Comments on

The Role of Savings and Parental Support for Student Loan Repayment

and

Echoes of Rising Tuition in Students' Borrowing, Educational Attainment, and Homeownership in Post-Recession America

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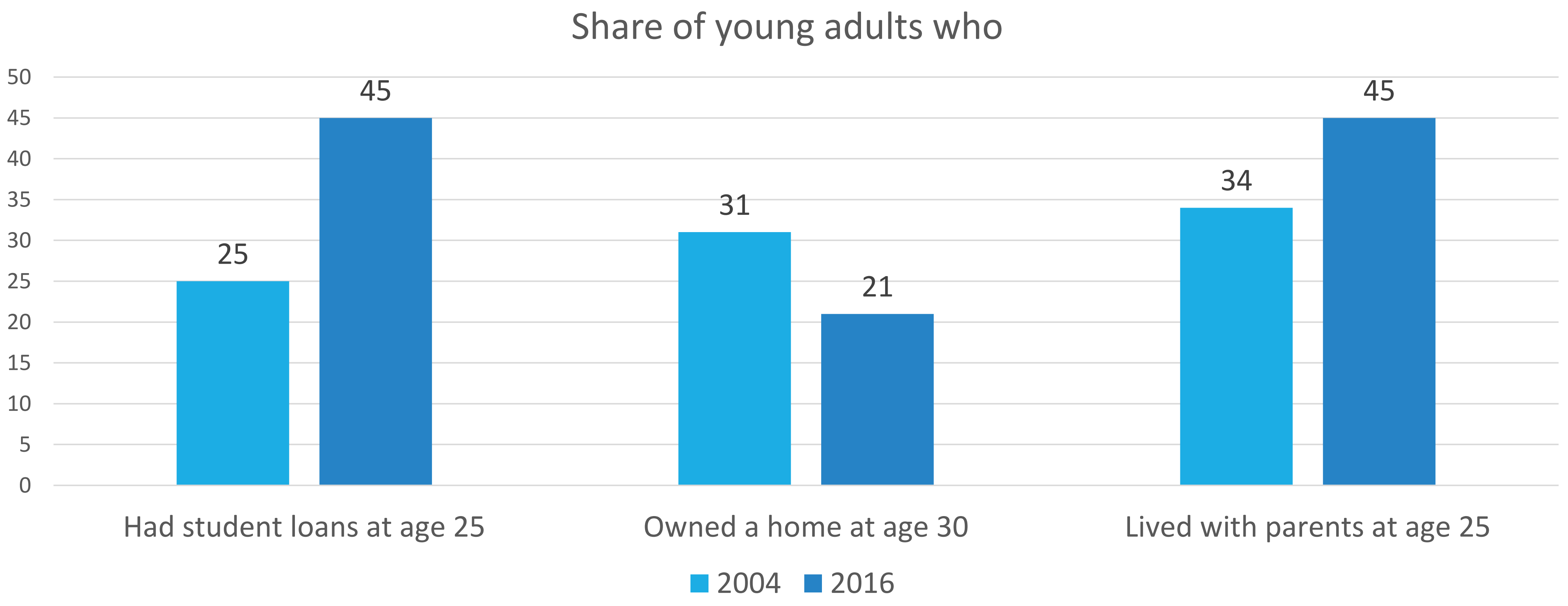
The views in this discussion are mine alone and not necessarily those of the Federal Reserve Board or its staff. I thank (without implication) Sarena Goodman, Alvaro Mezza, and Kamila Sommer for helpful discussions.

Echoes of Rising Tuition in Students' Borrowing

The “Echoes” paper documents a remarkable deterioration in the financial affairs of young adults



