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STUDENT LOANS: A LOOK AT THE EVIDENCE

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Introduction:

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Loan Burdens and Defaults: Failure of the Repayment System or Failures in Accountability?:

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How Big a Macroeconomic Problem is the Run Up in Student Debt?:

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P R O C E E D I N G S

MR. LOONEY: Good morning and thank you for coming. And thank you especially to the Hutchins Center for hosting this event today. I'm going to give you a brief overview of the program and then I'm going to give you a talk about -- to motivate why we're having this event. So, today, after my introduction, we're going host three panels that are going to discuss three topics. I hope you all picked up a handout on the way in that describes the program.

I see a lot of familiar faces in the audience today. So, I hope that we can offer you something that you don't already know, and we look forward to your engagement with questions through our panels. So, rather than give you a longer introduction about the schedule, I'm going to jump right into the topic of student loans and give you an overview of some salient facts to help frame and motivate the conversation we're about to have. Do my slides work? No.

Oh, there we go. Perfect. So, to frame this event, I want to start off with a couple of facts. One is that college has long been viewed as a key pathway to the middle class and for very good reasons. An able market, workers with bachelor's degrees earn a lot more than individuals without degrees, roughly, $500,000 more over the course of their lifetime. They're more likely to be employed. They have a higher quality of life on a wide variety of measures and those are believed to be caused by the educational investments they make. And for many students, those educational degrees are tickets to the middle class.

So, according to research from Brookings, children from the bottom fifth of the income distribution have a 41 percent chance of reaching the top income quintiles if they earn a college degree, but only a 14 percent chance if they do not. And the educational institutions that provide this upward lift are mid-tier, they're not selective. They're public institutions and there are thousands of them across the country.

And so there are good schools everywhere that help propel students up the income ladder. And that's given rise to this believe that college is a pathway to the middle class. And then along comes this student loan crisis that has totally shaken our faith in this belief. As is widely known between 2004 and 2018, the outstanding volume of student debt leapt from $250 billion to $1.5 trillion. Student loans are now the largest non-mortgage source of household debt in the United States. Borrowers clearly struggle with these loans.

Last year, student loans had the highest delinquency rate of any form of household debt and we read almost every day a story of how some former student suffers under the burden of some outlandish debt load, like the dentist who has a million dollars in student debt, or a single parent who owes $77,000. And so we clearly have too many student loan borrowers who regret their choices; who feel like they were fooled, or misled, or who feel burdened by the loans that they've taken out. And that is a real problem first of all, for the reasons I said, that there are big gains to college and it can be a pathway to the middle class.

Second, financial aid and loans in particular play a central role in providing access to college for low and middle-income students. This chart just shows the fraction of students who, fraction of individuals who attend college by age 22 -- the dark blue line. The fraction who attend college by age 22 by their parents' rank in the income distribution. So, what you can see from this is that almost all high-income students, children from high-income families go to college at a traditional time, but fewer than half of low-income students are enrolled at that age. And there's some catchup between age 22 and age 32, many fewer low-income students ever go to college. And when they do, a larger share of them go during a time in t heir life where they have more responsibility.

The students from low and middle-income families that do go to college are heavily reliant on financial aid. Grants and loans for most of their, or a large share of their educational expenses and absent those loans, fewer low and middle-income students would get to go to college. And indeed, the well-intentioned desire to increase access to college for these low and middle-income students is an acute reason why we are in this mess.

Over time, the Federal government has regularly expanded the amount it lends and the circumstances in which it makes Federal loans available. This chart shows loan originations for full-time student going back to 1970. What you can see is that we expanded in the '80s eligibility for who gets a student loan and the institutions that were eligible to participate. In the '90s, we expanded Federal loans to borrowers from high-income families and families particularly without financial need.

We have regularly increased the amounts we lend, both to undergraduates to graduates and parents. And as a result, the number of institutions that participate in the loan program and the amounts that are available for students has increased a lot over time. And so one thing that Federal Expansion Aid achieved was that it allowed more students to borrow and to borrow in much larger amounts. This chart shows data on household student borrowing in 2001. It shows that the average student loan balance in the entire population by income percentile, so the way that you would read this chart is to say that the average household in the top 10 percent of the income distribution in 2001 owed just under $4,000 in student debt.

Obviously, most households didn't owe student debt, but those that did owed more than $4,000. But what you can see is that almost no low-income household owed any debt. Only about 4 percent of households had any and when they did, they owed an average of about $6,000. And the largest balances were owed by the highest income households. About 11 percent of top income households had debt and they owed large amounts, about $35,000 per borrower in the top 10 percent. And that by and large, worked out fine in the sense that the amounts people borrowed were commensurate with their earnings. It allowed them to make payments. Households were not burdened and taxpayers, by and large, were held harmless.

And then, here is 2016. You can see there are big increases in how much households owe in student debt across the board. There are twice as many households who have debt and the average amount that is owed is about twice as high. The largest absolute increase is among the upper middle class, not those in the top 10 percent, but those in the next 10 percent. But the largest percentage increases are among low-income households who had rarely borrowed at all in the past. In the pattern of rising indebtedness has big intergenerational differences.

Nationwide, about one in five households holds any student debt. For households under 30, that number's about half and if we were looking at the class of students who had graduated last year, almost 70 percent of them had owed some student debt. Partly, this is because of increase in tuition, but tuition increases are actually only a small direct contributor to rising indebtedness. In addition, many low-income students have borrowed to attend some college, but have not necessarily a high-quality college, or a college that they necessarily completed. More middle and upper-middle class households have borrowed and borrowed to attend graduate programs. And to some extent, students get less help from their families, or their parents. They have less money to contribute out-of-pocket, or other, fewer sources of other financing. And hence, they use student loans to finance a larger share of their education than they have in the past.

Because children in upper and middle-income families are more likely to go to college and because college graduates, by and large, earn more. This chart also shows that a large share of debts are owed by higher income and better educated households. You can also see that in this chart, which shows the share of borrowers and the share of outstanding debt by educational attainment. For instance, this chart shows that, well, households headed by someone with a graduate degree make up only 26 percent of households. They owe almost half of all student debt. In contrast, 42 percent of households with student loans don't have a BA, but they owe only 24 percent of all the student debt.

So debt is concentrated among higher income and more highly educated households, but I think a lot of the pain from students' loans is concentrated among this other group that don't have a bachelor's degree. And, indeed, that's the type of route that shrivels the most in terms of default. So, this chart shows default rates by the institution type last attended and also by educational attainment and race and ethnicity. So, the chart on the left-hand side, for instance, shows that default rates at for-profit schools and to a lesser extent community colleges are quite high. And the students that default, they have often pursued certificates and associate's degrees, rather than traditional BA degrees.

And students that default are much more likely to be lower income. It could be first generation students, to be members of minority groups. In part, because of the challenges they face and the wealth and income that they have to finance their educational attainment. And also, because of the types of schools and the types of degrees that they pursue.

But it's important to recognize also that people who attain bachelor's degrees do quite well. We saw that in earnings. We see that in default rates in this chart. And it's important to realize that most students that earn a BA leave college with reasonable loan balances and a high-quality education. So, this chart, for instance, just shows that most undergraduates leave college with reasonable amounts of debt. So, this chart, for instance, shows that about 30 percent of individuals who graduated in 2012 with a bachelor's degree after completing typically four years of college, 30 percent of them had no debt; 23 percent had a loan, but owed less than $20,000; and, 70 percent graduate with a BA degree owing than $30,000.

And if you look more narrowly at those students who attended public and private non-profits, the share that leaves with relatively large balances is small. Among those graduates in 2012, for instance, a third at public four-year school didn't owe any debt and 80 percent owe less than $30,000.

And finally, over the last several years, we've implemented host of income-based for payment plan which have limited the amounts that students have to repay each month based on their income, capping those payments typically at less than 10 percent of the discretionary, or capping those payments at 10 of the discretionary income, which is a smaller share of their total income. And forgiving those balances over a period of time, 20 years if they're undergraduate students; 25 years if they have some graduate debt. As a result of those and some other changes we've made in our repayment system, despite the fact that loan burdens have increase across the board, the monthly debt payments of student loan borrowers conditional on having a student loan hasn't changed very much over time.

And so, that means that, for instance, among lower income borrowers, they actually are paying less on a monthly basis. And that's true almost across the board with the exception of this kind of the group between 80 and 90 percent in the income distribution. That doesn't mean that their loan burdens are in some ways less salient to them. Their loan balances in many of these cases are not going down and I'm sure that the debt still hangs over their heads. But the relief that these programs have provided is important because it means that they have more cash on hands to finance their day-to-day lives.

So, to conclude, students and their families owe more debt than ever. Many struggle with their loans, especially those who don't complete their degree, or borrower to attend certain types of programs, but many borrowers do very well. Especially those who earn a degree, or especially a bachelor's degree who graduate with reasonable loan balances. And we've done a good job, I think, at developing new ways for those borrowers to manage those debts. Thank you. I look forward to our discussion. (Applause)

MS. SHEINER: Hi, well, moving on to the first panel. I'm Louise Sheiner. I'm a Senior Fellow here at Brookings out of the Hutchins Center. So, our first panel is going to be on loan burdens and defaults, failure of the repayment system, our failures in accountability and I'm going to reintroduce Adam, who's going to come up and talk about this. Adam is my colleague here. He's the Joseph Pechman Senior Fellow in Economic Studies at Brookings visiting this year at the University of Utah Business School. So, he's going to do the first presentation.

The second presentation is going to be by Dubravka Ritter, Senior Research Fellow at the Consumer Finance Institute at the Federal Reserve Bank of

Philadelphia and has been doing a lot of work on student loans for a long time. So -- and after they do their presentations, we're going to sit here, have a brief discussion with me and then open it up to you guys as I know there are a lot of people who are going to have a lot of good questions in this audience. So, Adam?

MR. LOONEY: Okay. Thank you. I'm back again. (Laughter) Okay, so I interpreted this, the purpose of the panel to talk about why students struggle with their loans and what we can do about it. We framed it in some ways as a discussion of the accountability system. The set of rules that determine what schools, what institutions and what programs are allowed to participate in the loan program and the rules that apply to those institutions. The kind of what, where, how much students can borrow to go to which schools, versus the repayment system which describes how borrowers repay their loans after they leave school. And it's intended to keep those loan burdens manageable and to make sure that to protect both taxpayers and the students themselves.

And so, borrower outcomes have clearly gotten worse over time. So, I think part of the question is are those poor outcomes because today's students have gone to lower quality, or higher costs, or lower return, or lower value institutions and if that's the problem, it suggests some sort of failure in our accountability system. If, instead, students are mostly investing in high quality education, but are somehow, instead, the victims of rising costs, or more likely to face other risks that borrowers in the past have not faced, like, being from poor families, or entering into a worse labor market. Then we should be concerned that we're demanding too much of those borrowers after they leave school, which I can think of as a failure in our repayment system.

I'm sure that the right answer is both, but I'm going to give you the case that the big change is that we increasingly make loans that we know borrowers will struggle to repay, mostly based on the institutions they attend and the amounts that they borrow. So, if you ask me why some of these borrowers struggle with their loans, I would it's because we make them loans that we know that they're going to be unable to repay. And we encourage the students to take us up on that offer. We make undergraduates' student loans to attend programs where few people finish. Where those that finish don't get good jobs and where, when they do get jobs, those jobs don't allow them to repay the loans. I think we make graduate student's loans that are limited only -- well, we make graduate student's loans that are limited only by the cost of attendance, tuition and fees, plus living expenses, which has led to some students borrowing very large amounts, far in excess of their ability to pay.

In the past, borrowers that had large balances were, we called them doctors. Today, there's a wide variety of graduate students who can accumulate very large balances, but don't have the earning power or financial return that doctors did. And those borrowers struggle with their loans and I think cost taxpayers a lot in subsidies.

And finally, we lend to parents in very large amounts, but without regard to whether they have the ability to repay those loans. I think parents are maybe a little bit at the fringe of the accountability issue because it's not necessarily about which institutions those parents that borrow. But in the sense of why do so many people borrow, why do so many people borrow or struggle with their loans, it's in part because we make loans to individuals who don't have the ability to repay. And unlike for undergraduates and graduate students, when parents default, we garnish their wages and their Social Security, and we take away their tax refund. And so, the penalty for default is much harsher.

And so I think the federal government had stronger rules for how financial aid could be used and students would get higher quality education. They'd be less likely to struggle and the costs on borrowers and taxpayers would be reduced. So, why do I think this? Well, for undergraduates, I think the problem isn't necessarily how much students borrow. As I think the next panel will get into, the amounts that undergraduates can borrow is limited. And the amounts that students have borrowed each year they're in school has barely changed in 50 years. True, some students are taking a longer time to complete a degree and some undergraduate borrowers who are older and independents can borrow more. And so, some people accumulate larger loan balances than they have in the past, but on an annual basis, it's hard to look at the pattern in this chart and see that there's been an explosion in the amount debt that people have accumulated.

And I think it's also hard to look at the job market, particularly, the market for people who have BAs and conclude that something catastrophic has happened to people who have a good quality degree in terms of getting a job and earning wages. Instead, I think the big change in the undergraduate lending market is where students get their degrees.

This chart shows the number of student loan borrowers who are leaving school and beginning to repay their loans in the year 2000 versus 2001. And so, what you can see is that the number of student loan borrowers has increased at every type of institution, but far and away, the largest increases in borrowing have been at for-profit schools. To a lesser extent, borrowing has also increased at community colleges in the least selected schools. It's at these schools where students are less likely to complete a degree. When they do, they're less likely to get a job and they really struggle to repay their loans.

And indeed, this is not a new problem. This chart shows the student loan default rate each year back to 1970. So, the red line is the default rate. The blue line is the sharer of student loan borrowers who have attended for-profit schools. And what you can see is that when the blue line goes up, two years later, the default fault goes up. When the blue line goes down, the default rate goes down and then, in the 2000s, as the blue line has started going back up again, the default rate is going back up again.

