Sources of Default and Delinquency among Student Loan Borrowers

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Two Crises in Student Loan History

No Board endorsement of any person or entity
First Crisis: Entry of new institutions surged in early 1980s

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New institutions were high-risk (for-profit, correspondence)

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Resolution: Strong accountability standards
Second crisis is similar in one dimension: New borrowers

Number of First-Time Borrowers

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The number of borrowers at higher-risk institutions surged...
...and they were higher-risk borrowers.

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Conclusion: Increase in default rates largely due to composition

3-Year Cohort Default Rate

- For-Profit: 26%
- 2-Yr Pub/Priv: 28%
- Non-Selective: 18%
- Somewhat Selective: 12%
- Selective: 7%
- Graduate Only: 3%

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Expansion in credit also involved increases borrowing amounts.
..and accumulated to very large balances for some borrowers

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Result: small share of borrowers with balances over $50,000 owe majority of the debt
Most debt is held by borrowers in the top half of the income distribution.

Federal Student Debt Owed by Income Quintile

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Large-balance borrowers rarely default (Five-year default rate, 2000s)
Composition of borrowers with >$50k balances (institution type)

Repayment Year

For-Profit
Public 4-Year
Private 4-Year

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Substantial heterogeneity across institutions:
5-Year repayment rates by institution repayment rate decile

Undergraduate
Graduate
Parent

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