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Will You Be Able to Repay That Student Loan?

by Sarah Green | 11:00 AM May 21, 2014

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This month, thousands of college seniors are tossing their mortarboards in the air – and getting ready to start paying off their student loans.

But will they be able to? A recent National Bureau of Economic Research [working paper](#) by Lance J. Lochner and Alexander Monge-Naranjo takes a closer look at the problem, going beyond simple default rates and looking at repayment patterns, and the total amount owed, more closely. They researched graduates who were not currently making any payments 10 years after finishing school, either because those borrowers were in default or because they had received a forbearance or deferment on their loans. (Deferments and forbearances are more common in the early post-college years, and considered more serious 10 years out.)

One big determinant: **how much money you make after you graduate**. The researchers found that a \$10,000 increase in your post-school salary is equivalent to 1.2% in increased repayment amounts.

It also matters **where you went to school**. Graduates from four-year colleges tend to repay more of their debts (see the point above about making more money). Two-year colleges and for-profit colleges turn out the most defaulters (and more drop-outs), even though their debts are lower. (Critics of for-profit schools blame the schools for this; the schools themselves say they are simply serving a more financially precarious population, in essence shifting the blame to their students.) Students attending historically black institutions tended to graduate with less-than-average debt, although the researchers warned that the sample size here was too small to draw specific

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conclusions.

Finally, it also matters **how much you borrowed**. For every additional \$1,000 borrowed, the likelihood of nonpayment rises by 0.4 percentage points. Put differently, to offset every additional \$1,000 you borrow, you need to earn an additional \$10,000 in income or your risk of nonpayment will rise.

All of these factors are, to some degree, within borrowers' control – which career path you choose after school, which school you enroll in, and whether you choose a very expensive school or a cheaper option are all up to you, even if which schools accept you, how much financial aid you're offered, and who ultimately hires you are all outside of your direct control. But Lochner and Monge-Naranjo also found a range of factors wildly outside of student borrowers' control, some of which mattered more than the above. For instance:

Whether your mother went to college. In a regression analysis that controlled for race, SAT score, and parental income, the researchers found that students whose moms didn't go to college ended up borrowing about \$1,500 more, and owed more on those loans 10 years out. However, they note that these borrowers do not have significantly higher default or nonpayment rates than borrowers whose mothers did go to college.

Whether you are a woman or a man. The authors note that women's "significantly lower post-school earnings" translates into higher nonpayment rates. Women owe more on their loans 10 years after graduating. While men and women have "nearly identical" default rates, according to the paper, "women have defaulted on 80% more debt than have men." And yet it's very important to note that once you control for the amount of money men and women make, this gap shrinks and becomes statistically insignificant – confirming that it's the differential in pay, not some other factor, that leaves women owing more.

Whether you are white, black, Hispanic, or Asian. "On average," they write, "black borrowers still owe 51% of their student loans 10 years after college, while white borrowers owe only 16%. Hispanics and Asians owe 22% and 24%, respectively." These are among the most significant findings in the paper, and they're worth quoting in full:

Among the individual and family background characteristics, only race is consistently important for all measures of repayment/nonpayment. Ten years after graduation, black borrowers owe 22% more on their loans, are 6 (9) percent more likely to be in default (nonpayment), have defaulted on 11% more loans, and are in nonpayment on roughly 16% more of their undergraduate debt compared with white borrowers. These striking differences are largely unaffected by controls for choice of college major, institution, or even student debt levels and post-school earnings. By contrast, the repayment and nonpayment patterns of Hispanics are very similar to those of whites. Asians show high default/nonpayment rates (similar to blacks) but their shares of debt still owed or debt in default/nonpayment are not significantly different from those of whites. This suggests that many Asians who enter default/nonpayment do so after repaying much of their student loan debt.

Importantly, the researchers did control for different college majors, different SAT scores, and different post-school earnings for each racial group. They conclude: "While blacks have significantly higher nonpayment rates than whites, the gaps are not explained by differences in post-school earnings – nor are they explained by choice of major, type of institution, or student debt levels."

What does explain them? Lochner and Monge-Naranjo don't have satisfying answers. They speculate that it all comes back to how much money mom and dad have. If your parents can help you out – with both cold, hard cash, and sound financial advice — you're a lot less likely to end up in nonpayment. The researchers found that every \$10,000 increase in parental earnings

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equated to about \$250 less in student loans for their children. And an earlier study by Lochner and colleagues of Canadian students with low post-school earnings found that financial support from their parents was instrumental in keeping students out of default. But one thing that's not in the data is how much wealth parents have beyond their earnings, which could have important racial implications – previous studies have shown that even when blacks and whites make the same salary, black families **still hold less wealth**.

With student loan debt at crisis levels, Lochner and Monge-Naranjo's findings add important nuances. This is information that government leaders and lenders need to pay attention to as the debate over regulation heats up – and that students need before they make possibly the biggest financial decision of their lifetimes.

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SARAH GREEN

Sarah Green is a senior associate editor at Harvard Business Review. Follow her on Twitter at @skgreen.

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hipster55 • 8 days ago

As a parent, I am not sure which emotion this evokes the most - sadness or anger. As a society we have allowed a great injustice to occur to our youth. Shame on us. Good luck and prayers for you.

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Anupam Rawat • 9 days ago



Thank you Sarah for the good article

Well just to add another angle to the article I would like to say that an element of how the Bank's Loan repayment structure works and the financial conditions of the countries and these populations should be taken into account as well. I beleive there will be a correlation.

Also As Chelsea is adding a point here that repayment versus non repayment data should be compared and presented well.

I guess the point of departure for the discussion should be picking up bank data and understanding how they are managing to give loans vis a vis the economic condition and course chosen by the student.

Please share your insights..

Warm regards,
Anupam R

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Chelsea Zhang • 15 days ago

Basically it comes down to two things - how much you borrow and how much you make after graduating.

If you don't plan on making a lot of money after you graduate (look at it objectively), you probably shouldn't take out that loan to begin with. Should a English major take out \$125,000 to go to a private school in Boston? Probably not. Should a neurosurgeon take out \$125,000 to go to school? That certainly makes more sense.

Rather than using college as a way for students to get a trade or a vocation we need to revise high school so that students can have an apprenticeship or a vocational education. We have forgotten that average doesn't mean stupid and that college is not for everyone. No one who doesn't want to go to college should be forced into it because our educational system fails to equip him or her with the skills for finding and keeping a decent job. This is part of what the common core is about. We need to expand our definition of a good high school education back to what it was in the mid 20th century: one that allowed people to hold responsible positions and let them have a good middle class life.

I have medical school debt, but if I can't pay back my student loans it's my own fault. Even if I'm going to be paying them off for 30 years they will be paid off. I may not have an Audi or Mercedes but I have a job that I love and

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