The College Completion Crisis Fuels the Student Debt Crisis

Tick tock. Tick tock. Student debt continues to grow, second by second, minute by minute. Today, it tallies around $1.7 trillion in the U.S. Tomorrow, it will be more.

One reason students continue to owe more and more is they aren't earning enough for their payments to keep up with growing interest. One reason they can't: *Many don't complete college.*

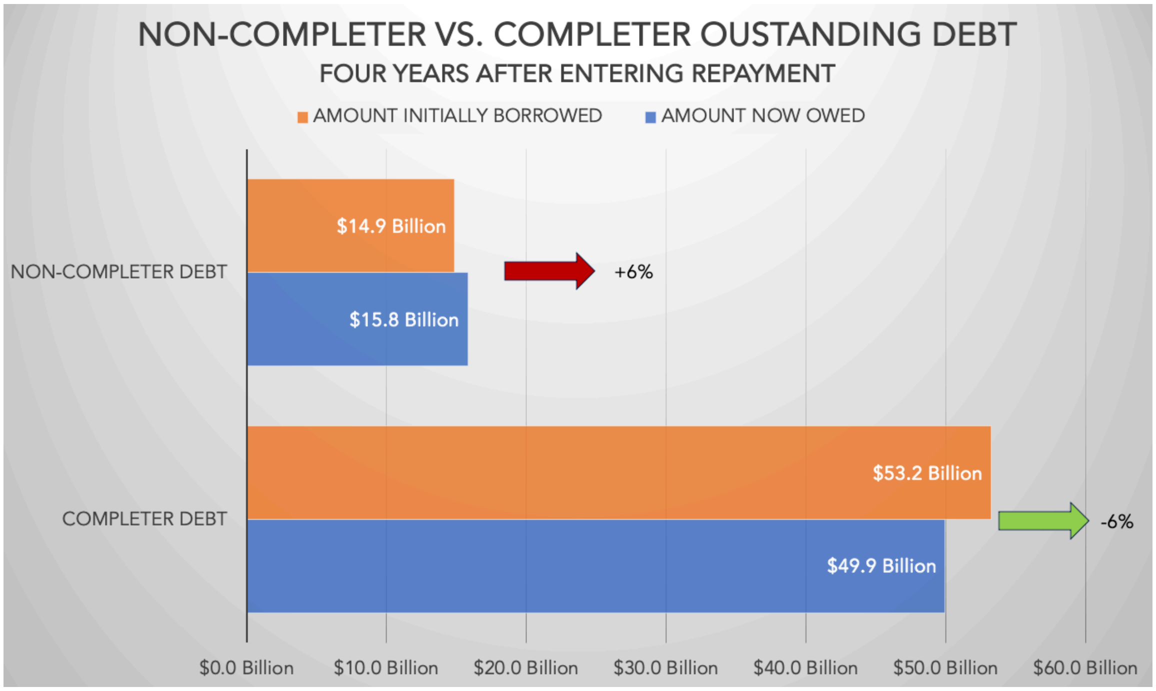
In this issue brief, we explore the extent to which college completion impacts student loan repayment. Specifically, we look at data four years after students leave college and enter repayment to see if there are differences between those who completed college and those who never finished.[1]

Methodology

In order to assess student loan repayment, we look at two cohorts of undergraduate students: those who completed college and those who did not. We use the U.S. Department of Education's College Scorecard data to determine how much they initially borrowed in 2013-15 and how much they cumulatively owe on their loans four years later in 2017-19. In total, 3.9 million student loan borrowers are analyzed at 1,949 institutions of higher education. If these borrowers now owe more than they initially borrowed, it may indicate that they earn too little to keep up with accumulating interest on their federal loans. All data used for this project are available online.

Does completing college help students pay down their debt?

Believe it or not, some students owe more on their student debt now — sometimes a lot more — than the amount they borrowed in the first place. This happens when students fail to make payments that are large enough to keep up with their accumulating interest, usually an indicator that they earn too little for the amount they owe.

