

PEDAR



U.S. Department of Education
NCES 2006-156

Dealing With Debt

1992-93 Bachelor's Degree Recipients 10 Years Later

Postsecondary Education Descriptive Analysis Report



THIS PAGE INTENTIONALLY LEFT BLANK

PEDAR



U.S. Department of Education
NCES 2006-156

Dealing With Debt

1992-93 Bachelor's Degree Recipients 10 Years Later

Postsecondary Education Descriptive Analysis Report

June 2006

Susan P. Choy
Xiaojie Li
MPR Associates, Inc.

C. Dennis Carroll
Project Officer
**National Center for
Education Statistics**

U.S. Department of Education

Margaret Spellings
Secretary

Institute of Education Sciences

Grover J. Whitehurst
Director

National Center for Education Statistics

Mark Schneider
Commissioner

The National Center for Education Statistics (NCES) is the primary federal entity for collecting, analyzing, and reporting data related to education in the United States and other nations. It fulfills a congressional mandate to collect, collate, analyze, and report full and complete statistics on the condition of education in the United States; conduct and publish reports and specialized analyses of the meaning and significance of such statistics; assist state and local education agencies in improving their statistical systems; and review and report on education activities in foreign countries.

NCES activities are designed to address high-priority education data needs; provide consistent, reliable, complete, and accurate indicators of education status and trends; and report timely, useful, and high-quality data to the U.S. Department of Education, the Congress, the states, other education policymakers, practitioners, data users, and the general public. Unless specifically noted, all information contained herein is in the public domain.

We strive to make our products available in a variety of formats and in language that is appropriate to a variety of audiences. You, as our customer, are the best judge of our success in communicating information effectively. If you have any comments or suggestions about this or any other NCES product or report, we would like to hear from you. Please direct your comments to

National Center for Education Statistics
Institute of Education Sciences
U.S. Department of Education
1990 K Street NW
Washington, DC 20006-5651

June 2006

The NCES World Wide Web Home Page address is <http://nces.ed.gov>.

The NCES World Wide Web Electronic Catalog is <http://nces.ed.gov/pubsearch>.

Suggested Citation

Choy, S.P., and Li, X. (2006). *Dealing With Debt: 1992-93 Bachelor's Degree Recipients 10 Years Later* (NCES 2006-156). U.S. Department of Education. Washington, DC: National Center for Education Statistics.

For ordering information on this report, write to

U.S. Department of Education
ED Pubs
P.O. Box 1398
Jessup, MD 20794-1398

or call toll free 1-877-4ED-Pubs or order online at <http://www.edpubs.org>.

Content Contact

Aurora D'Amico
(202) 502-7334
aurora.d'amico@ed.gov

Executive Summary

Student loans have become an increasingly important source of financial aid for college students. Between 1992–93 and 2003–04, the proportion of all undergraduates borrowing in a given year to help pay for their education increased from 20 to 35 percent at the undergraduate level (Tuma and Geis 1995; Berkner 2005), and from 19 to 42 percent at the graduate level (Choy and Premo 1995; Choy and Cataldi 2006). As borrowing has increased, long-standing concerns about students' ability to repay their loans and the effect of the debt on their lives after college have intensified.

The first part of this report describes the undergraduate borrowing patterns of 1992–93 bachelor's degree recipients and their graduate enrollment and additional borrowing through 2003. These graduates would have completed their undergraduate borrowing prior to the changes introduced by the 1992 reauthorization of the Higher Education Act. At that time, only students with financial need could have participated in federal loan programs as undergraduates.

The second part examines the repayment of undergraduate loans for bachelor's degree recipients who had no additional degree enrollment, providing details on how many had finished repaying their loans by 2003, who were still repaying and how much, what their debt burden was, and how they had managed their Stafford loan repayment over the 10-year period.