Big-picture story for this deterioration

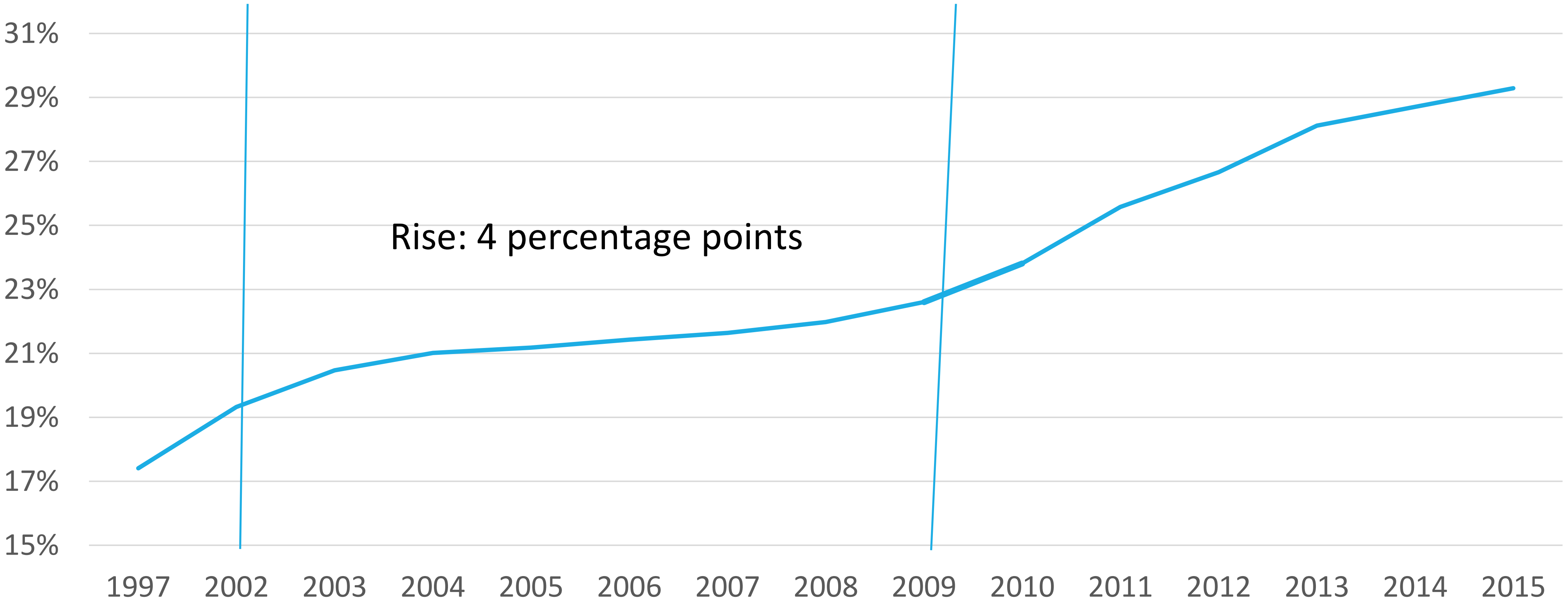
Increase in student loans

1. Increase in tuition and fees: seems to have started accelerating around 2001, due in part to pressures on state budgets from entitlement obligations
2. Surge in enrollment at for-profit schools and community colleges during the recession: 2008-12, with a peak in 2011
3. Erosion of other resources to pay for education: started ~2007-2015

Decrease in homeownership

1. Tightening of underwriting standards: 2008-present
2. Increase in student loans?

State and local spending on pensions relative to education



State and Local Government Finance Data Query System, Urban Institute-Brookings Institution Tax Policy Center. US Census Bureau, Annual Survey of State and Local Government Finances.

Highlights of “Echoes” paper

- Relates the changes in posted tuition and fees at public universities from 2001-09 to
  - Student debt at age 24 (observed from 2003 to 2011)
  - Homeownership at ages 28-30 (observed from 2007 to 2015)
- Time periods reflect
  - Data constraints (student loan data begin in 2003)
  - Homeownership rates only reach “critical mass” when individuals reach their late 20s
- Finds that the rise in tuition from 2001 to 2009 accounts for
  - About 30 percent of the rise in student debt held by 24 year olds from 2003 to 2011
  - 11 to 35 percent of the decrease in age 28-to-30 homeownership from 2007 to 2015
  - Very little effect on educational attainment