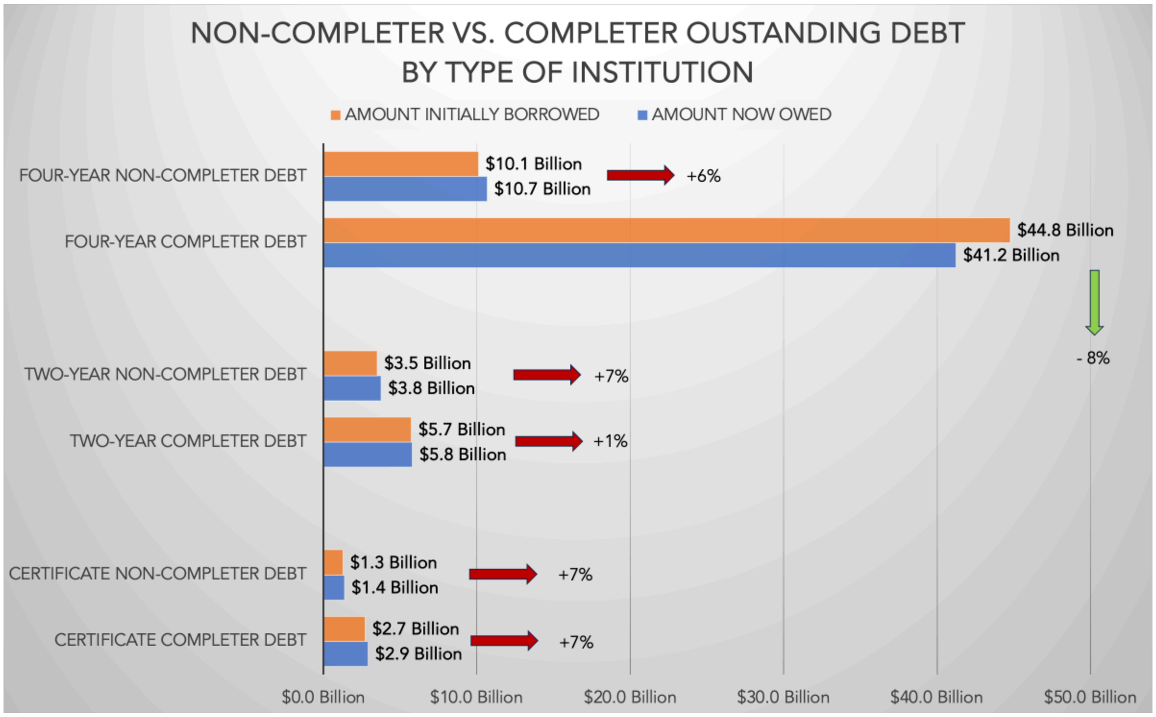


[1] A time frame of four years was chosen, as it is the longest time frame made available by the US Department of Education for this particular metric.

Just over a four-year period, we can see outstanding loan amounts exceeding the amounts initially borrowed for those who entered but never completed college. In fact, this group of borrowers now owes $918 million (6%) more than they borrowed in the first place. On the other hand, those who completed college are shown to make steady progress on paying down their debt, owing $3.2 billion (6%) less than the amount they borrowed four years prior.

Does completion matter more at certain types of colleges?

College completion is critical to success. And if you complete your degree, you're more likely to show an ability to pay down your student loans compared with those who enter college, but never finish. However, the type of institution you attend can play a role, with some credentials showing a stronger relationship between completion and loan repayment.[2]