The report uses data from the 1992–93 Baccalaureate and Beyond Longitudinal Study

(B&B:93/03), a longitudinal study of students who earned a bachelor's degree during the 1992–93 academic year. Base-year information on this cohort was collected as part of the 1992–93 National Postsecondary Student Aid Study (NPSAS:93). Graduates were interviewed again in 1994, 1997, and 2003. These data were supplemented with data from the National Student Loan Data System (NSLDS), which contains detailed records on the repayment history and 2003 status of Stafford loans taken out by the 1992–93 graduates.¹ All comparisons made in the text were tested using Student's *t* statistic. All differences cited were statistically significant at the .05 level.

Borrowers Compared With Nonborrowers

Because only students with established financial need could borrow through federal student loan programs when the 1992–93 bachelor's degree recipients were undergraduates, borrowers were more likely than nonborrowers to have characteristics typically associated with financial need—that is, characteristics related to low income or a high price of attending, such as financial independence, low family income if dependent, parents with less than a bachelor's degree, and graduating from a private not-for-profit institution (table 1).

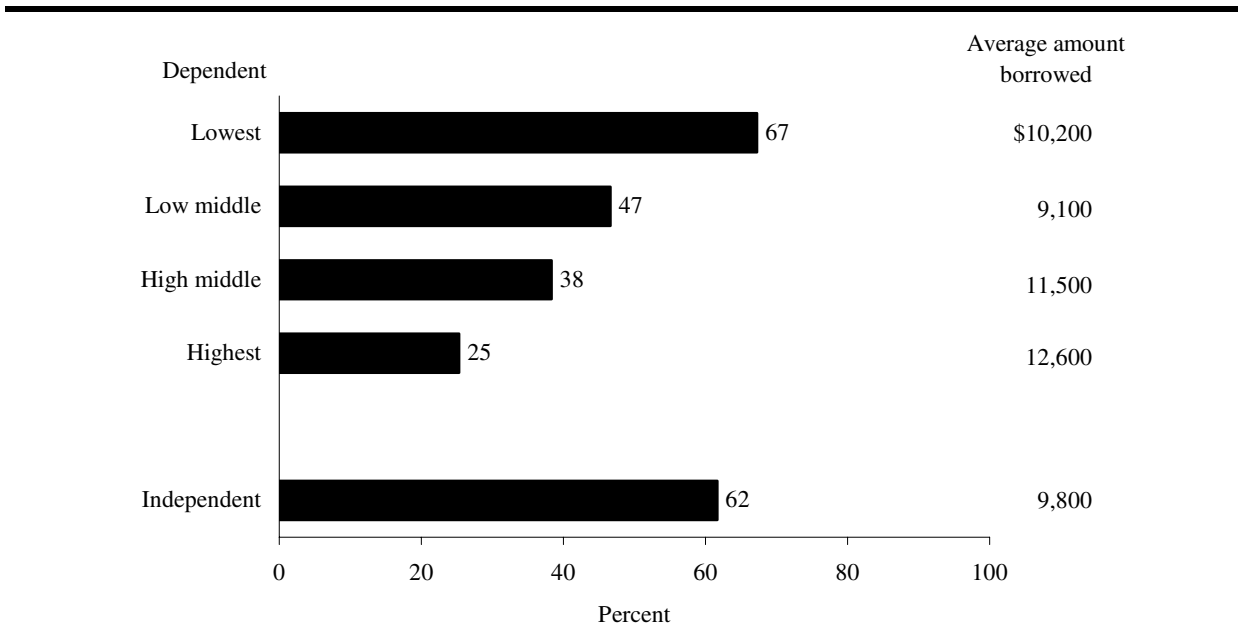
¹ The NSLDS data have been incorporated into the B&B:93/03 Data Analysis System.

Ten years later, however, there were no meaningful differences between borrowers and nonborrowers in educational, employment, and family formation outcomes such as the percentage who had enrolled in an additional degree program, average salary, or the percentage who were married or cohabiting. Borrowers were slightly more likely than nonborrowers to have children under 18 in their household, which may be related to the fact that borrowers tended to be older.

