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# Dealing With Debt

## 1992–93 Bachelor's Degree Recipients 10 Years Later

## Postsecondary Education Descriptive Analysis Report

**June 2006**

**Executive Summary**
The complete report is available at
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# 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).

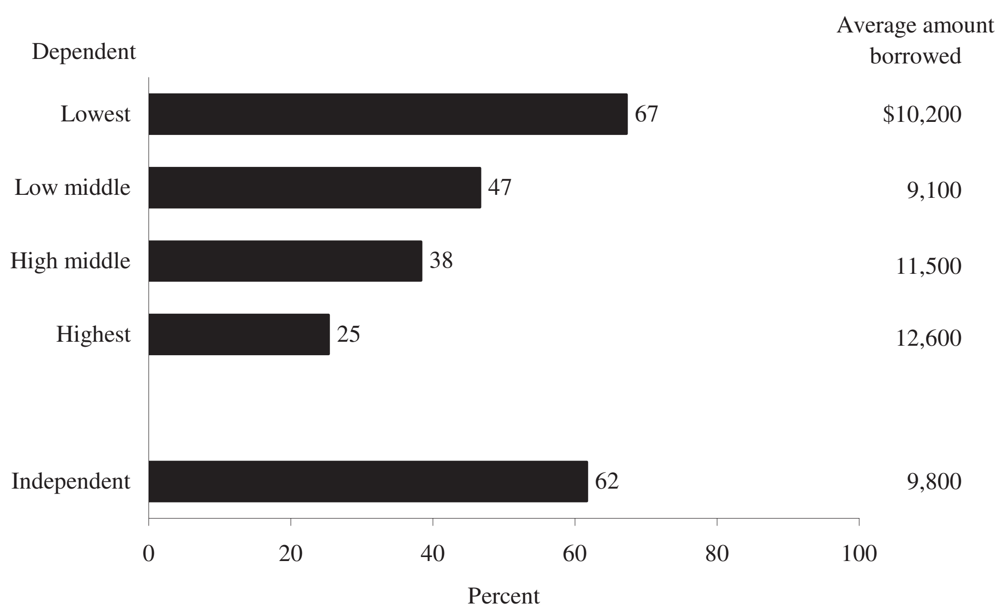
[1] The NSLDS data have been incorporated into the B&B:93/03 Data Analysis System.

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.

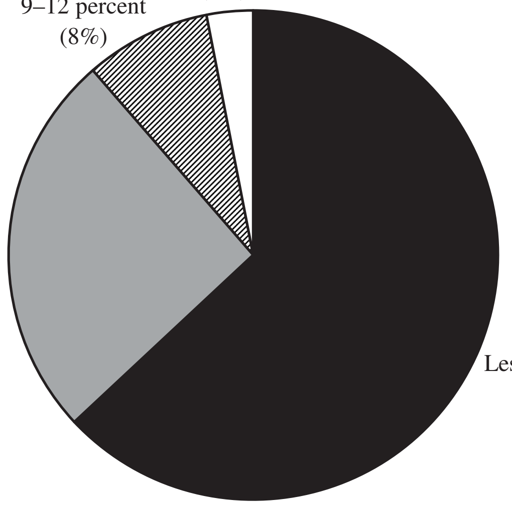
Among bachelor's degree recipients who did not enroll in a graduate or first-professional degree program, most appeared able to handle their debt: 74 percent had repaid all their undergraduate student loans by the time they were interviewed in 2003 (table 6). This group includes borrowers who had completed 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

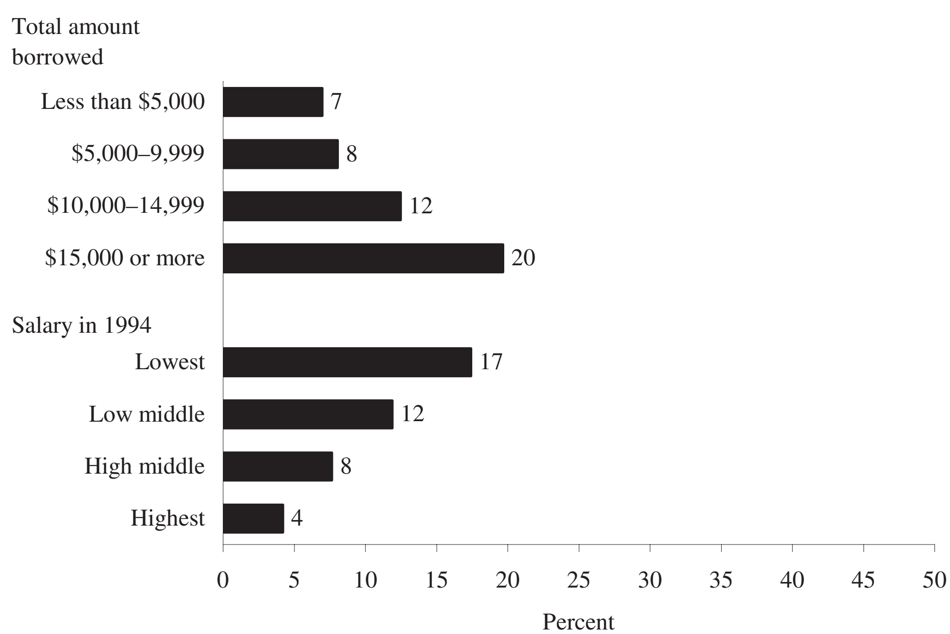
[3] Extending the payment period reduces monthly payments but increases total interest charges.
[4] The most common reason for a deferment is enrollment in graduate school, but this analysis group is limited to those who did not go on to graduate school.

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.