Indeed, without any controls for things like the cost of college, the unemployment rate, economic conditions, or the share of borrowers that are low-income, or minority, or first generation, this simple relationship between the for-profit share and default rate suggests that the for-profit explains 90 percent of the variation in default rates over time. So, I think this is evidence that a lot of the bad outcomes are largely the result of where people go to school, rather than the characteristics of the students themselves. And, indeed, a lot of the pattern in the default rate, the rise and fall, and rise are the result of our accountability system. We expanded the types of schools that are eligible for loans in the '80s.

That led to a crisis that was ended by instituting a new accountability system based on default rates and the share of Federal -- share of revenues that schools derive from Federal aid. And so we rapidly arrested that problem in the early '90s. And in part, it's the unwinding of those rules that we had imposed then that has led to the reemergence of defaults.

For graduate borrowers, I'd say the story is similar in the sense that there have been big changes in where students have gone to school and the types of degrees they pursue. But for graduate borrowers, there's also a big increase in the amount they borrow. So, this chart just shows the average annual amount borrowed by graduate students each year they're enrolled in graduate school. You can see there are big, two big upticks. One in the early '90s when we raised the graduate student loan limits. And again, in (inaudible) 2006 when we eliminated the limits that grad students, the statutory limit on how much graduate students could borrow, and instead went to a system where graduate students could borrow up to cost of attendance.

What you can see is that after those changes, the amount that graduate students can borrow increased a lot and this is on the annual basis. So, graduate students can borrow without lifetime limit. And so some students enroll for many years, or in higher cost programs can accumulate much larger levels of debt. In addition to the amounts that graduate students borrow, there have also been changes in where they go to school. This is a little aggregated in the sense that you can see that the for-profit share has increased. You can see also, that there are increases in the number of graduate students who are borrowing at private and, at public schools and private non-profits. And I think this kind of understates the changes that are emerging.

And just to put a fine point on it, I have plotted here the data from the college score card that shows the average debt by program of study for California law schools and compared that to the California Bar pass rate. So, for instance, what this chart shows is that the average student that graduates with a law degree from Stanford University has borrowed about $120,000 from the Federal government to finance that education. Ninety-one percent of them go on to pass the California Bar on the first time they take it. And then on the right-hand side, you'll see schools like Whittier and Thomas Jefferson where the average amount that those students owe is $190,000. The Whittier Bar pass rate is 22 percent and at Thomas Jefferson, it's 31 percent. So, these are students who the Federal government has loaned $200,000 to, who we know are not going to become lawyers.

And that seems like a terrible burden to put on the students and a costly choice for taxpayers. I could give you more examples like this, USC's online master's degree on social work. Students leave there with an average debt of $109,000. In those cases, it seems like an avoidable problem in the sense that students who go and get their master's degree at UCLA or Cal State LA borrow on the order of $30,000 and even less at Cal State.

And then, I will just briefly say that some parents end up with predictably bad loans that they can't pay, like, graduate loans, parents face no life-time limit in their annual borrowing amounts are limited to costs of attendance. Many of them take out loans that they will struggle to repay. For instance, about 8 percent of the parents of students are poor enough to qualify for a Pell Grant take out a Plus Loan. The average Plus borrower took out $16,000 in 2014, as this chart shows. Overall, the average balance of a Plus borrower when their child leaves school in that year was about $39,000. And 9 percent of them owed more than a hundred thousand dollars.

Just to put a fine point on it, that generates a large number of parents who can't pay their loans. For instance, this chart shows the distribution of income of black and white parent borrowers. Only about 15 percent of parent borrowers are African American and 63 percent are white, but you can see that African American parent borrowers tend to be much poorer. About a third of them earn less than $30,000 a year.

It's inevitable that they're going to struggle with these types of loans and then when they do struggle, there's not a policy that helps relieves their burdens. And so, they go right into the Treasury Offset Program which claws back to Social Security and tax refunds. I'm not exactly sure of the split, but in 2017, the Department of Education clawed back $2.8 billion from borrowers who were delinquent on their debts through those mechanisms. I think many of them were parents. And so, we offered them these loans that we know they can't repay and then when they can't repay, we go after them with the full force of the government.

So, to conclude, my view is that many of the problems student borrowers face today stem from an erosion in the quality or value of educations that they're pursuing. Or at least with those that are financed with Federal Aid. And now, we can improve their outcomes by changing where and how much students can borrow. That could mean limiting institutions' eligibility for Federal aid, but it could also be to use grants, for instance, to pay for exclusively high-quality programs as is kind of implicit in many free college proposals.

We haven't talked about repayment, but I think we will. So, if we got the front end right and issued loans and conditions where we could reasonably expect borrowers to repay, the income-based plans would make a lot of sense because they would offer an assurance to borrowers without systematically subsidizing low-quality programs. So, that concludes my remarks. Thank you very much. (Applause)

MS. RITTER: Good morning. It's a true pleasure to join this fantastic lineup of speakers and discuss borrower experiences with student debt with you today. I want to than the event organizers for inviting me to discuss this difficult and very policy relevant question and thank you for the warm welcome.

I would like to spend the time that I have today to build upon Adam's remarks and provide some evidence of repayment challenges, particularly for disadvantaged students. Even when they attend what we might consider as good schools. I will also touch upon how the complexity and administrative inefficiencies in our repayment system can contribute to these bad outcomes.

First, I want to illustrate an important aspect about comes in higher education generally and for student debt in particular. Averages conceal a lot of variation. That can be the alternative title of my presentation. To do this, I'm relying on a rich data set of school level metrics; on the composition of the student body and on post-college earnings and loan repayment outcomes. That's the college score card. Many of you in the audience will be familiar with this data set.

Now, Adam already introduced the finding that borrowers have very different outcomes in terms of default rates by the school sector. So, private, not-for-profit, private-for-profit, and public. I will show you a couple of additional metrics in my remarks.

So, if we look at earnings 10 years after enrollment, from the 2014 to 2015 data set, borrowers would have enrolled for the first time in these institutions 10 years earlier. Mean earnings don't look terribly different by sectors. Part of that is that I have excluded graduate only and certificate only institutions out of this data set so that we can do a more apples-to-apples comparison.

So, I focus primarily on institutions that grant associate's degrees and BA degrees. The earnings data is only for students who borrowed which has its advantages and shortfalls. Now, three-year repayment rates similarly to default rates look considerably worse at for-profit colleges than at public and non-for-profit colleges. In fact, they're about half of the repayment rate for non-profit institutions.

The three-year repayment rate, by the way, is a low bar and it measures the share of the repayment cohort that reduced the balance of their loans by at least a dollar three years after entering repayment. And I should say that the patterns are pretty similar if you look five-year repayment rates, or seven-year repayment rates instead. We also know that post-college outcomes differ by the borrowers' pre-college context experience and preparation. All of which are highly correlated with things like socio-economic background and specifically, income. So, unsurprisingly, outcomes are worse for lower-income borrowers as Adam already mentioned.

Here, I show mean earnings by the borrowers' family income at the time of enrollment. Borrowers are split into three groups. Family income less than $30,000; $30,000 to $75,000; and then, $75,000 or more. So, mean earnings are at 25 percent higher for this middle-income group relative to the low-income group, and 50 percent higher on average for the high-income group. If you breakdown the analysis into considering primarily associate degree granting of community colleges and two-year for-profits, and separately for four-year schools, you will that the two-year public institutions are driving the results for -- pardon, I skipped ahead a little. So, three-year repayment rates are similarly worse for lower-income borrowers.

So, it turns out that lower-income borrowers are concentrated at two-year public and for-profit schools. Here, I highlight the share of borrowers that come from low-income families, so with income of less than $30,000. If you breakdown the analysis here into considering primarily associate granting and bachelor granting institutions, you will see that it's the two-year private -- two-year public institutions that are leading the results over for the public column.

Then we can look at how lower-income borrowers fare in different types of schools. It turns out that they do worse relative to other students in the same types of schools. Looking at earnings, this is true even at public. So, the first set of columns are public universities; the middle, private non-profit; and the last is private for-profit. On this, the dispersion within schools certainly is higher at for-profit schools. So, the downside risks to earnings is higher. The same holds true for repayment rates.

In fact, lower-income borrowers at non-profit schools look more similar to the average student in for-profit schools than their higher-income peers in the same type of school. What if we looked at high default and low default schools separately? We tend to think that schools with low defaults produce generally good outcomes. I define low default institutions as those with a three-year default rate below the median of about 13 percent. But even at those institutions, lower-income borrowers have much lower repayment rates than their middle and higher-income peers.

Note that this data is from 2014, 2015, so enrollment in income driven repayment really isn't driving the repayment rates down by a whole lot at this point just yet. Interestingly, the patter holds true even if we put aside the for-profit institutions and focus on the non-profits. Lower-income borrowers aren't doing great. So, on the left chart is for public colleges and the right is for private non-profit colleges and systematically, the lower-income students at non-profit universities aren't having repayment rates that exceed 50 percent.

By the way, if you reproduced this chart for for-profits, there's not much difference between the low default and high default schools in outcomes along student loan repayment. They are universally poor. So, you should take three main takeaways from the discussion so far. Borrowers at both for-profit and non-profit certificate programs have by far the poorest outcomes. Among associate and BA degree focus schools, lower-income borrowers have worst outcomes. At for-profit and low-quality non-profit schools, but lower-income borrowers aren't doing very well even at what we would consider high quality non-profit institutions.

Now, I chose to highlight differences in outcomes today to illustrate a point, but research papers using individual level data have done an analysis in the same spirit of this. Much more comprehensively. So, for those of you who are inclined to read more in-depth and technical reports, you can look at Adam's 2015 paper and due to Scott Playton's 2018, they're both published through Brookings. And papers like this consistently find that borrowers from disadvantaged backgrounds struggle the most with student loan repayment even when taking factors like school quality into account.

On the flipside, individual characteristics, the state of the economy and other observable factors that might affect school repayment metrics cannot account for the disparities in performance between non-profit and for-profit schools with for-profit schools consistently doing worse. So, we will need to think about both school level and individual level policy solutions to improve student loan repayment.

I'd like to take the rest of my time to talk about the ways in which our complex and inefficient repayment system may have contributed to poor repayment outcomes for borrowers. For one, we have far too many repayment and forgiveness plans, as well as ways to pause payments available to borrowers. The rules are different depending on the program through which the loan was obtained. Whether it's a Direct loan, or a FFEL loan and these complexities both produce a significant challenge to the loan servicing process. And complicate decision-making for borrowers, many of whom are inexperienced with loans and have dynamic and unpredictable employment paths, especially right after graduation.

And choice of repayment plan can be affected by family circumstances and in turn, it can affect tax returns, family formation, and borrowing for other purposes. It is an extremely complex decision. As someone who has spent a considerable amount of time studying student loan borrower credit records, I can tell you the end result is not pretty. To add to this, we spend a fraction of servicing expenses that banks do for other kinds of loan products on student loan borrowers and not enough time guiding families through the complex financial aid system before they even take out loans.

We see the result of our low investment in the often negative experiences of struggling student loan borrowers with their servicers. On top of that, the way borrowers apply for income driven repayment, verify their income in the way payments are collected from borrowers are terribly inefficient relative to systems in other countries. Some of these issues could be improved by automating enrollment and income driven repayment, and by piggybacking on the tax system for income verification and payment processing, as many of us have advocated for years.

To conclude, let me emphasize that borrowing for higher education carries risks of repayment problems for borrowers. And these risks come from many channels. Some of them are predictable, before enrollment while others are not and both require different policy solutions. Borrowers can struggle with repayment due to low, or unreliable earnings, some of which can be attributable to their individual characteristics and some to their school. Borrowers can also experience unexpected bad shocks which are not easily predictable at the individual level.

Complexities and administrative efficiencies in our repayment system can render borrowers enrolled in suboptimal repayment plans and make navigating repayment a source of significant stress for families. Sadly, students from disadvantaged backgrounds bear the brunt of the risks for these poor outcomes. On that lovely note, I'll wrap up, thank you. (Applause)

MS. SHEINER: Thank you both for really interesting presentations. So, to step back a little bit, so looking at both of all the presentations this morning, there's clearly a lot of student debt out there, which is a new thing. There's more defaults, but the monthly payments look reasonable. The returns to education are really high. So, is there a crisis? Is it a one and a half trillion-dollar crisis? Is it a smaller crisis? And if it is a crisis, who's the crisis for? Is it for people -- for which people who've been borne, of is it for the taxpayer? What's the big picture? Let's start with you, Adam.

MR. LOONEY: Well, I think that there are parts where it's clearly a crisis. Where I think that a lot of people attend schools that they don't finish, for instance, often -- for instance, for-profit schools where they can't finish, they accumulate a lot of debt. The program that they studied hasn't helped them find a job. I think for those students, it's clearly a crisis. And I think or a lot of the groups that I identified, graduate students and parents, some of them are struggling.

I would like to emphasize that for a lot of people, it's -- a lot of people are well served by their educational institutions. People who got a BA degree at a good four-year institution who have borrowed reasonable amounts to finance education, I think that they are well served and we shouldn't confuse the problems of some of these groups with the fact that for many mainstream borrowers, the system can work quite well.

MS. RITTER: I agree with everything Adam just said and I would just add that consistent with what I showed, I think the crisis is for the families with the fewest resources. And we have chosen the student loan in party to address the gap between what institutions and Federal grants and state grants (audio gap) and for some of them, I just don't think it's good (audio gap) producing outcomes that aren't good for them and aren't good for taxpayers or the economy. The Urban Institute has produced excellent research on the effects on borrowers and I think we need to do more to avoid those types of outcomes to our borrowers.

MS. SHEINER: Let's talk a little bit more about income-based repayment which got a little bit of mention, but not a lot. So, what problems does income-based repayments solve and what problems, if any, does it create? How much of a solution is that to some of the things, the problems that have been identified?