Borrowing for Undergraduate and Graduate Education

About half of all 1992–93 bachelor’s degree recipients (51 percent) borrowed at some point to help pay for their undergraduate education, borrowing an average of \$10,200 (table 2). This includes borrowing from all sources, not just through student loan programs. Among financially dependent students in the lowest quarter of the family income distribution, 67 percent borrowed (figure A).²

Figure A. Percentage of 1992–93 bachelor’s degree recipients who borrowed for undergraduate education from any source and, among borrowers, average amount borrowed, by dependency status and family income



NOTE: Estimates include students from the 50 states, DC, and Puerto Rico.

SOURCE: U.S. Department of Education, National Center for Education Statistics, 1993/03 Baccalaureate and Beyond Longitudinal Study (B&B:93/03).

² Dependent students were divided into four equal-sized categories based on family income. The upper bound was \$37,517 for the lowest income group, \$55,000 for the lower middle group, and \$74,036 for the upper middle group.

About 41 percent of the graduates had enrolled in a graduate or first-professional degree program by 2003, and of those who enrolled, 45 percent borrowed to help pay for that education (tables 3 and 4). Those with loans only at the graduate or first-professional level had borrowed an average of \$36,900 by 2003, while those with loans at both the undergraduate and graduate levels had borrowed an average of \$41,700 (table 5). Among the subgroup of graduates with no further degree enrollment, 51 percent had borrowed, with loans averaging \$10,000 (table 2).

Repayment of Undergraduate Loans

Bachelor's degree recipients who do not immediately enter graduate school typically must begin making monthly payments on their loans 6 months after they finish college. The standard repayment period is 10 years, with a minimum monthly payment of \$50, but alternative repayment plans exist to help borrowers who have difficulty meeting their repayment obligations.

Among bachelor's degree recipients who did not enroll in a graduate or first-professional degree program, most appeared able to handle their debt: 74 percent had repaid all their undergraduate student loans by the time they were interviewed in 2003 (table 6). This group includes borrowers who had completed repayment in less than the standard 10 years because they had borrowed relatively small amounts and were required to repay a minimum of \$50 per month, borrowers who graduated early in the 1992–93 academic year and had used up their time to repay, and borrowers who, for reasons of their own, decided to pay their loans off early. While 26 percent still owed, it is important to note that June graduates who were on the standard 10-year

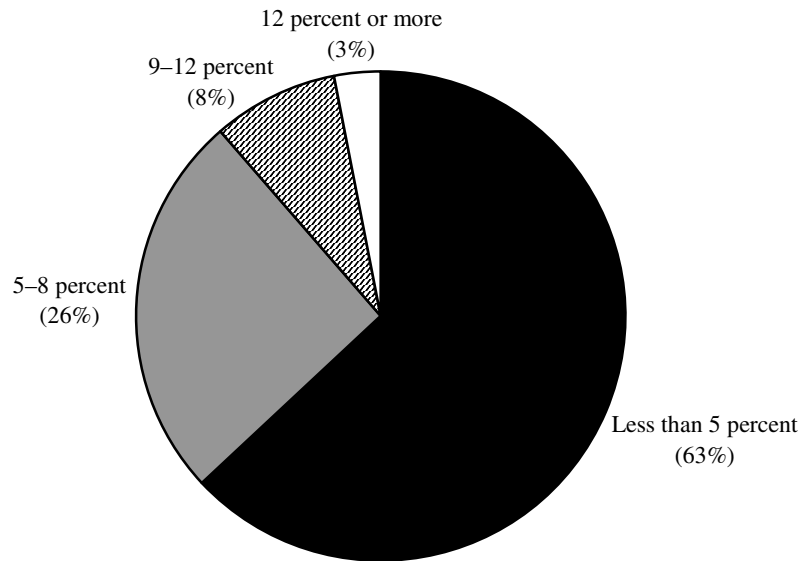
repayment plan for federal loans and had borrowed more than about \$4,000 would not be expected to finish repaying their loans until December 2003 (i.e., after they were interviewed).

The percentage who still owed ranged from 5 percent among those who had borrowed less than \$5,000 to about 42 percent among those who had borrowed \$10,000 or more. The percentage who still owed also varied with income. For example, 33 percent of those with salaries in the lowest income group in 2003 still owed, compared with 19 percent of those with salaries in the highest income group. The average monthly payment was \$150, but 11 percent were paying \$250 or more (table 9).