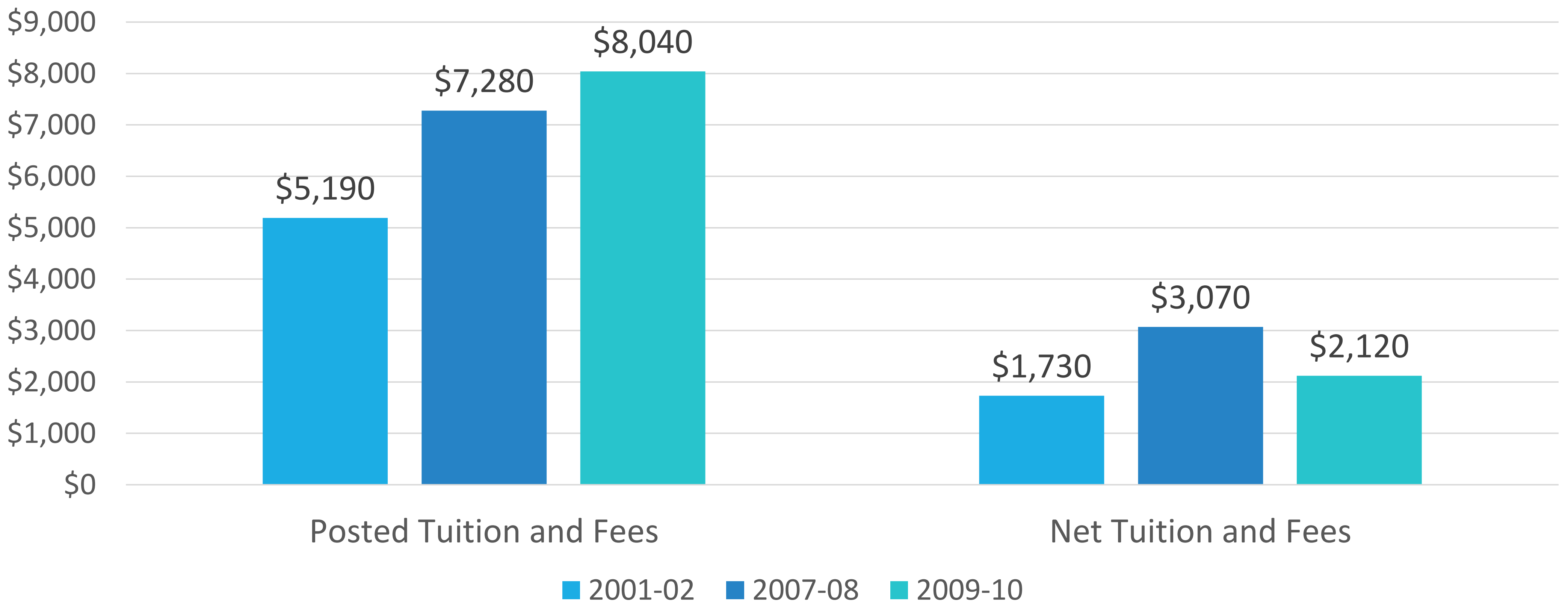
Three thoughts on the results

1. Focuses on one aspect of the overall puzzle during a time period when underlying fundamentals were changing dramatically
  - May be difficult to extrapolate to other time periods
  - Possible that the biggest effects on homeownership are still unfolding