MR. LOONEY: Okay. So, income-based repayment -- what it does is it allows people who are enrolled in the program to reduce their monthly payments to be commensurate with their income. So, under the program, if you make less than 150 percent of the poverty line then you can suspend your payments, the duration of your loan is extended, you pay it over a longer period of time. If you make more than 150 percent of the poverty line, you only pay 10 percent of your income above that line.

So, the idea is that for students who are early in their careers where they're earnings are lower than they will be, or for those who are temporarily unemployed, it helps them weather a period of their lives when they're not earning as much as they will later. I think that that's great -- that's a great idea to provide insurance against those hard times. Periods of illiquidity and because the loan duration extends, it means that the taxpayers aren't necessarily on the hook for the full amount of that underpayment.

On the other hand, I think it's a problem in cases where if students are systematically not going to repay their loans and there's going to be large amounts of discharged debt, then I think there's moral hazard where schools will want to take advantage of the ability to charge more for that education. Students are not on the hook for how much they take out in loans and it ultimately will be very costly.

MS. RITTER: I agree that the idea of tying loan payments to income is one that stretches oh, at least 50 years and other countries have had income driven repayment plans with some of the similar features of ours for a very long time. The challenge in the United States is that we have a complexity of repayment plans as I already talked about.

In a country like Australia, a student will enter income-based repayment and will stay in income-based repayment the entire time and for the 20 or 25 years that they're paying back the loan. If they have higher monthly income, then what they would under some sort of a standard repayment plan equivalent, they will pay more. There are no caps on monthly payments. So, it's a true form or risk sharing in the sense that those with low incomes will pay less and those with high incomes will pay more.

There's, of course, a cap, an amount up to which they will no longer make any payments. So, even if you're a millionaire, you won't be paying 10 percent of a millionaire's salary for 20 years. You will finish sooner. So, from that perspective, in the United States, far worse can go in and out of income-based repayment. And if it becomes a program that borrowers only use when they're in distress and that they don't pay more into when they're doing well, then we're not really following in the spirit of what an income driven repayment plan is supposed to do.

MS. SHEINER: Yeah.

MR. LOONEY: Can I follow-up on --

MS. SHEINER: Yeah, yeah.

MR. LOONEY: So, I think Australia is a good example and -- but also one that requires a caveat which I think is that in Australia, well, pardon me, in Australia, the system has worked well for as long as it had because the only -- you were only eligible to get a student loan if you got into and attended one of their flagship BA programs. It wasn't available at the community college. You couldn't use it for a certificate. So, it was -- and the number of seats at those schools was limited.

So, it was really only people who had applied and who could get into the top schools who were offered a student loan. And so, in that sense, I think there wasn't a problem of riskier institutions, or students who -- even students were going to struggle because they had kind of already selected the types of people who were eligible for that program. And I think that they've since changed who's eligible and I think that the finances of that program have eroded and they're struggling now with their financial aid system because now they have a much broader proof of schools that can participate and get loans.

MS. RITTER: If I may add even a little bit more. I think you can think of our discussion here as kind of like an improv session. Yes, and (laughter) and all of the other countries where income driven repayment is the default and where it works reasonably well have a limit either on prices, or on seats. We have a very, very different system here of competition between schools and tuition setting. Even at some public schools that is pretty independent of any kind of a central body and income driven repayment has very different challenged under such a system.

We know that at for-profit colleges, they capture something like 70 percent of increases in loan limits and in all kinds of aid available to students in forms of higher tuition. So, it definitely is a problem we have to grapple with.

MS. SHEINER: So, it tees up the next question. So, how -- what kind of policies would both cater to a broader audience, so not do the Australia thing where you're selecting just the people. If the idea, the policy idea is to help people get an education and to help first generation and all that stuff, to get education and yet, that's also where we see all the problems with the loans. I just have two questions.

One, we do see a lot of problems, but is it on net still a useful program for people? And also, what are your top two policy ideas to change that?

MR. LOONEY: I think the (inaudible)'s a great educational system and so, I think by and large, it works very well for most of the students. I think we have a strong -- we should have a stronger accountability system, first of all that limits the conditions in which we make loans to students. I would prefer to have a system where we judge students based on their outcomes and looked at institutions that have a track record of producing students who have strong outcomes and particularly strong outcomes for low-income students. And to prioritize those institutions in our aid formula so that those students are more likely to get financial aid, or for the government to help them get aid to make sure that students that go to those institutions are eligible and then for institutions that, where students do not have good outcomes and where low-income students go not have good outcomes, then we should limit how much we offer them, or not allow them to take out Federal loans. I think that's the simplest way of saying that.

MS. RITTER: Can I follow-up on that before I give it to (inaudible).

MR. LOONEY: All right, fine.

MS. RITTER: Oh, sorry. Thank you. Are there enough seats at those places? So, is there a problem also on the supplies side where community college is available and, or, how do I think about that, rise in for-profits and why?

MR. LOONEY: I think that, that is an important question. So, I think we have one data point from our historical experience, which is we had a crisis in the '80s and that led to very high rates of default. And so, we instituted a fairly stringent system where we kicked out schools whose current default rates were too high. We kicked out schools that were predominantly -- not online, but distance learning programs at that time. We kicked out schools that were too reliant on Federal aid and then we also asked students to be more responsible for their loan burdens.

We garnished their wages if they didn't pay and we instituted a -- we didn't let them discharge their loans in bankruptcy. And so, there was kind of a shared responsibility and that led to the closure of thousands of schools. The evidence is that those students went to local community colleges by and large instead of the for-profit schools that were most stringently hit most by the rules.

And so at that time, there are seats. I think that it was an important question if you change how we do this. It would require students to move from one institution to another. And so, I think it's important to do that. In some sense, the aid flows with the student. So, some Federal resources would automatically shift to other institutions, but I think that's important thing to care about.

MS. RITTER: So, I'll start off by saying that one of the questions that I hear the most and that I get asked the most, especially by economists, market solution types out there are why do these bad schools continue to exist? How can they be sustained? And I think it goes really back to something that we haven't really touched upon yet in this session and it's this inflated level of demand for college education.

We have convinced families that going to a college and maybe to a four-year institution specifically is the only path to the middle class. It's something that they should strive for, no matter the cost and stretch themselves financially and in some cases they should, but if I thought that for-profit schools would cease to operate if eliminated Federal funding, I would have different policy solutions to suggest. But I don't, and I think that families will find other ways to, by and large, enroll in these programs and there are plenty of certificate programs where families pay the full cost and they're not eligible for Federal aid.

So, I think we have to be careful with limiting aid in terms of reducing the number of available seats too much. That being said, I do agree with Adam that there are some accountability policies that are in order that would weed out the really bad actors. And beyond that, we can then focus on income driven repayment and other tools to help the people who go to reasonably good schools, but don't have such great outcomes.

MS. SHEINER: Great. I'm going to open up to the audience. Raise your hand. We'll have a mic coming around. I'm going to take like, three questions, if we have three questions before we answer. And please stand up; give us your name; tell us where you're from.

MS. RAY: Hi, my name is Debra Ray and I am the founder of a non-profit educational organization. Código Ecuador teaching Ecuadorian women to code and my question is, what kind of -- how much of the bad outcome is actually driven by the stigma surrounding for-profit colleges, and how do we facilitate greater competition in the educational industry and help those for-profit colleges to succeed rather than continuing to place the bad label on those institutions? And also, what is the actual marginal cost of each student going even to a public university? And what is the premium that is placed on them and tuition because of the greater availability of student loans? And how do we classify those actors who charge that much?

MR. RABINOWITZ: Thank you. Dave Rabinowitz, retired. I was wondering if there's any way to get the institutions to share the risks on loans. Right now, the risks seem to be totally on the taxpayer.

MR. LOONEY: On the question of for-profits, I think philosophically, I don't think there's -- I don't have a personal aversion to them. I don't know why they would offer a different quality of product. The vast majority of things that I've purchased in my life are produced by for-profit entities and when I go to Costco, or I go to the doctor, and when I buy a Toyota, that seems to work out fine.

I think in the educational space, there is more of a problem in the sense that people are often not paying with their own money, or have the perception of not being on the hook for that which contributes to, I think more of a disassociation between costs and value. And to be fair, I think that there are for profit schools that do a good job. I think there are parts of the medical field that are our for-profit schools are the predominant educator of certain specialties and I think people value their work and there is not a stigma in those cases. But by and large, it's clear that if you look at the outcomes of the students, a lot more students go to for-profits, especially the large chains seem to struggle a lot more.

MS. RITTER: Agreed. There are for-profit schools out there that produce perfectly good outcomes. They tend to be from what I can tell focused in fields where competency based or skill-based learning with short-term programs with great measurement of pre and post-course earnings is really robust. Those are the ones that do well. So, I hate to be the economist who stands here and basically says, more data solution to everything, but in (laughter) this case I really think it is. Those schools who can make a good case for value-added and in the case of short-term programs, you can really argue that whatever your boost in earnings is after a six-month program is due to the program and not becoming older, more experienced and all these other things. The schools that can really show that link very tightly will do well.

It's a different set of objectives than a traditional two-year and four-year colleges where the public return in terms of better educated workforce, less reliance on welfare systems; lower crime rates and all these other benefits we know come from higher education, four-year and two-year institutions we can also look at that. But for the competency based, skill-based learning, it really is about the earnings and so we should measure that really well. And show out case.

MS. SHEINER: What about the relationship between tuition and the loan system and which direction does the causation go and is it true that the availability of these loans is one of the factors that's pushed up tuition, or is it a response to the rising tuition?

MR. LOONEY: Let me try it. I think I'm not there. I think there are other experts in the audience who will probably be able to answer this question better than I. I think there's some evidence that the (inaudible) in hypothesis, the idea that increases in Federal aid, or financial aid increased tuition. And so, I think there is some case for that. I also think that the response of policymakers has been increased loan limits and things like that and in the face of rising tuition.

I guess one other thing to say is that if you look at the sticker price versus the net price, in a lot of cases, the net price has gone up by much less, or not at all, then the sticker price in part because schools do more individual pricing, charging more for higher income students and less for lower-income students. And there have been increases in grant aid over time that has defrayed some of that cost. So, I think the relationship between how much schools charge and the loan system is a little bit -- it's just more complicated and not as straight forward.

MS. SHEINER: Why don't I just go to the institutional risk sharing? Just because we're running out of time here. So, is there --

SPEAKER: I'll have to put that back to Mr. Accountability here. (Laughter)

MR. LOONEY: I mean, I think there are, in terms of risk sharing, I mean, I think there are a lot of ways to impose accountability. So, I don't think that this thing that we have now evaluates an institution based on the one particular measure of the outcome of its student's and the default rate. And then if the default rate is too high, then the sanction is, you're no longer allowed to participate in the loan program. That has some nice features and that it's transparent and it's simple and it only applies to a small fraction of schools.

On the other hand, it is -- that means that for schools that are not near that threshold, they don't care necessarily a lot about that sanction and they don't have a lot of incentive to improve the outcomes of students through that kind of system. And so, one could design a -- sharing a system of accountability more generally that looked at the outcomes of students and applied incentives at a wider variety of institutions. And I think that that would help drive the institutions to care more about the students' outcomes.

MS. SHEINER: Okay, well, we're out of time, but we're coming back to this whole question, student loans at our next panel. We have a short break now, but please join me in thanking our panelists. (Applause)

(Recess)

MR. MATSUDAIRA: Okay. We're going to get started again. So, my name is Jordan Matsudaira. I'm an Associate Professor, at Teacher's College, at Columbia University, and am going to be moderating the next – the next panel discussion, but, before we do that, we're going to have our two experts come to us, and switch the focus to a particular policy, which has gained currency in the policy debate, in a – recently, with the White House, back in the spring, proposing debt limits, so limits on Federal borrowing, at least for graduate and parent borrowers. So, to discuss the issue of loan limits, we're going to have two experts come and talk to us: Matt Chingos, from the Urban Institute, and Lesley Turner, from Vanderbilt.

So, Matt Chingos is Vice President at the Urban Institute, where he directs the Center on Education Data and Policy. He earned his Doctorate in Government, at Harvard University, and previously served as a Senior Fellow, at your Brookings Institution.

He's written extensively on higher education financial aid and accountability policy and helped policymakers understand the implications of his work, and in frequent testimony before Congress. Together with Beth Acres, he's the author of the book "Game of Loans: The Rhetoric and Reality of Student Debt", which is an excellent synthesis of data and evidence that explains the rise of student debt levels over the past several decades and clarifies the most important problems with the current system in areas of reform.

Dr. Lesly Turner will go second, and is an Associate Professor of Economics, at Vanderbilt, and a Faculty Fellow of the National Bureau of Economic Research. She earned her doctorate in economics from Columbia University, and her research, a lot of which we'll focus on in our conversation, is broadly focused on how the design of higher education finance problems – education finance programs -- affects colleges and students, and has probably contributed more to understanding those issues than any other economist in our generation.

She's been actively involved in policy as well, recently completing a yearlong fellowship, with the Senate HELP Committee, and lending her expertise to the debate over reauthorization of the Higher Education Act.

So, we look forward to both speakers. Matt?

MR. CHINGOS: Well, thank you for the introduction. Thank you for inviting me. It's great to be back at Brookings. I just wanted to start by saying how glad I am that we're talking about loan limits, and the reason is we're hearing, you know, about student loans these days. On the Campaign Trail, we're hearing a lot about proposals to forgive student loan debt, to make college free, but we're hearing very little about what to do about the Student Loan Program, itself, and I think, maybe, something people either don't realize, or don't think about a lot, is that we could forgive all of the outstanding student loan debt tomorrow, as Senator Bernie Sanders would like us to do, and we could make public colleges' tuition free, but we'd still have a Student Loan Program, people would still borrow to foot their living expenses to go college, they'd borrow to go to private non-profit colleges, they borrow to go for-profit colleges, they borrow to obtain graduate degrees, they'd be making loans to parents.