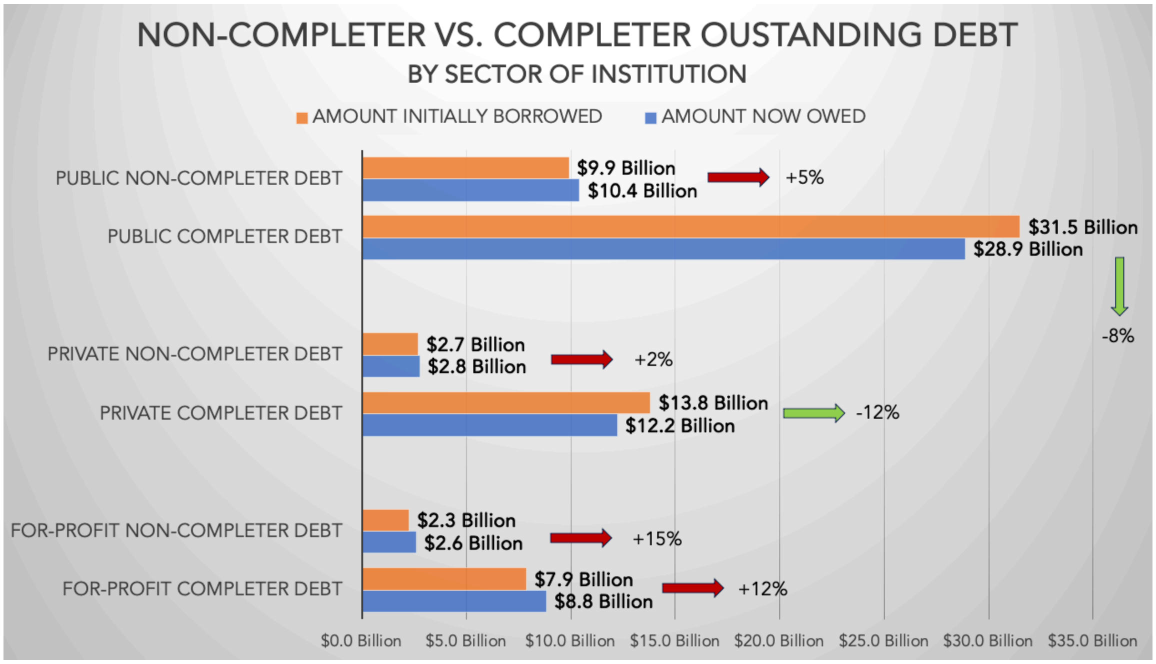


This is most notable at four-year institutions. For example, those who completed their four-year degree owe 8% less on their federal student loans four years after finishing their program of study. Yet, those who failed to complete now owe 6% more on their educational debt. Interestingly, those who earn an associate degree or a certificate still owe more than the amount they initially borrowed four years prior. While there is a substantial difference between completers (1% more) and non-completers (7% more) at the associate degree level, there is virtually no difference if you chose to pursue a certificate (both at ~7% more). This may reflect lower potential earnings after earning a certificate, the high cost of doing so, or both.

Does completion matter more in certain college sectors?

Across the board, those who complete college are more likely to make progress paying down their debt, whether they study in the public, private, non-profit, or for-profit sector. However, there are substantial differences in their likelihood to do so depending on the sector that offers the education.

[2] "Type of Institution" is determined by the degree an institution awards most often, whether that be a bachelor's degree, associate degree, or a certificate.



At public and at private, non-profit institutions, the differences in outcomes between completers and non-completers are stark. At public institutions, those who complete college now owe $2.6 billion (8%) less than the amount they initially borrowed four years prior. In contrast, non-completers owe $519 million (5%) more just four years later. Private, non-profit institutions show similar outcomes to public institutions for those who completed (12% less debt) and those who did not (2% more debt). For-profit institutions show more worrying results, regardless of completion status. While this won't be true for every for-profit college, in the aggregate, borrowers who complete at for-profit institutions still owe $951 million (12%) more four years later, even though they've earned their degree. Non-completers also owe $337 million (15%) more than the amount they initially borrowed.

Conclusion

As it turns out, completing college can make the difference between those who are able to pay down their loan debt and those who cannot. However, the type of institution you attended can also matter. Regardless, college completion remains of utmost importance — to the individual student and to the taxpayers who subsidize their educational endeavors. Exiting college without a credential leaves students in a precarious situation while also causing the nation's loan debt to keep piling up, second by second, minute by minute.

Acknowledgements

This report was commissioned by NASFAA and authored by Michael Itzkowitz of the HEA Group. The data analysis in this report was completed by the HEA Group.