2. Emphasis on posted tuition may understate the amount of the pass-through of tuition increases to student loans

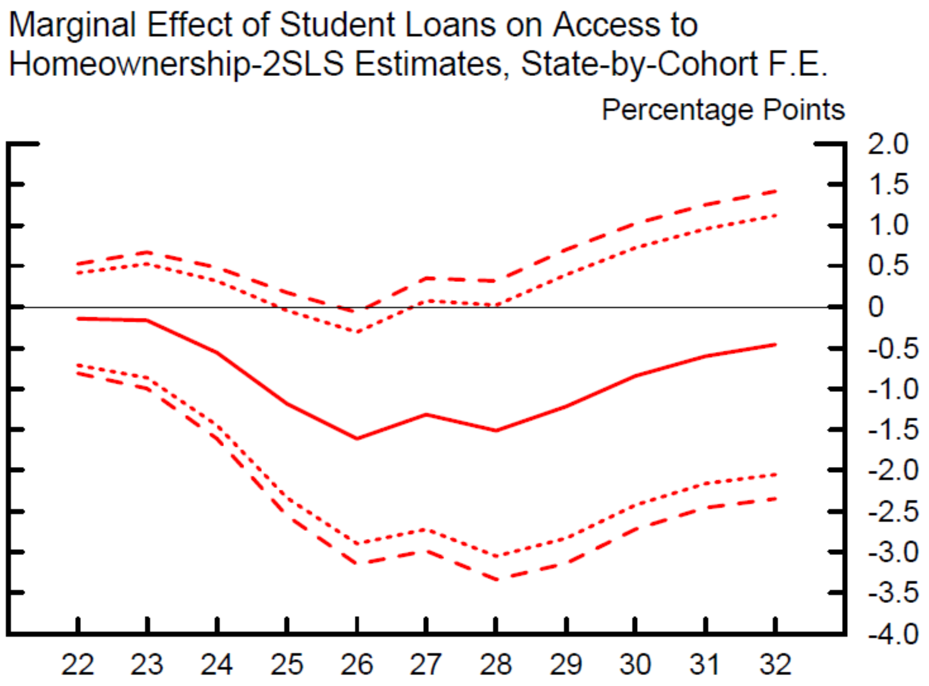
3. Suppose the effect of student loans is to delay homeownership by a year or two. Is such a delay less of a reason for concern?

Posted vs. net tuition and fees at four-year public universities



Source. College Board, "Trends in Student Aid 2017."

Negative effects of student loans on homeownership appear to peak at ages 26-28



Source. Mezza, Ringo, Sherlund, and Sommer (2017).

The Role of Savings and Parental Support for Student Loan Repayment

Highlights of “The Role of Savings” Paper

- Look at determinants of default for Canadian student loan borrowers
- Combines administrative data on loans with survey data from borrowers to provide fuller picture of household finances
- Finds that:
  - Higher-income borrowers (defined as $40,000 or higher in income) almost always make their loan payments
  - About 40% of lower-income borrowers (defined as $20,000 or lower in income) have repayment difficulties
  - Lower-income borrowers who make loan payments disproportionately have savings or family support
- Policy implication: student loan repayment assistance programs that are tied solely to current income will subsidize some students who would have repaid anyway

Public policy case for loan payment help: Defaults have externalities

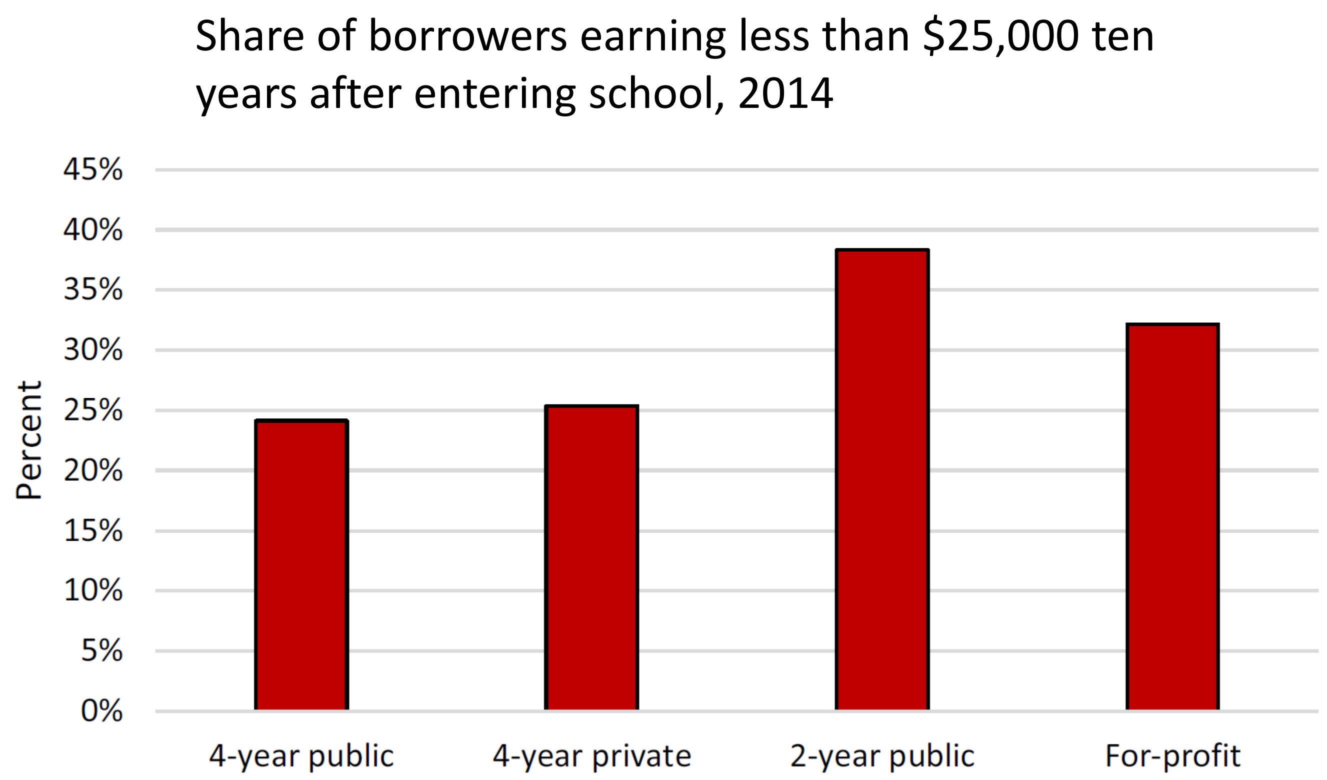
- Easy to see in case of mortgage defaults: foreclosures have negative effects on house prices and neighborhoods
- Harder to see externalities in case of student loan defaults (in fact, defaults might help individuals smooth consumption)
- If this is the right public policy motivation: government only wants to expend resources on borrowers who would have defaulted without the aid

