies. Average tuition is weighted by full-time, full-year students.

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FACTORS AFFECTING HOW MUCH IS BORROWED

VARIABLES	MEAN	PARAMETER ESTIMATE	STANDARD ERROR	t VALUE	PR > t
Intercept		23,997.00	114.08	210.36	< .0001
Variables Increasing Amount Borrowed					
Number of Schools Attended	1.228	6,569.83	43.32	151.65	< .0001
Financially Indep. Student	0.562	607.79	48.98	12.41	< .0001
Not U.S. Citizen	0.158	390.20	59.09	6.60	< .0001
Family Income	\$19,916	12.57	.89	14.09	< .0001
Variables Decreasing Amount Borrowed					
Undergraduate	0.824	-15,288.00	61.97	-246.69	< .0001
Latest School was Public 2 Years	0.098	-11,339.00	85.24	-133.03	< .0001
Latest School was Prop. 2 Years or Less	0.064	-10,185.00	99.37	-102.49	< .0001
Latest School was Private 2 Years	0.018	-9,051.51	163.61	-55.32	< .0001
Latest School was Public 4 Years	0.560	-7,743.85	52.7	-146.93	< .0001
Lender of Last Resort	0.004	-1,779.06	344.71	-5.16	< .0001
Latest School was Prop. More Than 2 yrs.	0.020	-1,571.12	154.25	-10.19	< .0001
Studied Business or Computers	0.202	-528.51	52.96	-9.98	< .0001
Family Receives AFDC	0.100	-303.93	75.25	-4.04	< .0001
Student's Dependents (includes self)	1.527	-69.44	18.03	-3.85	0.0001
Father Attended College	0.402	155.88	51.54	3.02	0.0025
Insignificant Variables					
Family Assets	\$6,708	0.92	0.38	2.40	0.0165
Withdrew From School	0.474	-101.53	42.86	-2.37	0.0179
High School Grad	0.883	-133.85	67.68	-1.98	0.0480
Mother Attended College	0.352	-31.79	52.46	-0.61	0.5446

NOTE: $n = 273,063$; Dependent variable is total amount borrowed by Dec. 2000. Mean amount borrowed is \$13,464; R-Squared is .428. Model is linear regression. Borrowers are those who borrowed in 1994-95 and are now in repayment. Income and assets were entered in thousands. The school types entered are in comparison to four-year private, nonprofit schools. In the Lender of Last Resort program, a lender provides the loan with a 100 percent guarantee from the U.S. government to a borrower who demonstrates he or she can't find any other lender. Studies business or computers is what was indicated on the FAFSA form.



FOR MORE INFORMATION PLEASE SEE:

National Center for Education Statistics, U.S. Department of Education, *National Postsecondary Student Aid Study: Student Financial Aid Estimates for 1999-2000*, July 2001.

Lutz & Malizio, *Student Financing of Undergraduate Education, 1995-96*. National Center for Education Statistics, U.S. Department of Education, Nov. 1998.

Gladieux & Lee, *Student Debt in California: An Analysis of Trends and Issues*. EdFUND, 2001.

Swaile, Gladieux & Lee, *The California Dream and Its Future: Indicators of Educational and Economic Opportunity in the Golden State*. EdFUND, 2001.

For further information on this study please contact: Research Dept. EdFUND P.O. Box 419045, Rancho Cordova, CA 95741-9045.



P.O. BOX 419045
Rancho Cordova, CA 95741-9045

Toll free 877.2EdFUND
(877.233.3863)

www.edfund.org

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