So, we could forgive all the loans tomorrow, and make college free, in all the ways that people have talked about, and we'd still have a Student Loan Program, and what the folks, who want to forgive the student loans, and want to make college free, haven't talked about is what they would do about the Student Loan Program.

So, I think, this is a great opportunity to start to have that conversation, and think about, well, regardless of what we're going to do for the debt that currently exists, what should we do about the debt going forward? How – on what terms should we make loans to students in a way that's going to produce the outcomes we want, both for the students and for taxpayers.

So, to just kind of put a couple of ideas out there, kind of just to get you thinking about the pros and cons of loan limits; why do we have these limits? Well, the pros are we protect students from borrowing too much, at least to the extent that too much is above the limit that we put in place, and we try – we use them to try to and protect taxpayers from unpaid loans. So, if we let anyone borrow, however much they want, no questions asked, we might worry that a lot of that debt wouldn't get repaid. So, if we put a limit in place, then that, maybe, would be less of an issue.

What are the cons? Well, the cons is, if we put a limit in place, and the optimal amount for someone to borrow, is $12,000, and we only say you can borrow $10,000, well, then we're leading them to make a sub-optimal choice, and maybe they're going to borrow too little, and instead of borrowing that extra $2,000, because we won't let them borrow it, they're going to take on a few hours at their off campus job, and get distracted from their studies, drop out, and actually leave – lead to a worse outcome, and be, perhaps, more likely to default, than if we just let them borrow a little bit more, and the other con is that we're often going to end up with a one size fits all approach, and I'll talk, in a minute, about how there is some variation in the limits for different kinds of students, but there's not that much variation. So, it's, more or less, one size fits all, and doesn't allow, maybe, the kinds of targeting we could imagine being ideal, in terms of, well, what's the right limit? It probably depends on the student, and the program they're going into, and the field that they want to go into, after that.

So, to begin with, just an overview. A lot of folks don't know what the limits are. So, here are the loan limits. For undergraduate students, we have annual limits, and they're different, based on whether you're a dependent student or an independent student, and if you're a dependent student, that means you're age 24 or under, and you meet a few other characteristics. So, if you're over 24, that means you're independent, and, if you have kids that rely on you for support, you're independent, and there's a few other circumstances where you could be independent.

The other way you can get, not to be independent, but – and, so, you get the loan limits the independent gets is that if you're parents apply for one of these parent loans that we've talked a little bit about, the Parent PLUS Loan, and you get rejected. Then, you can get that. That's the other way to get that higher limit.

So, what you see is the Federal Government lets you borrow more, each year, for your first year of college. So, first-year college students can only borrow $5,500 from – in terms of Federal Loans, if they're dependent, $9,500, if they're independent, and, once you're a third year, or beyond, undergraduate, you can borrow $7,500, or $12,500.

There's also a lifetime limit for undergraduates, in terms of your federal borrowing, which is $31,000, for dependent students, and $57,500, for independent students. So, this really speaks to when you hear the big numbers, in the news, when you hear about the Adam's Dentist, with a million dollars in student loan – oh, right – Josh's dentist with a million dollars in student loan debt, and driving the used Tesla, right? I think the – I think that anecdote will live on for the ages.

That person, clearly, has blown through their lifetime limit, and it's because, right, someone like that is borrowing for graduate school, not just for an undergraduate degree, and, then, for graduate students, there – I could make a separate table for them, but it basically would just be a table saying they can borrow as much as they want, up to the cost of attendance, less grants that they receive. So, there is really no limit on what graduate students can borrow, as Adam said, they can borrow tuition fees, living expenses, as estimated by the college, and one thing to note is that the limits are the same for part-time and full-time students. So, whereas – when you get your Pell Grant, your Pell Grant gets prorated, if you're enrolled part-time, but your student loans, you're eligible for the same amount. So, part of the way you can hit that lifetime limit, is if you, kind of, if you, sort of, do the math, and start adding up 55, 65, 75, times two, you don't quite get all the way there, whereas, if someone is enrolled part-time, sort of for five, six years, you pretty quickly can run into those limits. If you're less than half-time, you're not eligible, but there is no kind of phase, and either your eligible for the full limit, or you're not eligible.

So, I thought, to just kind of provide some kind of context on, well, how much do these limits matter, and for whom do they matter? Went to one of the Federal Data sets on this, and said, well, let's take a look at how much people are borrowing, and we'll first look at undergraduates, then we'll look at bachelor's degree folks, and then we'll look at graduate students.

So, you're inputting people into four different categories. So, just looking at all undergraduates, in a given year, this is data from 2015, ’16. You could not borrow, not take out a Federal Loan. You could take out a federal loan but borrow less than your personal limit because – that reminds me of something I forgot to tell you on the previous slide, which is there is an additional limit, which is that you can’t borrow more than the cost of attendance, less other grants received.

So, if you’re an undergraduate, and this really applies more for undergraduate students, so, if you’re undergraduate student, and the cost of attendance, tuition fees, living expenses, and all that is $10,000, and you get a Pell Grant for $6,000, you can borrow the extra four, but you can’t borrow more than that. So, for some students, you can have a personal loan limit, which is actually less than the table of program limits, I showed you a moment ago. So, that’s the second category, which is folks are borrowing less than that personal limit. So, they’re not maxing out their Federal Loans.

There’s a third category of folks, and these are folks who are maxing out their eligibility for Federal Loans. They’re borrowing their personal limit, but for this group of folks, their personal limit is less than the program limit, and the reason it’s worth knowing this is because we could imagine policymakers saying, well, maybe we should relax that limit, and just have the same program limit for everyone, and that gives a sense of, well, how big is that group, and, then, the final group of folks are those who are borrowing the program limit. They’re borrowing one of the numbers, on this table, and what you see, here, is that it’s easy to forget, with all the talk about student loans, lots of folks don’t borrow. You know, in general, it’s about half of folks, half undergraduate students, in a given year, aren’t borrowing. At community colleges, there’s – the largest rates, you know, 80% of people are not borrowing, in a given year, at public two-year colleges. So, 20% are borrowing.

At the other sectors, you know, it’s all around, you know, 35-45%. Then, you see the next group, borrowing less than their personal limit. Once again, public two years not borrowing very much, but that’s, you know, 20 – about a quarter of people are borrowing, but less than that they could. It’s a very small number of people, around five percent, across all sectors, that are hitting that personal limit, and they actually could borrow more, if we would just relax that cost of attendance limitation, and you see the final group, once again, setting aside the community colleges, which is a pretty small group of borrowers, it's about 25-30%, depending on sector, that are hitting that program limit. So, about one on five, one in four students, or so, are hitting that program limit.

So, if we turn to cumulative borrowing, this is looking at bachelor's degree recipients. So, they're leaving college, and we can look at whether they hit that lifetime limit. So, now, there's three categories, you didn't borrow, you borrowed less than your lifetime maximum, or you hit the lifetime maximum, and what we see, here, is about a quarter, or 30%, or so, are leaving college without debt. About 10% are hitting that lifetime maximum, and then the rest of them, I guess about half the students, or so, are borrowing, but less than that lifetime maximum.

You do see here that, the lower your income, the more likely you are like to hit that lifetime maximum, and that can reflect your lower income, you need to borrow more money. It can mean your enrolled for a lot more semesters, you're part-time, it could be you're enrolled in institutions that charge more, or people borrow more, and you see that, as you go up the income distribution, people are less likely to hit that lifetime maximum.

If you look at the same numbers, by race, we see some numbers that are consistent with some other data we've seen today, and other data that have been published, showing that black and African American borrowers are most likely to hit those lifetime maximums, and the least likely to not borrow at all. So, whereas, you know, all students, you know, about three quarters, are borrowing, so, a quarter are not borrowing, whereas, among black African American borrowers, it's less than 20%, that are not borrowing at all, and more than 20% that are hitting that lifetime maximum, whereas, white, Asian, and Latino borrowers tend to look more similar, to each other.

If we turn to graduate students, once again, now, the limit is just this cost of attendance limit, but we can look in the data, and see who's not borrowing, who is borrowing, but less than their cost of attendance, less grants, and who's hitting the limit. Not huge numbers of graduate students hitting the limits, about, you know, 20%, depending on, once again, looking at racial and ethnic groups, here, a bit of variation, highest numbers hitting the maximum among black borrowers, but all sort of in the range of, I guess, 15, 20, 25%, or so.

So, as my time ticks down, here, I'm just going to throw out a couple of possible changes we could think about, as we here Lesley's comments, and then head into the discussion. We could think about not lending to students attending institutions or programs with weak outcomes, so, basically, what Adam and Dubravka talked about. We could think about reinstating the limits on graduate students borrowing, which had been in place, but were lifted in 2005, and we could also think about allowing institutions discretion to raise the undergraduate limits, on a case by case basis, perhaps doing some kind of targeting to those with strong records of repayment, so try to move a little bit away from the one size fits all approach, to providing some more discretion, and I don't – I'm not endorsing these. I think they have some pros and cons that'll make for some good discussion. So, thank you.

DR. TURNER: I am very pleased to be here to continue this discussion on policies around changing Federal Student Loan limits, and I'm going to focus my remarks, up here, on the potential benefits and costs of restricting, or increasing students' abilities to borrow from Federal Student Loan Programs, and I just wanted to highlight one thing before I proceed, that – is that I'm really going to be talking about policies that affect students' ability to take out Federal Student Loans, and don't change any other features of Financial Aid Programs.

There's a whole host of policies that could change how much students borrow, from varying grants to free college, and those likely have a different set of costs and benefits, and effects on students. Okay. So, I'll start with the potential benefits of lowering the Federal Student Loan limits. Okay. One of the biggest concerns around student debt, and the outstanding – or the student debt crisis, is concerns that borrowers are taking on more debt than they are able to repay, and one potential benefit, that's often discussed about limiting the amount borrowers can take up, is that this will prevent them from taking on this debt, that they won't be able to service after they leave college.

This will reduce payment difficulties, loan delinquencies, and loan defaults. What does the research and data say about whether this is a concern? Well, actually, loan default rates are highest for low balance borrowers, and this seems like a surprising finding, but, when you dig in a little bit more, these are actually borrowers, who are much less likely to have completed their program. So, low balance, non-completers, these are borrowers that, sort of, have borrowed $10,000 or less, are about three times as likely to default on their loans, compared to higher balance college completers, okay?

So, it doesn't seem like, at least in terms of repayment difficulties, the problem is with loan limits. This is more a problem of getting students, perhaps, into the right colleges, where they'll be more likely to succeed, or getting them to the finish line, so they can get that degree, or credential that we know will provide them with higher earnings, on average, in the labor market, okay.

A second potential benefit, which, I think, we'll get into more in the very final panel, is that reducing the amount of loan debt could also limit negative spillovers to other financial markets, or to the macroeconomy. One of the often cited concerns about increases in student debt is a concern that it's limiting young adults' ability to become homeowners, and, if you just look at trends in aggregate data, we can see that, as student loans debt has increased, homeownership rates for young adults have decreased, or leveled off, but these aggregate trends are really hiding a lot of other factors, such as the great recession, which limited families' finances, also increased lending standards, both of which could lead to these patterns, and the evidence is really, despite what is written about, effects of student loans on homeownership, the empirical evidence is fairly limited, as whether this is a big concern.

A second type of spillover is effects on borrowers' decisions to become entrepreneurs, or start a small business, and we do see that, in counties with higher levels of student loans, there are fewer small businesses being formed, but this is an area, again, where we're not quite sure – is this a causal effect, or are there other factors that are leading to both of these outcomes, and a final potential benefit, which was touched on, in the first panel, is that, by restricting the amount students can borrow, schools will be less able to increase their tuition, or charge very high tuition, like the online social work program, that Adam talked about, and there is some evidence that, for non-degree for-profit institutions, Federal Student Aid allows them to charge higher tuition, than they otherwise would be able to, but where we've seen really big increases, in loan limits, is in graduate programs, where these limits were taken away, starting in 2006, and we just really don't know enough about whether putting these limits back in place would help hold down increases in prices. Almost all of the discussion, and research, on this quote, unquote, Bennett Hypothesis, that Federal Student Aid allows for tuition increases, has focused on undergraduate borrowers.

Okay, and, then, what about implications for taxpayers? So, this gets a little bit more complicated because of the way the CBO calculates the potential costs of Federal Loan Programs. It depends on what program we're talking about, and what accounting method the CBO is using, and I'm not going to get into the nitty gritty details, but for undergraduate loans, CBO generally finds, or reports, that these cost Federal Revenue. So, reducing borrowing, through undergraduate programs, would be a benefit to taxpayers.

For Graduate loans, and Parent PLUS loans, CBO calculates that these programs actually make revenue for the Federal Government. So, restricting limits, or putting limits back on these programs, would have budgetary implications that are different than what are often talked about. Now, whether or not this is true is a matter of debate, and probably these calculated subsidies, or the profit that the Federal Government makes off of Graduate and Parent PLUS Programs will change, in the coming years, as more graduate borrowers participate in income based repayment, but this has important consequences for discussions around policy and legislation that would put limits back on these programs, okay, because, if such policies cost money, these costs will need to be offset by changes to other programs, okay.

So, finally, let's turn to the other side of this equation. What are the potential costs of lowering Federal Student Loans limits, okay? The first potential cost is that students who would have borrowed that extra $1,000 through federal loans, but now they face a lower limit, and, so, they can't, might have to shift to a more costly forms of debt. They may need to turn to private loans, which don't offer the protections of income-based repayment, or they may need to turn to a credit card, to finance their college education, okay, and we can look at the most recent Nationally Representative Data, and see, you know, at least, there's a correlation between, for going Federal Student Loans, and using a credit card to pay for college.