Debt Burden

Among those who had not enrolled in graduate or first-professional degree programs and were still repaying their undergraduate loans, the median debt burden (defined as monthly loan payment as a percentage of monthly income) was 3.3 percent (table 12). Because monthly payments were fixed throughout the repayment period but income generally rose over time, debt burden declined over time. Earlier studies of 1992–93 bachelor's degree recipients found a median debt burden of 6.7 percent in 1994 and 4.8 percent in 1997 (Choy 2000; Choy and Li 2005). For those who had borrowed the largest amounts (more than \$15,000), the median debt burden was 4.5 percent in 2003, and for those in the lowest income group (bottom quarter), it was 6.0 percent. By 2003, about 90 percent of borrowers were within the 8 percent generally considered reasonable, but 3 percent had debt burden of 12 percent or more (figure B).

Figure B. Among 1992–93 bachelor’s degree recipients who had no additional degree enrollment and were repaying undergraduate loans, percentage distribution by debt burden: 2003



NOTE: Debt burden is the monthly loan payment as a percentage of monthly income. Estimates include students from the 50 states, DC, and Puerto Rico. Detail may not sum to totals because of rounding.

SOURCE: U.S. Department of Education, National Center for Education Statistics, 1993/03 Baccalaureate and Beyond Longitudinal Study (B&B:93/03).

Debt Management (Stafford Loans)

Among bachelor’s degree recipients with no further degree enrollment, 39 percent had taken out Stafford loans as undergraduates (table 14). Among this group, 12 percent had consolidated some or all of their loans (table 15). They may have chosen to take this step for convenience, to obtain a fixed interest rate, or to extend the payment period.³ Five percent of borrowers with no additional degree enrollment had ever taken a deferment because of a disability, volunteer service, or other approved reason (table 16);⁴ and

12 percent had ever been in forbearance due to financial hardship (table 17).

Ten percent of bachelor’s degree recipients with no further degree enrollment who took out Stafford loans as undergraduates had defaulted at least once—that is, did not make any payments for 9 months and had not been granted a deferment or forbearance (table 18). However, 45 percent of those who had defaulted later re-entered repayment. Graduates who defaulted had borrowed more, on average, than those who did not default (\$10,000 vs. \$7,600).

Large loans were associated with default: 20 percent of borrowers with \$15,000 or more in Stafford loans defaulted at some point, compared

³ Extending the payment period reduces monthly payments but increases total interest charges.

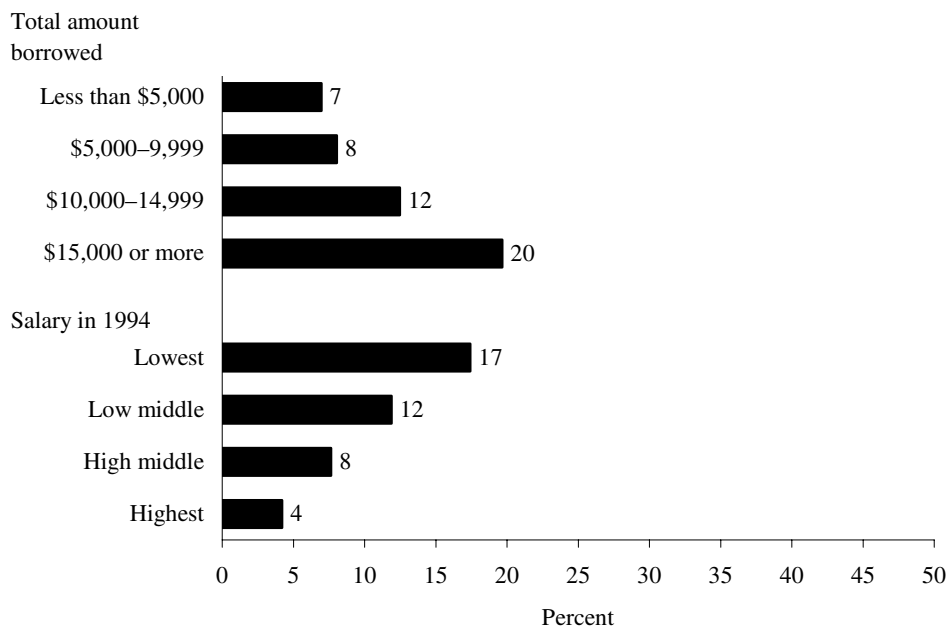
⁴ The most common reason for a deferment is enrollment in graduate school, but this analysis group is limited to those who did not go on to graduate school.