Public policy case for loan payment help: Education has social spillover benefits

- Education appears to have benefits in the aggregate to society but can be risky for the individual
  - Part of the risk is under the control of the individual (school choice, major choice, effort expended in school)
  - Part of the risk is not (labor market conditions at time of completion, individual receives noisy signal about her ability, her match with the school and major, and the earnings payoff to her choice)

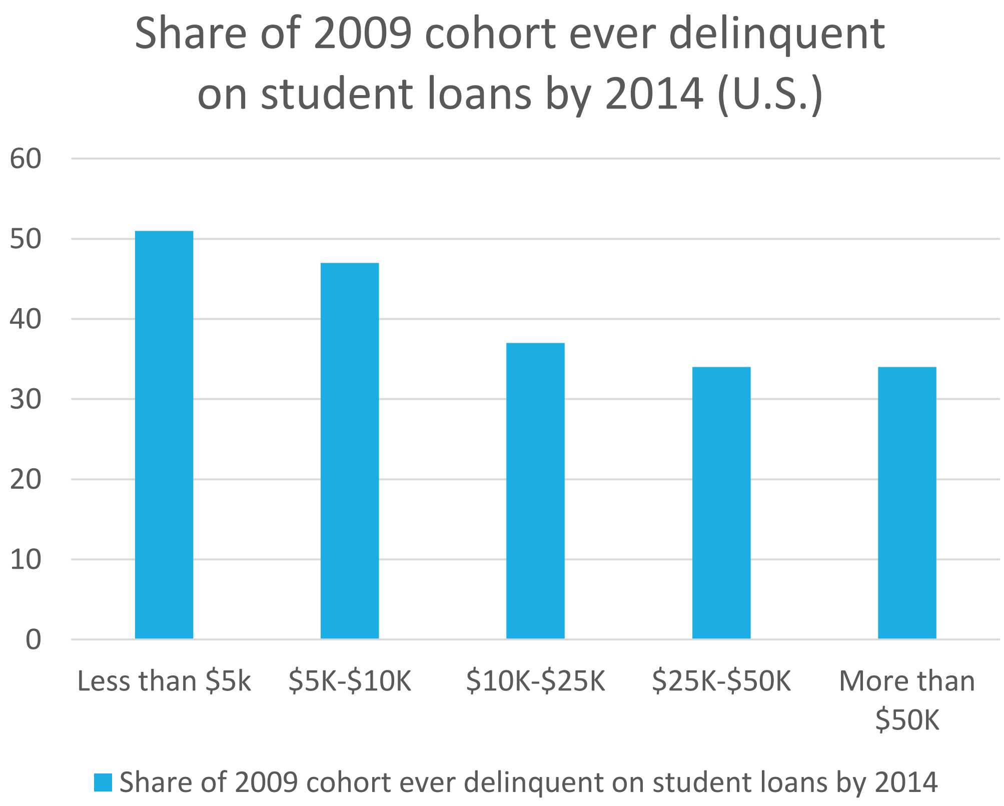
- Case for policy intervention depends on your views on
  - How big the social spillovers are
  - How much of the risk is outside the control of the individual
  - Bargaining dynamics between parents and children (will parents discourage education if they are likely to have to repay students' loans balances?)