So, it – among undergraduates who have unmet needs, so, they have costs that are not covered by grants, those who do not take out a Federal Loan, are 33% more likely to report using a credit card to pay for tuition and fees than those who do use a Federal Loan. We can, you know, debate whether or not this is good or bad. Credit cards have much higher interest rates than Federal Student Loans, but they are dischargeable in bankruptcy, but at least there is some, very suggestive evidence that, when student for-go Federal Loans, they are going to – that money doesn't come from thin air. They have to make up for it somehow, and, so, they may turn to credit cards, or they may decide to work more, which will reduce the time they, potentially, have available for classes, okay, and, then, the second potential cost of lowering loan limits, is that, this could have implications for students' attainment, and this directly flows from this first cost. In the current system of grants and loans, if students can borrow less through Federal Loan Programs, they have to make up for that money, okay? They have to use a credit care, a private loan, or they potentially have to work more, which takes away time that they can spend in school, okay, and this is where my own research can shed some light, at least, in terms of community college students.

So, in an experiment, where community college students were randomly assigned to receive recommendations to – of Federal Loans, or not have loans recommended, those who were recommended Federal Loans were more likely to borrow, they also attempted, and earned more credits, received higher grades, and were more likely to transfer to a Bachelor’s Degree Program, and we can say it – in the converse way, which is what it says here, when students are induced to not borrow because of the recommendation the get from their college, okay, they do worse in school, and they’re less likely to progress to a higher payoff program. Okay.

There’s also research that has looked at the decision of community colleges to leave Federal Loan Programs, okay, and, so, in these schools, students can’t borrow through Federal Loan Programs, even if they want to, and it seems like the decision to not offer Federal Loans, also, has negative consequences for students, okay.

Now, I should note, all of these three studies, focus on community college students, and we really don’t know what would happen, in the four year sector, or for graduate students, but, to the extent that community college students are the, sort of, most likely to be low income, more vulnerable to changes in Federal Policy, this should give us real pause, when we think about policies that would make it harder for these students to take advantage of Federal Loan Programs, okay, and, finally, and we can discuss this more in the group. I’d like to talk a little bit about what is the response to this student debt crisis, around loan limits, okay. Institutions have focused, almost exclusively, on policies that would reduce borrowing. So, community colleges have opted out of Federal Loan Programs. This is about nine percent of all community colleges.

There’s colleges that do not offer loans to students in their award letters, and this what the college, that I studied, was deciding whether or not to do. There’s colleges that sent informational letters, or Know Your Debt letters, that talk about how much payments are going to be, after graduation, to high balance borrowers, or to all borrowers, and, then, there's schools that have implemented comprehensive debt reduction initiatives, that include financial literacy courses, and campaigns around borrowing less, and, so, at least, from an institutional perspective, these schools seem to think lower loan limits, or reducing limiting borrowing, would be a good thing for their students.

At the Federal level, there's been a lot of discussion around policies, but, really, the only experimentation we've seen has been at a limited number of institutions, through the Department of Education's Experimental Sites Initiative, where these schools were given discretion around setting lower limits for students in certain programs, or for students in certain groups, and we really don't have much evidence about the effects of these policies. So, there's a lot, still, to be debated, and learned, and this is where we will turn to next. Thank you.

MR. MATSUDAIRA: Okay, great. Thank you both for those excellent presentations. I guess I want to pick up in a place where Lesley left off, and, Matt, kind of bring you into the conversation, which is, you know, one of the things that Lesley was saying is that a lot of the people that we see struggling the most to repay their student loans are, actually, those who are borrowing relatively little, perhaps because they're not completing, and, so, you know, there's less that we know, perhaps, about graduate borrowers and Parent PLUS borrowers, but I wonder, just on the – if we stick to undergraduate borrowing, for the moment, whether, and give you both a chance to answer, what scope you think there is for restrictions, so, limits, on student borrowing, to really help.

MR. CHINGOS: So, I guess my remarks focus more on other people for whom we should raise limits –

MR. MATSUDAIRA: Yeah.

MR. CHINGOS: -- but there's, clearly, this flipside of other people for whom we should lower the limits, and, as you noted, a lot of folks with lower balances are struggling.

So, there is this kind of factoid out there that it's beat the lowest balance.

Borrowers are the most likely to fall, and that's true, but, if you look at the relationship across the distribution of borrowing, it's not – my understanding is it's not that strong. So, there's people struggling at all points along it. So, it has to do with how much you borrow, relative to how much money you're making. So, you know, what do we do about that?

I think it has – there's the insurance mechanisms we talked about, around the income-driven repayment programs, to kind of try and protect the student from the consequences of that, but then there are also the efforts to try and deal with it in the first place, by limiting lending to places that have a track record of not great outcomes. So, I think, clearly, there's a lot more that needs to be done there, and it's obviously tricky. How do you do it, to balance this desire to provide access, but not access to bad things, but I don't – clearly, we haven't gotten that balance. We'll never – you'll never get it perfect, but I think there's a clear case to be made, for shifting it towards greater restrictions of where you can borrow.

DR. TURNER: So, a lot of my research has focused on policies that colleges and universities are implementing, around borrowing, and one thing to note is that the plurality of undergraduate students are attending open access community colleges. When we look at how community colleges are making policy around Federal loans, these schools have, almost exclusively, been implementing policies that make it harder for students to get access to Federal student loans. There's the nine percent of schools that have opted out of Federal Loan Programs, and then about 50% of the remaining schools don't offer students Federal loans.

Students can still borrow, but there's additional administrative hurdles they have to go through, and perhaps they don't think that loans are available when they're not offered loans in their award letters, and, so, even in the absence of, you know, Federal action, I think that there's still an important conversation to be had around these decisions that institutions are making out there. You know, the decisions are different for schools serving bachelor's degree students and graduate programs, and I think this is where the debate should focus, when we're talking about reducing borrowing, especially for grad students.

MR. MATSUDAIRA: Yeah. So, just to – just picking up on that, I mean, you know, so, in the graduate space, which I think is where more of the attention has been focused, that – on the idea of setting just caps on Federal borrowing, how do we balance this idea of trying to protect students from acquiring too much debt, versus limiting access to, potentially, programs that could be high value? So, Lesley, I know that you've done some work on that, recently, on the Hill, and thinking about the HEA conversations. What's a good way of kind of balancing those two competing goals?

DR. TURNER: So, in 2005, when there were limits on graduate borrowing, the limits were about $18,500. So, if we inflate those to today's dollars, it's around $25,000 per year. Looking at nationally representative data of graduate students, across all different programs, only about 11% of graduate students are borrowing more than $25,000. So, this is sort of a relatively small number of students that could be affected, even if we put back in place these relatively low limits.

For the students that are borrowing more than $25,000, these are – most of them are in programs that we would hope, perhaps not exclusively, but we would hope to be high return: law, medical, and, to some extent, MBA Programs, and these are programs where, in the past, students may have turned to private student loans, which, you know, there's definitely tradeoffs involved there. Private student loans do not offer income-based repayment, but, in many cases, they may actually offer lower interest rates than the Graduate PLUS loans that students can borrow, up to the cost of attendance.

MR. CHINGOS: I just add that, when you think about their graduate lending program, you also need to think about not just on its own because on its own, I mean, the program made money, at least by some accounting standards, you know, on paper, until recently, and, now, that we've kind of layered the unlimited bar into graduate students with relatively generous loan forgiveness programs, where you pay 10% of your income for 20 years, and get the balance forgiven, and especially when you pay 10% of your income for just 10 years in the public sector.

Well, we, now, have a situation where people could make a reasonable investment, make a loan that was a fine loan to make, make a fine income, but end up getting this huge subsidy from taxpayers in the back end, and maybe that's a fine thing to do, but I don't think that's really what Congress intended to do when they created these various programs at different points and times. I think, also, we have to think of the taxpayers as kind of a key stakeholder, here, and if we're spending, you know, billions and billions on providing relatively large subsidies to graduate students who do fine, while we still feel like, maybe, we're not doing enough for low income undergraduate students, you know, in terms of the Pell Program, whether we're getting that balance right, and whether there's a shift that ought to be made there.

MR. MATSUDAIRA: I'm just picking up on the point that Lesley was making about relatively few programs being hit by these caps. I mean, what sort of ideas would you have to just prevent students who might have difficulty accessing private lending markets, or even just the students who might be kind of really affected by this, have their access to high value programs be cut off by Federal caps? What other kinds of things could the government do to kind of avoid those kinds of adverse consequences?

DR. TURNER: This is a good point that Jordan raises, and I think that one of the biggest concerns around putting limits back on graduate borrowing is that students, from especially low-income backgrounds and unrepresented minority students, won't be able to access these high cost programs because of, you know, how private lenders determine who is creditworthy.

Students aren't guaranteed access to private student loans, and, so, I think, you know, there's two ways to deal with this, through Financial Aid providing grants to these students, or having higher loan limits for particular programs. So, we're worried this will be especially the case, such as Medical Programs.

MR. CHINGOS: So, I'm curious. Are either of you aware of any evidence? I mean, that was the state of the world until 10-15 years ago. Did opening up Grad PLUS, in an unlimited way, did that suddenly lead to folks who – getting high value credentials they couldn't get before? I mean, it seems like an area where the private – at least, maybe, the private market won't – wouldn't perform perfectly for graduate students, but it would certainly perform better than it would for undergraduate students, right, because an undergraduate thing is kind of a – more a morphos, where graduate degrees tend to be pretty specific, pretty geared towards, you know, generating gainful employment in particular occupations. Were either of you aware, if I'm allowed to ask a question?

MR. MATSUDAIRA: It was going to –

MR. CHINGOS: I was going to say –

MR. MATSUDAIRA: It was going to be one of my next questions for you.

MR. CHINGOS: Well, good. I'm glad I asked that, since I'm getting asked that.

MR. MATSUDAIRA: So, so, well-played. Lesley?

DR. TURNER: So, I guess it falls on me to say I am not aware of evidence, but it is a great question that researchers out there could and should be looking at.

MR. MATSUDAIRA: Okay. So, another question that I had, and, Lesley, this is kind of a question that's provoked by some of your work, which is, you know, we do grant institutions a lot of discretion over, you know, the kind of nudges, the recommendations that they make, when they're packaging aid to different people, and this, you know, the upside of that seems to be like the potential to kind of right size the financial aid decisions that students are making, but, you know, the thrust of some of your work suggests that, you know, institutions aren't really taking advantage of that. If anything, there's kind of a, still, a one size fits all kind of approach to the students that institutions serve, and it tends to be just, you know, to take the option away, for the most part, or at least to not advertise the option.

So, I wonder just whether you think that there are kind of recommendations or policy that could affect the decisions that practitioners are making when they're packaging aid. Lesley?

DR. TURNER: That's a great question. So, just a little background on Federal Student Loans. For schools that are participating in Federal Loan Programs, they can't restrict a student's ability to borrow, unless they're in one of those experimental sites that I mentioned, but they have discretion over the amount of loans they recommend to students. So, they might recommend the maximum amount a student could borrow, which Matt showed us.

They might recommend some smaller amount. They might recommend no loan at all, and, again, about 50% of community colleges don't recommend loans to their students, and this seems to be especially impactful for students' borrowing decisions, as shown in the study that I eluded to, and, at least, at the community college level, my research suggests, on average, if you have to do a one size fits all policy, that offering loans or recommending loans is the best policy, but, especially for, you know, outside of the most selective four-year institutions, students have incredibly heterogenous circumstances. They are not living in dorms. They're living off campus. They face different costs, in terms of rent, transportation, and the way that colleges determine this cost of attendance is a one size fits all approach. So, if you're living off campus, this school assumes you're going to face this much in costs, and, you know, I think there is a lot of room within the way schools determine cost of attendance to be more responsive to students' unique circumstances.

A student that is paying $500 a month in rent, likely, all else equal, likely, needs to borrow less than a student that has to pay $3,000 in rent, but, as far as I know, colleges treat these two students entirely the same, in terms of determining cost of attendance and in terms of loan recommendations.

MR. MATSUDAIRA: And, so, do you think there's a role for policy in trying to affect behavior at the college level?

DR. TURNER: Yes, I do think there is. You know, most financial aid administrators I've talked to about trying to introduce some nuance into their loan packaging and loan recommendation practices are incredibly hesitant to do so because they worry about running afoul of the Department of Education regulations, and, so, I think, you know, in the very near future, that there could be some guidance that would allow schools not to restrict loan access, but to allow for more nuance into the recommendations they make to students.

I think, you know, at the end of the day, however, at least for community college students, students should be made aware of their loan options. Even if they are not recommended a loan, they should be made aware that these loans do exist.

MR. CHINGOS: I think it's also worth mentioning that, even when they – whatever they do offer, or don't offer can often be very confusing for students. So, I think that it was the New America folks, who, in the last couple years, went and looked at all the aid award letters, and, a lot of times, it wasn't clear that you were being offered a loan. You were offered, like, a Direct Unsub, well, it's a Direct Unsubsidized Loan, but – when she said it was a Direct Unsub, and it's also consistent with some evidence that I – that Beth Acres and I put out, in a Brookings study, about five years ago, now, finding that, if you looked at – just at first year college students, in these data sets, they couldn't give you a very accurate indication of how much they borrowed.

So, of the people we know, from the Federal data, had a Federal loan, 28% said they didn't have a Federal loan, and 14% said I didn't have any loan at all. So, this isn't to say that some kind of financial literacy campaign is going to solve this problem and fix all the problems because there's still other challenges, but it does seem like it just would be good if people understood what it was, they were doing.

MR. MATSUDAIRA: Yeah. That's a good segue to another point, which is, you know, traditionally, you know, when economists have thought about this question of whether people are borrowing too much, you know, the kind of mean, or the kind of – the exclusive lens through which we think about that question is whether the amount that people are borrowing is a good investment, in the sense that the earnings returned bond, that borrowing, are really going to justify a given amount of borrowing.