with 7–8 percent of those who borrowed less than \$10,000 (figure C). Those who started off with the highest salaries in 1994 were less likely than those with lower salary levels to have defaulted.

The percentage who defaulted was also related to deferment and forbearance: 21 percent of those who had ever deferred and 20 percent of those who had ever been in forbearance defaulted, compared with 9 percent of those who had not deferred and 8 percent who had not been in forbearance. Nevertheless, about 80 percent of those with deferments or periods of forbearance did not default.

Note that the federal government calculates cohort default rates based on the percentage of borrowers who enter repayment on a federal student loan during a particular federal fiscal year and default by the end of the next fiscal year. For fiscal year (FY) 2002, the cohort default rates were 4.0 percent for students who attended public 4-year institutions and 3.1 percent for students who attended private not-for-profit 4-year institutions (U.S. Department of Education 2004a). One would expect the rate shown in this analysis (10 percent) to be higher because it covers a much longer time period.

Figure C. Among 1992–93 bachelor’s degree recipients who had no additional degree enrollment and took out Stafford loans, percentage who defaulted, by total amount borrowed and 1994 salary: 2003



NOTE: Estimates include students from the 50 states, DC, and Puerto Rico.

SOURCE: U.S. Department of Education, National Center for Education Statistics, 1993/03 Baccalaureate and Beyond Longitudinal Study (B&B:93/03).

On average, students did not have difficulty dealing with their debt right away. The average length of time between graduation and the first deferment, forbearance, or default was 4–5 years (tables 16–18).

Implications of the Findings for Current Borrowers

The implications of these findings for current borrowers are difficult to assess. Undergraduates are borrowing more, which would suggest more repayment problems, but the characteristics of borrowers have changed. Now that borrowing is no longer restricted to students with financial need, more middle- and high-income students are borrowing.

It is clear from this analysis, however, that the financial circumstances of bachelor's degree recipients 10 years after graduation are not easy to predict. While loan payments remain constant, income, which is key to the ability to repay, does not. General economic conditions affect income over time, and career trajectories vary. The data show that students with high incomes soon after graduation are not necessarily those with the highest incomes 10 years later. On average, students did not have difficulty repaying their loans right away; problems came a number of years into repayment. For many, the problems were temporary, with about half of defaulters able to enter repayment again at a later date. In addition, most borrowers who deferred or had periods of forbearance were able to recover financially and did not default. This highlights the fact that when students and their families must make the decision to borrow, it is difficult for them to predict the actual burden of that debt.

Foreword

This report uses data from the Baccalaureate and Beyond Longitudinal Study (B&B) to examine the borrowing patterns of 1992–93 bachelor’s degree recipients and the repayment of their student loans over the next 10 years. B&B includes students who were identified in the 1992–93 National Postsecondary Student Aid Study (NPSAS:93) as having earned a bachelor’s degree during the 1992–93 academic year. NPSAS is based on a nationally representative sample of students enrolled in postsecondary education and provides detailed information on how students and their families pay for college, including the types and amounts of financial aid received. In the B&B Study, the 1992–93 bachelor’s degree recipients were interviewed in 1994 (B&B:93/94), 1997 (B&B:93/97), and 2003 (B&B:93/03) to learn about their education and employment experiences after graduation. To capture graduates’ loan repayment history and loan status in 2003, data from the National Student Loan Data System (NSLDS) on federally sponsored Stafford loans were added to the B&B:93/03 file.