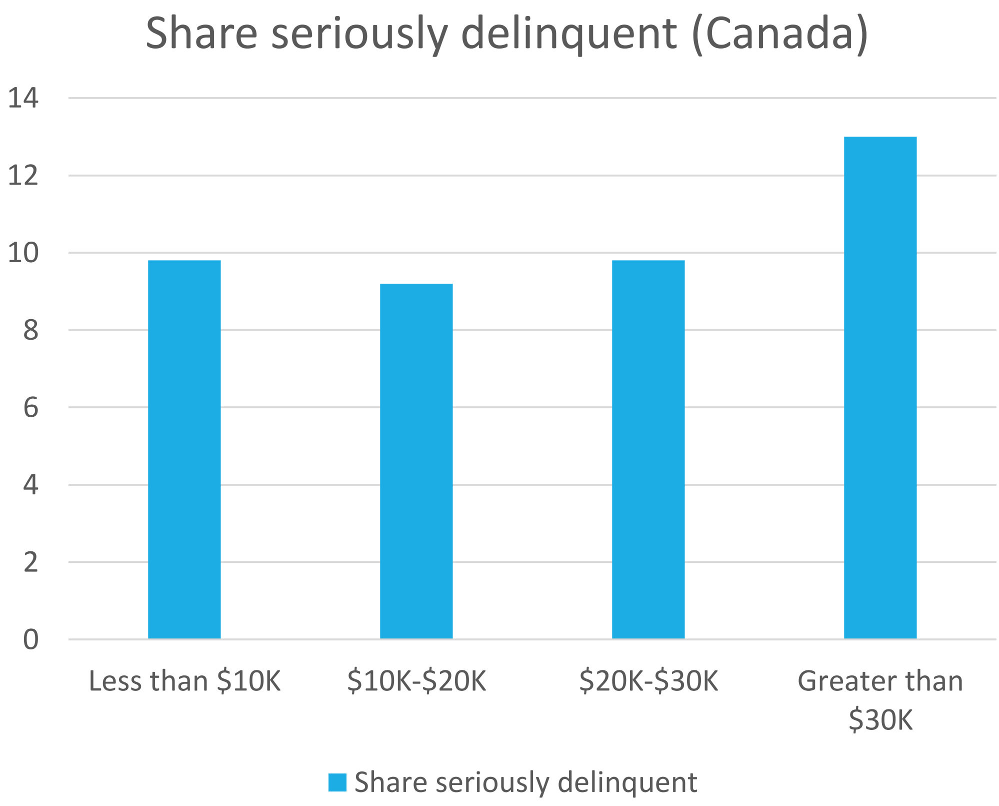
Downside risks of education are large



Source. Calculations by Laura Feiveson, Alvaro Mezza, and Kamila Sommer from College Scorecard data.

Delinquency rates in the U.S. and Canada





Sources. Bleemer, Brown, Lee, Stair, and van der Klaauw (2017); Lochner, Stinebrickner, and Suleymanoglu (2017)

Policy options for better outcomes

1. Limit access to student debt?
   - For-profit schools would not exist without Federal student loan programs
   - But limiting access would cause a lot of collateral damage:
     - Student loan programs appear to have been instrumental in maintaining access to education in the face of rising tuition (“Echoes” paper)
     - Student loans appear to help young adults smooth consumption (Goodman, Isen, Yannelis)

2. Better align incentives of for-profit schools and students?
   - Selective schools have an equity stake in their students’ success (Hoxby)
   - Some for-profit schools may not face the same incentives
   - Increases in information and transparency help but are likely not sufficient