That kind of presumes that students know something about – wow, what they're getting into, both on the kind of cost side, which is related to the kind of confusion about what loan product they're actually using, but also on the outcome side. Matt, I know you and your colleagues have done work on that question, as well. So, I wonder, you know, what you think about what the federal – what more the federal government could be doing to make sure that students are informed, and whether you're kind of bullish on whether those kinds of ideas would help to allow students to make good enough decisions about borrowing decisions, and so on, that we'd really see meaningful changes in their outcomes?

MR. CHINGOS: Here's an area that's really challenging. I mean, in principle, we want people to be making informed decisions. We want them to be making some kind of optimized investment decision. Should they kind of borrow the right amount to attend the right program, to get the right sort of return, but – yeah, and some work that colleagues and I did over the last few years, when we went out and tried to create that information, built a nice website, push it out to high schools. Like, the high schools weren't that interested. They said, oh, we – our students have lots of information, and then, in the high schools that did participate, there wasn't a big take-up of the informational interventions we've created.

I think we've seen some similar evidence from the college score card, that, yeah, of course, it's good. It's good you all did that, and it's good the data are out there, but not a lot of evidence that it's changing behavior across the board, and I think part of the problem is it's hard. I mean, it's hard for an 18-year-old or a 25 or 30-year-old, as a potential college student, to make sense of this information, but if you think about, you know, just wearing my own hat, how hard it is to make sense of this. Like, how much should someone borrow?

Well, if someone says should I borrow $200,000 to become a surgeon, I'd say, yes, that's probably a reasonable thing to do. If they said should I borrow $100,000 to get a master's in film studies, I would say, probably, no. It's probably a bad idea, or I – should I borrow $10,000 to go to a for-profit college with really bad outcomes, where no one graduates and, or, gets a good job? I said, you know, don't do that. Right, so, there's these, kind of obvious ones, but, then, the kind of mushy middle of, oh, well, this college has a loan default that's three percentage points higher, but average earning to the graduates that are $5,000 higher, but our graduation rates are three percentage points lower. Like, should I go there, or the other place, and, if I – well, if – either I pick A or B, like, how much should I borrow? Okay. No idea how to answer that question.

DR. TURNER: I think I used to be fairly optimistic about the ability of giving – pushing out information to students and families to help improve decisions around where to go to college, what to study, how much to borrow, and to put some market pressure on these, you know, bad schools. If students know these schools are producing really poor outcomes, you know, we would assume they wouldn't go, and, you know, all of the evidence to date suggests that, you know, even really high quality information, like what's put out there through the college score card, doesn't really move the needle, especially for the low income students that are often the ones choosing between this, community colleges, other for-profit institution, or should I study a health related degree, or should I do an associate's degree in liberal arts, and, so, you know, I struggle with how to answer this question that – as well.

Although, I think I go back to some of the comments that Adam made, in the first presentation, that, you know, there is a role for the Federal Government to put some additional accountability pressure on either institutions or programs within institutions. We know there's a huge amount of variation in outcomes across programs, and, you know, we can all – I think it's very tricky to think about what that system should look like, but I think, you know, bear – it's easier to agree on a very low bar, and, if schools fall below this bar, then, without a doubt, it is not a good investment for any student involved.

MR. MATSUDAIRA: Yeah. On this question, I wonder whether you feel like we've kind of done enough, though, so, you know, things, like the score card, are just kind of making information available, and kind of hoping people will come, and, you know, I wonder whether you think there's more of a role for leveraging intermediaries, like providing more personal assistance to people who are, you know, at the stage where they're looking at different kinds of programs to really help them interpret the information to make decisions for them, which seems to be kind of the gist of some of the consensus around a lot of these more behavioral nudges, like in higher education, that have been coming out of kind of various economists working on the issues these days.

DR. TURNER: You know, I think these programs have potential for what we think of as a traditional student, the one who's going through high school, graduating, and going to college immediately. There's sort of a point of access that this information and assistance can be provided, but, you know, the college student off the street is 28 years old, working, at least part time, going to a community college, and, so, it's much harder to think of a, you know, how to access that individual at the point in time when they haven't enrolled yet, but they're deciding where to go.

When it comes to student loans, we've seen schools experimenting with these Know Your Debt letters. So, if you're – borrowed more than a certain amount, you get this letter saying, hey, you've borrowed a lot. Here's what your payments are going to be. Here's the, you know, come to the financial aid office. Talk to us, and these letters, you know, students report reading them. They know they've borrowed a lot, but it doesn't move the needle. They don't see, really, any other option, and, so, I think, you know, again, I used to be very optimistic about information interventions, and it's true that there's more that could be done, but I think, you know, they can only go so far in helping students make better decisions.

MALE SPEAKER: Jordan, we should turn to the audience for a minute.

MR. MATSUDAIRA: Okay. Let me open the conversation up to the audience. We'll do the same thing as last time, which is collect a group of questions, and then allow our panelists to respond. Please.

MS. KARATAS: Hi. My name is Deniz Karatas. I'm working at Bay Atlantic University, in Washington, D.C. It's a non-profit university. It's a small one, a young university. Just as you were, you know, talking about, like, bad universities, but it's, like, good one, actually, a good small university. So, we have 250 students, and I have to say the regulations of the accreditation is, you know, about accountability. We are accredited from ACICS, and it is – they are pressuring us, I have to say. We have to keep equality. So, if you know, our graduation rates are, like, 100%, for example, and if it is go – it goes lower than that, or, like, the employability of the students are going lower than that, then we might lose our accreditation, which leads to, you know, no students. You cannot get any students if you don't have the accreditation, obviously.

So, in terms of accountability, I think the system is somehow working for small universities, but, maybe, do you think – this question is for both of the panelists. Do you think the – a general policy change can help, like the big, you know, good universities, like Georgetown, George Washington? The tuition amounts might be regulated because they are so high. They are, like, inaccessible for lower income students. If they borrow money or not, you know, it's still inaccessible for the lower income students. So, do you think that kind of, you know, regulation might be able – might able to work for accessibility?

MR. MATSUDAIRA: Thank you. Is there another question?

MR. POLZER: Yeah. Thanks for your discussion. Karl Polzer. I do a lot of work in the retirement savings area, and there's a big discussion going on about whether the administrators of plans have a fiduciary duty or an advisory duty, and I think the same applies here, so that – it seems, from just this discussion, that the students rely on the nudging that they get from the University Financial Aid Office that say, hey, you're eligible for a loan.

So, in a way, they're providing advice by offering, but their main duty is to the university, and that it gets business. Now, a fiduciary duty would, to the student, would put themselves in the shoes of the student, both on the financial side and on the potential education side. So, really, it's – shouldn't – I mean, are they in the right position to give financial advice, since they're at the university, since their main duty is to the welfare of the university, or should it be another party that gives advice to the student about whether to do this, and where to do it?

MR. MATSUDAIRA: Okay. Thanks for those questions.

DR. TURNER: I'll start with the second question, first. You know, I think even – with a non-answer, first. Even beyond, you know, what – whether there's a conflict of interest by the financial aid advisor, I think there's a bigger question around just – do they even know? Even if they have the best – the student's best interests at heart, do they even know what the right amount is, for the student? Maybe, if they're able to sit down with a student, if they, you know, go through a budget worksheet, and collect some information from the student's circumstances, but, you know, community colleges are incredibly under resourced.

They don't have the staff to do that, to meet one on one, and, so, you know, I think, maybe, at the private institutions, the four-year institutions that are more resourced, where there is this kind of individualized counseling, this could be a big concern. I think, you know, at the community college level, it's really just not even in having access to a person, and their time, to get any sort of advice at all, and then, when you meet with that person, do they have the training or the knowledge to help you make that decision?

MR. CHINGOS: I just had one quick point to that, which is, it's interesting how different kinds of institutions have interpreted whatever that duty is, to themselves, right? So, a lot of the, I guess, the for-profits get criticized for this the most. They just, you know, push all the possible debt the student could get, so that they can enroll them, and, you know, and pay the bills, whereas what we see in – more in the community colleges is an aversion to giving students debt, I think, in part, because of a fear about accountability, that if I give students the debt, they're going to have bad default rates, and then I'm going to lose access, not just to the loans, which are relatively small. A share of students, at community colleges, take a bunch of Pell grants, which a very large share of students take.

So, there, you see all the behavior, that Lesley described, around how they're not offering loans, either not being in the program, or not offering the loans. So, I – just to – I think – interesting how institutions haven't kind of pushed students in different directions.

MALE SPEAKER: So, I think that you – if someone wants to answer the regulate tuition question, that we would have time for that question.

DR. TURNER: So, you know, I keep harping back on the community colleges, but I think they're an important sector that, often, is overlooked in discussions around student loan debt, and college pricing, and college access, and community colleges and four-year public institutions, actually, are regulated, in terms of their prices, in many cases. The, you know, state governing body, or the state legislature has to approve tuition increases, and tuition, especially in the community college world, is fairly low. So, you know, I think there's – and there's tradeoffs here, of when schools charge less in tuition, they have lower resources, and, you know, maybe, they don't – can't hire as many financial aid advisors to help students.

MR. MATSUDAIRA: Okay. I guess we're at time. So, let's thank our panel. Thank you.

(Recess)

MR. WESSEL: Hi, I'm David Wessel, Director of the Hutchins Center. And we're now going to turn to an issue which comes up quite a bit in the public debate which is how big a macro-economic problem is the run up in student debt. Macro-economic meaning both for the entire economy but also for subsets of the population such as the millennials who we keep hearing are not being able to buy houses like their parents did.

We have two very good panelists. Sandy Baum is a Nonresident Senior Fellow at the Urban Institute and a retired professor of economics at Skidmore College. And also, has been for years, the curator of the college boards very useful publications, trends in college pricing and the like.

And Laura Feiveson is an economist at the Federal Reserve Board in the Household and Business Spending Unit. And I think it's a sign of the importance of this issue that researchers at the Federal Reserve Board and the Federal Reserve Bank of New York among other places have thought this a topic worthy of study. Although, I'll say on their behalf, that they are speaking for themselves and not Jay Powell. So, we'll start with Sandy Baum and followed by Laura. The other way? We'll start with Laura first.

MS. FEIVESON: Thank you very much for inviting me and thank you all panelists, I've learned a ton this morning. It's already been mentioned that these are my views and not the Federal Board's, so. So, today, I'm talking about student loans and their interaction with the economy as a whole. And I want to start with addressing the main question that I get as a macro-economist about student loans. Which is, are student loans holding back growth.

Now, the one thing I want to emphasize the most about this question is that it's not well-defined. So, in order to answer this question, we have to have in our heads a clear idea of what the counterfactual is or what the alternate world in which student loans are lower are. And there could be a number of different answers to that question in which case the answer to this question would be different. So, to start with, I ask, are student loans holding back growth compared to a world in which student loans are lower because there's just generally less access to student loans given the educational system as it is.

So, what is the educational system. To start with, I just want to establish a couple facts. One is college tuition is high and rising. I show the published tuition and fees for private, non-profit four-year colleges in red, public four-year colleges in orange and public two-year colleges in blue. Now these are the published fees so this does not include grants that bring these costs down a bit. But generally, tuitions are high. Student loans are an important tool which students use to access this education. The average undergraduate student loan debt that a bachelor's degree earner has upon graduation is about $30,000.

Second fact. College on average is a great investment. This picture shows the so-called college wage gap. The difference between the average annual earnings of a person with a bachelor's degree and the average annual earnings with someone with just a high school degree or lower. It has increased over time and most recently, it's around $45,000 a year. When we aggregate the annual college wage gap over a lifetime of working, we see, and Adam mentioned this earlier, that the lifetime benefits of attending college is roughly $500,000. So, generally, college is, I mean on average, college is a great investment.

So, what does this mean? This means that if student loans were just less accessible to the average student and they weren't able to use them to access education and education was lower, then unequivocally growth would have been lower than we've seen it be today. Education raises the productivity of the workers in the economy, this raises the potential output.

But I don't think this is the counterfactual that is in everybody's head when they're asking this question. And in fact, I think one of the main concerns that people have, and it's come up a number of times today is that some borrowers do not receive benefits, the average benefits or even any benefits to education.

So, I guess if we think of the facts that of the $1.6 trillion in student loan debt that's out there, some portion of that is sitting with borrowers who did not receive the benefits to education. Then those debt payments associated with that stock of debt may be holding back their consumer spending because they have to spend it on debt service payments rather than on other things such as homeownership or cars or whatever else they might want to spend their money on. And that, in turn, could be holding back growth. So, that is a possibility.

So, one difficulty in answering how big a problem could this be in terms of growth is that it's hard to say how much of the stock of debt is actually held by those borrowers who didn't get any benefit to their education. That's not an easy question to answer. I take one stab at this by just saying, let's suppose that this surge in student loan originations that occurred since 2001 and we've already talked about today. Let's suppose, and this is a fairly extreme assumption, that that was all, all of those loans went towards education that was not beneficial to the recipients of those loans.

And I do a back of the envelope. How big a problem could the overhang from those recipients, the debt service payments from those recipients be from their spending. And then answer is, not much at all. So, even if we assume that every dollar of their debt service payments is holding back growth one for one, this would mean that growth over the last since 2001 instead of being an average of 2.0 percent, we would have seen 2.1 percent growth. This is not, the numbers just don't add up in terms of how big an effect on growth it could be.

Furthermore, we can't lose sight of the fact that these loans actually stimulated growth at the time of receipt. So, when people receive the loans, they spent it on the education even if it wasn't a great education and they spent it on their living expenses during that period.

So, my conclusion here is if student loans were lower because they were unavailable to borrowers who did not receive benefits for their education, again, there's probably been only very little effects on growth and it could have gone in either direction. I'm not saying that it's not a problem. So, all of the issues that have been brought up earlier today about, you know, how to think about changing policy such that those borrowers aren't saddled with debt. Those are important questions to ask, I'm just addressing the narrow question of what is the effect on growth.