The estimates presented in this report were produced using the B&B:93/03 Data Analysis System (DAS). The DAS is a computer application that allows users to specify and generate their own tables and produces the design-adjusted standard errors necessary for testing the statistical significance of differences between numbers shown in the tables. It is available for public use on the NCES website at <http://nces.ed.gov/das>. Appendix B of this report contains additional information on the DAS.

Acknowledgments

The authors wish to acknowledge important contributions to this report by many individuals. At MPR Associates, Lutz Berkner and Laura Horn provided guidance throughout the process, and Robin Henke made helpful comments on an early draft. Andrea Livingston edited the report, Annabelle Yang formatted the tables and prepared the figures, and Barbara Kridl managed the production process from beginning to end.

At NCES, Dennis Carroll oversaw the development of the report and shepherded it through the review process. Paula Knepper and Marilyn Seastrom provided thorough technical, methodological, and substantive reviews. We are grateful for thoughtful comments from a number of other reviewers, including Daniel Goldenberg (Office of the Under Secretary), Kenneth Redd (National Association of Student Financial Aid Administrators), Joan Burrelli (National Science Foundation), Ellie Greenberg (University of Colorado), and Clifford Adelman (Office of Vocational and Adult Education). Duc-Le To of the Institute of Education Sciences also provided thoughtful comments and gathered and synthesized helpful comments from two anonymous external reviewers.

Contents

| | Page |
|---|-------------|
| Executive Summary | iii |
| Foreword | ix |
| Acknowledgments | x |
| List of Tables | xiii |
| List of Figures | xvi |
| Introduction | 1 |
| Student Loan Programs | 1 |
| Loans and Access | 3 |
| Data | 3 |
| Organization of the Report..... | 4 |
| Undergraduate and Graduate Borrowing: All Bachelor’s Degree Recipients | 5 |
| Profile of 1992–93 Bachelor’s Degree Recipients | 5 |
| Borrowers Compared With Nonborrowers | 8 |
| Undergraduate Borrowing..... | 8 |
| Additional Enrollment and Borrowing for Graduate Education | 11 |
| Combined Undergraduate and Graduate Borrowing..... | 15 |
| Repayment of Undergraduate Loans: Undergraduate Borrowers With No Additional Degree Enrollment | 19 |
| Repayment Obligations and Options for Stafford Loans | 19 |
| Interest Rates on Stafford Loans | 21 |
| Amounts Still Owed and Being Repaid | 22 |
| Debt Burden | 30 |
| Managing Stafford Loan Repayment | 35 |
| Summary and Conclusions | 49 |
| Summary of Key Findings..... | 49 |
| Implications for Current Borrowers | 50 |
| References | 53 |

Appendix A—Glossary A-1

Appendix B—Technical Notes and Methodology B-1

List of Tables

| Table | | Page |
|--------------|---|-------------|
| 1 | By undergraduate loan status, student and institutional characteristics of 1992–93 bachelor’s degree recipients | 6 |
| 2 | Percentage of 1992–93 bachelor’s degree recipients who borrowed for undergraduate education from any source and, among borrowers, average amount borrowed and percentage distribution of amount borrowed, by student and institutional characteristics | 10 |
| 3 | Percentage distribution of 1992–93 bachelor’s degree recipients’ additional degree enrollment, by student and institutional characteristics: 2003 | 12 |
| 4 | Among 1992–93 bachelor’s degree recipients with graduate degree enrollment, percentage who borrowed for graduate education and, among borrowers, average amount and percentage distribution of amount borrowed for graduate education, by student and institutional characteristics: 2003 | 14 |
| 5 | Among 1992–93 bachelor’s degree recipients with graduate degree enrollment, percentage who borrowed for undergraduate and graduate education and average amounts, by student and institutional characteristics: 2003 | 16 |
| 6 | Among 1992–93 bachelor’s degree recipients who had no additional degree enrollment and borrowed as undergraduates, percentages who owed and were repaying their undergraduate loans and average and median amounts borrowed, by student and institutional characteristics: 2003 | 23 |
| 7 | By debt status, student and institutional characteristics of 1992–93 bachelor’s degree recipients who borrowed as undergraduates and had no additional degree enrollment: 2003 | 25 |
| 8 | Among 1992–93 bachelor’s degree recipients who had no additional degree enrollment and still owed undergraduate loans, percentage repaying loans and, among those repaying, percentage distribution of repayment plans, by amount borrowed and salary: 2003 | 28 |