And then the third counterfactual that I'll mention that may be in some people's heads if what if students' loans were lower because education was publicly funded and people didn't need to take out student loans in order to get an education. And in that case, the effect on growth is ambiguous. And why is it ambiguous? It's ambiguous because it depends completely on how that education was funded. We need to raise taxes in order to fund that education and if we're raising taxes by putting the burden on people who have very high marginal propensities to consume then this could actually be costly. But I can imagine certainly policies, education policies such that we would see a boost in growth if we had publicly funded education.

So, I just want to mention two other macro problems before moving on. One is the question even if student loans aren't holding back growth generally, could it be possible that they're crushing a generation, in particular, millennials. And it is true that arguably millennials have faced more headwinds then previous generations did at their ages.

And two of the trends that I think motivate the concern about millennials is one, in the blue line, I show the home ownership rate for those under the age of 35. And in the red line, I show the percent of young adults living at home. And as you can see, the home ownership rate for young adults has fallen dramatically and has not risen again, at least to where it was before the recession. And similarly, the percent of young adults living at home came up a lot in the recession and hasn't fallen at all.

There is some empirical evidence that some of these changes are due to student loans in some way. And there is a debate over how much that could be. But regardless of what the debate is, at most, a quarter of the increase in the percent of young adults living at home and a quarter of the drop in the home ownership rate is due to student loans. The rest is due to other factors. And what are those other factors.

I think predominantly, there's two other things going on. One is that millennials started, entered the work force in the great recession or right after the great recession when their labor market opportunities were smaller. So, this has made them more, their balance sheets more fragile to start with and they have had a harder time having income in order to boost their balance sheets. And then the second is there are structural changes happening in the labor market that that may weigh upon younger workers today.

And then finally, I just want to address the question about whether student debt could be a risk to the financial system. And I'll just, I will claim that no, they are not at least currently a risk to the financial system for the following three reasons. One is that student loans are predominantly guaranteed by the government. Only 8 percent of student debt is held by private institutions and that is where there might be fears of contagion in the same way that there had been with the sub-prime mortgage crisis. Two, most private student loans have stringent standards, at least those that have been issued since the great recession. And three, student debt is only, it's still large, it's only $1.6 trillion and I only say only as compared to mortgage balances in the height of the financial crisis which was $11 trillion. And I'll leave my comments at that. Thank you.

MS. BAUM: Thank you. There has been so much already said, it's not that easy to come up with a lot of new things. But I want to start with just a couple comments, reiterating some of what Laura said because, I think we don't hear enough about this sort of distance analytical perspective on what's the impact on the economy. And it's not what's the impact on the economy, of course, but what's the impact on students. And if you look at the headlines, Adam had some headlines. But the headlines all assume that student debt is a crisis for a generation. Student loan crushes a generation, student loans are destroying millennials home ownership ambitions or why buying a home can be almost impossible with massive student loan debt.

This is just the assumption, and no one asks this very important question that Laura asked which is what is the counterfactual. And if people said, what would be the difference for people with student if they didn't have to repay student loans but instead, they had much higher taxes and they were paying for their college in that way. And it's really critical to be asking that question.

Not just oh, let's compare people who have the same income, the same education but they don't have student loan payments, with people who have the same research to start with and they don't have to make those payments. It's trivial to say that you'll be better off if your life were the same but you didn't have to make those payments. And that's what most of this discussion is. That's really, really a problem.

So, it seems very clear that what we should be focusing on is the students for whom it is a problem. And there clearly are students, borrowers who are struggling in their lives for many reasons and student debt is not helping them in that situation. And that has led to all these proposals for forgiving student debt, making college free, et cetera. And so, I want to address a little bit whether those solutions would solve the problems if you really understand the problem.

One of the things that I think people really don't understand, although it has been mentioned at some point today, is that people are not just borrowing to pay their tuition. If college were free, it wouldn’t mean not only that graduate students would still borrow or that people at private colleges would still borrow but that people at public colleges would still borrow because they're borrowing to cover their living expenses.

This is an analysis from the current NPSAS of people in the left-hand group here is people who pay zero net tuition. In other words, they had all of their tuition and fees covered by granting. They had free college. How much did they borrow compared to people who pay less than $5,000 or more than $5,000 in net tuition? Not so different.

So, in other words, a slightly smaller percentage of people with zero net tuition borrow but almost as many are borrowing large amounts of money. So, to think that if you don’t pay tuition and this is because most of the student budgets at public institutions are about living expenses. And these people still offer loans and they still borrow at almost the same rate. So, it's a mistake to think that we could eliminate student borrowing by doing that.

And then the other issue, all the headlines say what about millennials, we've ruined a generation, right? But the fact is that older students borrow much more than younger students. Part of this is because as Matt showed, the loan limits for independent students and all students over the age of 24, independent are higher, so they can borrow more. Many of them are supporting families and they don't have other resources to pay the rent and help their kids and many of them are borrowing money to help their parents, you know.

So, there are lots of reasons to borrow and if you look at the loan limits for older students, they borrow more. They also have much more trouble repaying and they default at higher rates. So, this graph up here is just of bachelor's degree recipients because if you're going to compare, you need to compare people of similar levels of education. And what you can see is that bachelor's degree recipients who graduated when they were 23 years old or younger, very, very few of them borrowed 50 or even $40,000 or more. So, the light green is $40,000 or more. Whereas, the older you are, the more debt you're likely to have when you graduate.

And part of this is you may have been in school for a longer time, part of it is the demographics of, you know, who are older students. But talking about a generation is the wrong way to talk about it because a lot of the concerns should be about students who wait to go to college and face all the barriers there. And these are just people who earn bachelor's degrees. Most older students don't really ever earn bachelor's degrees.

The racial ethnic differences have also emerged in some of the conversation today. And this is something that we really need to understand more about. This again is bachelor's degree recipients in 2015-16. And if you look, so the bottom row is white bachelor's degree recipients and 10 percent of them graduated with $50,000 or more in debt. About 21 percent of black bachelor's degree recipients did. Not true of Hispanics. And so, Hispanic students tend to borrow less. They may be debt averse, many of them may be in groups that are under borrowing and therefore, that's hurting their success. But African American students tend to be in the group who are over-borrowing, and we saw before that they have high default rates.

Let's figure out why that is and let's figure out how we can solve the problem for these students. And it's not just again, about making college free and it's not just again about letting them borrow the money and then forgiving it. If you want to think about whether student loan forgiveness would solve the problems of the groups of students who are struggling, and we've seen already for-profit students, older students, African American students are among the students who are struggling. You have to realize who holds the existing student debt. 6 percent of the borrowers with outstanding debt owe one-third of the debt.

So, this graph is a debt from trends in student aid which has been mentioned, thank you, a number of times today. But at the top, you have borrowers who owe less than $5,000. 18 percent of the borrowers with outstanding debt owe less than $5,000. They hold only 1 percent of the debt. A third of the borrowers owe less than $10,000, the hold 5 percent of the debt. But at the bottom, you see that the 6 percent of borrowers who owe $100,000 or more owe a third of the debt.

So, we would be taking a very small number of borrowers, a very small share of borrowers and saying, if we just forgave their debt, those few people who borrowed more than $100,000 just think what would happen to that $1.6 trillion of outstanding debt, it'd go way down, wouldn’t that be great. And then you'd have a lot of people who, a few people who went to graduate school and are doctors and lawyers and MBA's and so on and they would be out from under that debt.

Because of the fact that so few borrowers have a lot of debt and so many borrowers have a little bit of debt, the debt is actually very concentrated among upper income households. And it's amazing to me when I talk about this, how many people say why are these rich people borrowing money. This is not the point. The point if you borrow money and you go to college or you go to graduate school for a long time and get a lot of education, you are then likely to be in the upper segments of the income distribution. So, more than a third of the outstanding debt is held by households in the highest quarter of the income distribution.

In the lowest quarter of the income distribution there are not that many people with student debt. There are people who went to college for a little while, it didn't work out and they have low incomes. But very few people who get a bachelor's degree or higher and therefore had the opportunity to borrow really a lot of money. Very few of those people end up in the lower ends of the income distribution.

And this is a graph that actually Adam had this graph at the beginning but I'm going to show it to you again because I think it's important. It's different talk again about the share of debt and the share of borrowers. In other words, it is not hard to find individuals who are in bad shape, they have low incomes and they borrowed some money. So, for example, 24 percent of the borrowers with outstanding debt have associate degrees or less. So, those are people who some of them are fine but many of them may be struggling and certainly may be in the bottom half of the income distribution.

More of the borrowers, this is, the labels are wrong. 42 percent of the borrowers have associate degrees are less, but they hold only 24 percent of the debt, okay. So, a lot of people are there with a little bit of debt. They have associate degrees or they don’t have any degree at all. It's a lot of people, they don't owe much. We need to worry about these people. It's not that we don't need to worry about the stories of these individuals, it's that they don’t owe much money and they hold a small share of the debt. Most of the debt in dollar terms is held by people who are doing fairly well now and maybe not as well as they had hoped, and they have large amounts of debt.

Who struggles with their debt, who doesn't repay their debt? We've talked about default rates, but we can also talk about repayment rates and we measure the repayment rates in a sort of crazy way which is have you even paid down a dollar of your outstanding principle balance. And you might not if you're making payments, but you also might not if your payments are not high enough to cover your interest that's accruing on your loan.

So, you hear a lot of stories about people whose debt grows and grows even though they were making payments. And if you look at repayment rates, repayment rates are very low for students from for profit institutions. We've heard this problem earlier today and they are very low for people who don't complete their programs.

So, people who don't complete their programs, people who go to lousy schools, these are the people with problems. They owe small amounts of money. Most of the debt is held by people who are doing much better. Should we forgive the debt of people who can afford to repay it.

MR. WESSEL: Well, thank you both very much. We've covered a lot of ground today. I feel like I have a sea of facts in my head floating around and I'm trying to make sense of them. I want to ask a couple of specific questions, a couple of big policy questions and then give time to the people who've been good enough to stick around to ask some questions. So, I'll be brief.

Laura, let me start, there's one thing you said which I just want to understand better. So, you said that if we didn't send -- if we didn't give loans to people who went to worthless schools, the economy would have been better off, right? This is the 2.2. And you said well, it's not much, it's from 2 percent to 2.1 percent annual growth. But actually, that seemed like a bigger number than to just kiss off. Would the economy have grown a tenth of a percentage point faster over a decade if we hadn't wasted money on sending people to schools that didn't pay off?

MS. FEIVESON: So, I did this back of the envelope as a worst-case scenario. And specifically, that calculation was ignoring the impulse that the loans led to more spending upon receipt. So, I actually, if I included that in there, I would have found that growth is, over the whole ten-year period, is roughly the same.

Now, the reason that I think that's useful to do is saying, going forward, let's say we change our loan policy, let's say we improve the accountability such that we're able to prevent, from this moment forward, prevent loans from going to borrowers getting a worthless education. In that case, it is true that going forward, those borrowers that still today are holding the debt from their worthless education could hold back growth a little bit. And I'm, you know, again, my back of the envelope is roughly on the order of .1 percentage points per year. Which yeah, I mean, over time, that can add up but it's pretty small when we think about other types of fiscal policy.

MR. WESSEL: Sandy, I think I heard two things which I want you to help me clarify. As Laura showed, the sticker price, the public tuition has gone up a lot. Adam asserted that basically it hasn't gone up, that net tuition has been relatively flat although I think that's not true at state four-year colleges. So, what's the right answer here? How should we think about this?

MS. BAUM: Net prices have gone up over time and you can pick your time period in order to change the story. But not nearly as much as sticker prices. So, the story of prices is greatly exaggerated by focusing on the sticker prices. If you look between 2008 and 2010 in the recession, the federal government really stepped up, they increased Pell Grants dramatically and they increased, they had the American Opportunity Tax Credit. So, net prices actually went down when sticker prices were going up most rapidly.

In more recent years, that's not the case. I mean, the Pell Grant is coming back to its original level so net prices are rising and incomes are stagnant. So, students and families are paying a larger share of their incomes even with net prices than with sticker prices.

MR. WESSEL: Oh, because the incomes haven't gone up.

MS. BAUM: Incomes, yeah.

MR. WESSEL: All right. Now, both of you and a number of times people have shown charts that show that African Americans seem to be borrowing a lot, they have higher default rates. Do we have any sense of what's going on there? Does it have something to do with -- if you adjust for income, do African Americans look differently? Is there a problem with the HBCU's that's difficult for the political system to deal with? Do we have any sense of what's going on?

MS. BAUM: All of the above and more. I think we need some more good studies but even if you control for income and even if you control for institution type, African American's borrow more. African American's disproportionally go to for profit institutions, it's a real problem. Half of the PhD students, of African American PhD students are now at for profit institutions. I mean, it's a huge number of students going to for profit institutions, so there's a problem.

Obviously, discrimination in the labor market that their earnings post-degree is lower for African Americans. If they come from families of origin that are lower income, many of them are helping out their families. There are a whole lot of reasons and it would be really good to study this more so that we can figure out the solutions. I'm afraid the solution is outside of the simple realm of student loans. It's a much bigger social problem.

MR. WESSEL: And Laura, you, turning a bit to the policy questions. So, there are basically two huge policies out there, one is free college and the other is forgive student loans. So, you spoke a little bit about free college. I just want to understand a little bit more the point you were making. I think what you were saying is, well, free college, it sounds nice, but you have to look at how you're going to pay for it. And if you're going to raise taxes on people who didn't go to college so that someone else can get a free college, that seems kind of regressive and we might not be better off.

On the other hand, you know, as you know, some of the candidates have proposed big tax increases at the very top, that would be different. So, talk a little bit about how we should think about free college and why is it different than free high school? What's wrong with saying, we had free high school, that wasn't so popular initially in the '20s, it seems to have worked out pretty well. What's wrong with saying the first couple of years of college should be free given what's happened in the labor market.