| Table | Page |
|---|-------------|
| 9 Among 1992–93 bachelor’s degree recipients who had no additional degree enrollment and were repaying undergraduate loans, average monthly payment amount and percentage distribution of monthly payments, by amount borrowed and salary: 2003 | 29 |
| 10 Among 1992–93 bachelor’s degree recipients who had no additional degree enrollment, percentage distribution of employment status and, among those employed, average and median annual salaries, by selected student characteristics: 2003 | 31 |
| 11 Among 1992–93 bachelor’s degree recipients who had no additional degree enrollment and were repaying loans, percentage distribution of 2003 salary, by earlier salaries | 32 |
| 12 Among 1992–93 bachelor’s degree recipients who had no additional degree enrollment and were repaying undergraduate loans, average and median debt burden and percentage distribution of debt burden, by selected student characteristics: 2003 ... | 33 |
| 13 Among 1992–93 bachelor’s degree recipients who had no additional degree enrollment and were repaying undergraduate loans, percentage who were married or cohabiting and, among those married or cohabiting, spouse/partner loan status, average household amount borrowed, monthly payment, and annual income, by salary characteristics: 2003 | 35 |
| 14 Among 1992–93 bachelor’s degree recipients who had no additional degree enrollment, percentage who took out loans and average amounts, by type of loan and student and institutional characteristics: 2003 | 36 |
| 15 Among 1992–93 bachelor’s degree recipients who had no additional degree enrollment and took out Stafford loans, percentage who consolidated loans, average amount consolidated, and average Stafford loan amount, by selected student characteristics: 2003 | 38 |
| 16 Among 1992–93 bachelor’s degree recipients who had no additional degree enrollment and took out Stafford loans, percentage who ever deferred on those loans, average length of time until the first deferment, and average Stafford loan amount, by selected student characteristics: 2003..... | 41 |
| 17 Among 1992–93 bachelor’s degree recipients who had no additional degree enrollment and took out Stafford loans, percentage who had any periods of forbearance, average length of time until the first period, and average amount of loans, by selected student characteristics: 2003 | 42 |

| Table | Page |
|--------------|---|
| 18 | Among 1992–93 bachelor’s degree recipients who had no additional degree enrollment and took out Stafford loans, percentage who ever defaulted, average length of time until the first default, percentage who re-entered repayment, and average amount of loans, by selected student characteristics: 2003 43 |
| 19 | Among 1992–93 bachelor’s degree recipients who had no additional degree enrollment and took out Stafford loans, percentage distribution of 1994 salary and Stafford loan amount, by selected student characteristics: 2003..... 45 |
| 20 | Among 1992–93 bachelor’s degree recipients who had no additional degree enrollment, took out Stafford loans, and did not consolidate any of their Stafford loans, percentage who had paid off all loans, average amount of loans, average length of time to repay, and percentage distribution of length of time to repay, by selected student characteristics: 2003 46 |
| 21 | Among 1992–93 bachelor’s degree recipients who borrowed for undergraduate education, percentage who borrowed from all sources and through the Stafford loan program, and percentage of Stafford loan borrowers with various repayment histories for their undergraduate loans, by highest degree program: 2003 48 |

Appendix B

| | |
|-----|--|
| B-1 | Lowest weighted item response rates for variables used in this report B-5 |
| B-2 | Standard errors for table 2: Percentage of 1992–93 bachelor’s degree recipients who borrowed for undergraduate education from any source and, among borrowers, average amount borrowed and percentage distribution of amount borrowed, by student and institutional characteristics..... B-7 |

Thank You for previewing this eBook

You can read the full version of this eBook in different formats:

- HTML (Free /Available to everyone)
- PDF / TXT (Available to V.I.P. members. Free Standard members can access up to 5 PDF/TXT eBooks per month each month)
- Epub & Mobipocket (Exclusive to V.I.P. members)

To download this full book, simply select the format you desire below