MS. FEIVESON: So, actually you summarized very well my point with free college. So, I mean, the bottom line is we just can't think of free college as just a free thing and it's great, so we should do it because we have to think about how we're funding it.

Now, if we are funding it, let's say that we fund it by having a tax on the very wealthy, they tend to have lower marginal propensities to consume which means that at least, you know, there's some argument over this. But I believe if you tax them, they'll adjust their spending and their spending pattern is not that much and so there won't be much of a negative impact on growth from taxing them.

Okay now we pay for free college so that could be great. It will increase, I mean, we've established today, I think, that on average, it's good to go to college. So, suddenly we have free college and now there's more access to education and that's likely to be a good thing and to promote growth.

I believe that there is a way to structure this just as described that could be really good for the economy. Now why is it possibly different than high school or college. Well, I mean, I think and I'm by no means an expert of exactly where this bar is. But there is a sense that after, you know, there's certain types of college, there's certain types of education that promotes productivity, that is good for certain individuals but not other individuals.

And to start, at some point, we have to cross the line. I mean, we can't, you know, certainly no one would say we should have free college for everyone from the age of 20 to 50 and then they can enter the workforce. Where exactly that bar is, I'm not sure exactly but I don't see it actually as that different from the question of whether we should pay for high school or not which I believe we should. It's just a question of how much more should we pay for kind of the fundamentals of education.

MS. BAUM: I think this is a complicated question that people don't really appreciate. When we say free, we need to ask what it is that's free. We've talked a lot about how a lot of college education is not so worthwhile for people. And there's a lot of evidence that actually the resources that colleges have to support students both academically and socially and personally is like more important than the price they pay.

So, if we starve these institutions because they can't charge tuition in order to get revenues, we have a real problem for student success. And another issue is that, of course, college is already free for lots of low-income students. Public colleges are. Maybe they don't know it and we have a communication problem.

But relative to high school, I mean, the fact is that we require people not to graduate from high school but to go to high school. And if we're going to not require people to go to college, we're still going to have a real difference in the income distribution of college students and the income distribution of the entire population. And making high school free has not solved the inequality of the quality of education and the resources we are devoting to students from different backgrounds.

MR. WESSEL: Laura, I think you said this well, but I just want to emphasize it because you hear it a lot. So, the case that a whole generation of people, millennials, are being completely held back in growing up. Being able to buy houses, move out of their parent's houses, forming families and living as well as their parents is often ascribed to the student loan burden. And I just want to make sure I understood what you said.

What you're basically saying is yes, there is some piece of the problems that this generation is having that is attributable to student loans but it's not as large as all the other misfortunes that fell up on them, mostly being born so they entered the work force during the great recession. Is that right?

MS. FEIVESON: Yeah, that is right. But I guess I would go so far as to say that there is some evidence that maybe some of the misfortunes that have fallen upon them is due to student loans. But it might not be the student loans all, I just want to keep that open. And actually, when asking this question, how much are student loans burdening that generation, the same exact principle of what is the counterfactual needs to be applied to that question as well.

So, part of the reason, it is true that millennials have more student loans on their balance sheet in inflation adjusted terms than the previous two generations had before them when they were at their age. But, I mean, they came of age. I mean, some of them were trying to go to school during the great recession. It makes sense that they took out more student loans in order to go to school at a time when their parents couldn't afford for them to go to school. And certainly, a lot of them have benefitted from that education.

So, I would say that there is still a possibility that none of the trends that we see can be called due to student loans. But, of course, we have to again think about what the counterfactual is.

MR. WESSEL: Okay and finally, Sandy, let's talk a little bit about the college loan forgiveness proposals. So, you made quite eloquently the point that if we're going to forgive everybody's loans, a lot of the beneficiaries are going to be MD's, and JD's, and MBA's and that doesn't seem to me to make a lot of sense.

But if you look at, just to take for instance, the Elizabeth Warren proposal. What she says is she wants to cancel student debt, up to $50,000 of student debt for every person with a household income of $100,000 or less. And so, she's trying to -- and then it gets progressively less. So, is there a college loan forgiveness program that you think would be a good idea and if this one is too generous, which one do you think would work?

MS. BAUM: So, I do think that we should be forgiving the student loans of some borrowers. We have income driven repayment, we need to improve it. It has loan forgiveness at the end. If we're going to have this public service loan forgiveness, we need to let people qualify for it. Right now, nobody is getting it. So, what we have in place and we need to improve is a system that says if you cannot afford your loan payments, we will forgive them.

So, the question of whether we should also have a program that says let's also forgive the loan payments even if you can afford them is the other question. We have students who have been defrauded by their schools, we have students who have suffered because their schools have gone out of business. And we were trying to forgive their loans and the current administration is not doing that. We need to forgive a lot of that student debt.

But should we have a program that says if you didn't just finish paying off your loans and you still have them, we're going to forgive them. Sorry if you did just finish paying them off. Should we have a system that says we're going to pay off your loans today. We're not quite sure what we're going to do about loans in the future but we're going to forgive them now. The answer to that would be no.

I mean, is it better to have an income limit, yeah, but like we're going to forgive some loans for people up to $250,000? $50,000 you saw the charts that we've shown you. Very few people owe that much. So, you know, if you were going to do this, I'd rather have you say up to $10,000 because then you would wipe out the debts of most of the people who are struggling. Matt has done some work in showing that that's still distributionally not really a great thing to do.

This is like saying let's have a hand out. We think a lot of people are struggling in our economy, we want to do something about it. And I'm in favor of that and there may be some sort of transfer to a group of people. That would be a really good one to do. I would not start by excluding people who never went to college which is what a loan forgiveness program is. It's saying we want to make a hand out to people who are struggling but only people who went to college.

MR. WESSEL: Okay. Your turn. There's one in the back there and then there's one in the middle here. Again, if you could stand up, tell us who you are and ask a question.

MR. GRAFF: My name's Alex Graff, I'm a reporter with *Globe Post*. You mentioned that it was ambiguous, the economic impact of making college tuition free and forgiving student loan debt. I was wondering if you knew of any data in countries like Germany and Finland where they have no tuition for college and what economic impacts that has had.

MR. WESSEL: Okay. There's one in front of you. Just stand up so the mic can find you. Thank you.

MR. BALDWIN: Hi, great discussion. Frank Baldwin with the National

Association of State Student Aid and Grant Programs. I'm wondering if a loan forgiveness problem might solve another problem would be to focus on students who have defaulted and don't have a degree. Many of them probably were defrauded but in any case, at least restoring their title for eligibility or their Pell eligibility would help them go back and get the degree they need to repay their loans. I think that's much more progressive than as Sandy noted, forgiving loans for doctors and MBA's.

MR. WESSEL: Over there. If you stand up, it's easier for the mic to find you but I guess it found you.

MS. ANDERSON: My name is Brooke Anderson. My question is and something I've asked myself and other people for a long time. I've never really found a good answer. But what is this system in place that makes college tuition fees so high? I mean, where is all this money going because the professor's salaries really aren't increasing at the same rate as tuition fees and they're not increasing at the same rate as many other things. I mean, who -- is it the lending institutions that are wanting to keep it in place? What is this system that's making these fees so high that people can't afford it that our parents and grandparents' generations could? You know, work part time and put themselves through school and they were happy about it.

MR. WESSEL: Thank you. Laura, do you want to take the what have we learned from Europe?

MS. FEIVESON: Yes, but unfortunately my answer will be short. It's a great question but I just don’t know the answer.

MS. BAUM: Well, part of the answer to that question is that in most places where tuition is free, there is a supply constraint, right? It's one thing to make tuition free but only admit a small number of students to your public institutions where tuition is free and everybody else, sorry about that. And so, we're trying to educate large shares of the population, it's much harder to do that, somebody's got to pay for it. I'll believe it when I see us having much higher, much more progressive taxes.

And that question about, you know, how we are doing that is also related and our willingness to pay is related to why tuition is as high as it is. Because, I mean, not all of the story but part of the story certainly has to do with we're trying to educate more students, enrollment has gone up but state appropriations, state funding for institutions has not kept pace.

So, funding per student has gone down tremendously and these institutions need to get the money from someplace. Now, institutions are also spending more money on a lot of things and that's a whole other conversation about what they're spending more money on.

MR. WESSEL: So, just to follow up on that a bit, Sandy. So, you made the point earlier that if you just look at the sticker price, it looks more severe than if you look at the net price, that is, minus financial aid and grants. You're saying that it's expensive because we educate lots of people so that makes sense. And then there's the famous stories about, you know, why they are climbing walls and all that. Do you, I'm just curious, a couple times people have referred to the Bennett hypothesis that tuition is going up because we made it so easy for them to raise tuition because the government is so generous with loans and grants. Do you think there's any evidence of that?

MS. BAUM: I think there's strong evidence in the for-profit sector. That when you raise grants and loan eligibility, tuition goes up. But the evidence in other sectors is sketchy, weak contradictory. And if you think about it, just think about the schools you're worried about with the high prices like who's charging $70,000 for tuition fees, room and board. It's these elite institutions that actually don't enroll many students who are eligible for Pell Grants. They are borrowing money, but we also know you could borrow money from private loans. Many of these students could instead. And so, no, I don’t think that's the main factor.

And the fact is that if student aid puts the availability of student does allow people to go to college who wouldn’t otherwise go, increase in demand. There probably is some upward pressure on prices but the reason we have it is so that we can increase demand and have more people go to college. And if it increases sticker prices a little bit, I'm willing to live with that.

MR. WESSEL: And then there was a question about rather narrow but an interesting question about should we do something to forgive the loans of students who have defaulted so they'll be more eligible for Pell Grants and stuff. I'm not familiar with the issue, do you have any?

MS. BAUM: One of the problems is, I mean, what you're sort of saying is let's look at the people who are really struggling and their debt is preventing them from doing other things. Part of me wants to say sure but then do you want to create a system where you just have to default and then don't worry, we'll pay back your loans. That's obviously not the best way to do it. We need to think in advance about how to help people not be in that system. And income driven repayment should prevent anybody from having to default.

MR. WESSEL: Two more and then we'll call it a day.

QUESTIONER: Hi. I want to talk a little bit more about student loan forgiveness and the disparity between, you know, regular bankruptcy laws and those that apply to student loans. Because I feel like it's a little bit unfair to say, oh well you spent too much money on brand name clothes and this and that, but you get to default. And then turn around and tell a student who has been struggling to pay for their education that they can't default on their loans and they can't seek forgiveness through bankruptcy.

MR. WESSEL: Okay, thank you. Tell us who you are.

MR. TANZIA: Alex Tanzia, Bloomberg News. Has any work been done on reducing the interest rates on student loans? I mean, how much money would be saved across the board if it was, say a 3 percent reduction, 3 percentage point reduction.

MR. WESSEL: Okay. Two questions. One is yeah, what about bankruptcy.

MS. FEIVESON: So, I think the idea, I mean, I think the reason it's not dischargeable in bankruptcy is this is a loan from the government to individuals. So, the government is able to eventually garnish wages and do what not. But this is the tax payer who's ultimately the one who is giving the loan. I mean, I agree though that that's something that could be revisited as a policy question of whether we should consider letting student loans be dischargeable in bankruptcy.

I guess one other factor, sorry, with student loans is there's no clear asset to back it up. So, if you default on your mortgage, then your house then can be owned by the bank and same with your car. So, there's not that equivalent asset with student loans. I mean, you own your asset. The asset is the human capital that you gained from getting an education.

So, there are some issues with letting people default on their student loan. I mean, there's some worry that if that was allowed then people would just go ahead and do it because they're going to still walk away with their human capital. So, it's not so simple to say that we should definitely let that happen.

MS. BAUM: I would say certainly private student loans certainly should be as dischargeable as credit card debt and bankruptcy and I think probably federal student loans should be too. It shouldn't be easy to do it and it's not the solution. It's hardly saying, oh well if you can just go bankrupt and then you won’t have your student loans, that's not going to really be the best solution for a lot of people. But yeah, I do think that the laws are now unreasonable.

In terms of the interest rates, if you have income driven repayment, your payment depends on your income and a lower interest rate isn't going to change your monthly payments, it's only going to change the amount of time for which you are repaying. And again, interest rates, if you owe $5,000, a slight decrease in interest rate isn't going to mean much to you. If you owe $200,000, it's going to mean a lot.

MR. WESSEL: So, I don’t think I can do a good job of synthesizing what we learned today. I think the point of this exercise was to try and inject some facts and sound analysis into a debate that is often reads more like bumper stickers and promises to people that may not make sense but are very politically popular. We've certainly injected a lot of facts.

I think a couple of things I'll observe. One is I think there's very little support for the thesis that this is a huge economic crisis for the entire economy or even for the many of the people who borrow. That there is a lot of student debt, some of it, large portions of it are held by people who, let's face it, can afford to pay it back. But large portions are also held by people who are not doing very well, some of whom have relatively low balances.

That there are lots of questions that we don't quite know the answer to, that's seems to be a perennial theme here at Brookings. I guess if we run out of questions for which we lack answers, we won't have much reason for being. And I think also that if you think about all the things that we discussed today, it seems that the policies we have are somewhat short of optimal. As Dubrayka point out, we have an income-based repayment system that even if you're an accountant it's hard to figure out. We've given people a lot of information, as Lesley pointed out. But as Matt told us, it may help you only make -- when you have to make the really close calls, the information is kind of confusing.

And we have a system that doesn't seem to be as simple as it could be and doesn’t seem to be working as well as we would like for the people who are most vulnerable. The ones who end up getting sucked into some fly by night training program for which their incomes will never justify the loans they take. So, I think we'll be trying, my colleagues and I will be trying to kind of synthesize this into some key takeaways. If I were smarter, I'd be able to tell you what they all are now, but I can't.

So, with that, one request, two requests. One is, if there's coffee cups and papers at your feet, pick them up and put them in the recycling in the back. And secondly, join me in thanking not only this panel but all the panels before.

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