

Panel on Alternatives to Debt Financing

Federal Reserve Board

Addressing the Risks of Pursuing Post-Secondary Education Conference

Washington, DC

November 28, 2016

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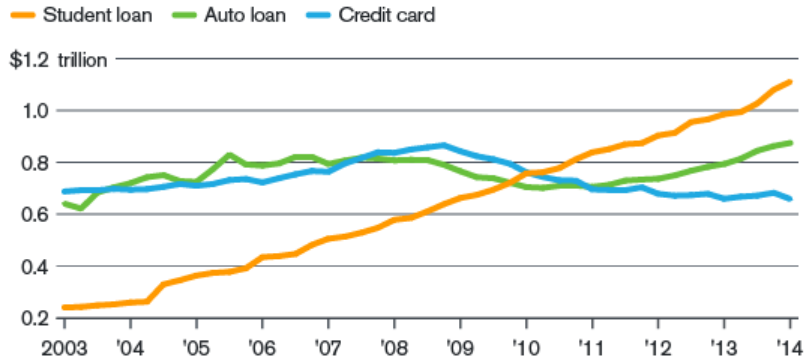
Some well-known facts

- Student debt has more than quadrupled since 2002
- Multiple reasons for this:
 - More students (cyclical and secular trends)
 - Tuition has risen and other funding sources have fallen
 - State aid
 - Parental wealth (home equity)
- Returns to education, on average, are still high
- Yet defaults spiked. Is debt financing partly to blame?
 - Amount of debt?
 - Repayment structure?
 - Incentives for colleges?
- Does student debt burden adversely affect graduates' financial choices and macroeconomic outcomes?

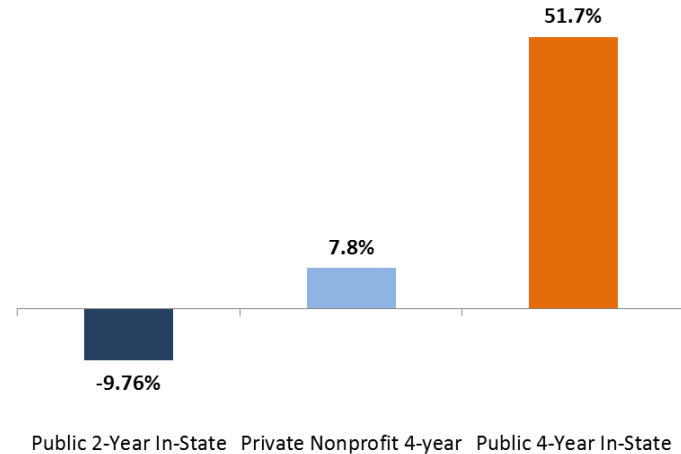
Some well-known facts: charts

Owing More for College Than for Cars

U.S. debt by categories, in constant dollars. Education debt is now second only to mortgage loans, which totaled \$8.2 trillion in the first quarter of 2014.



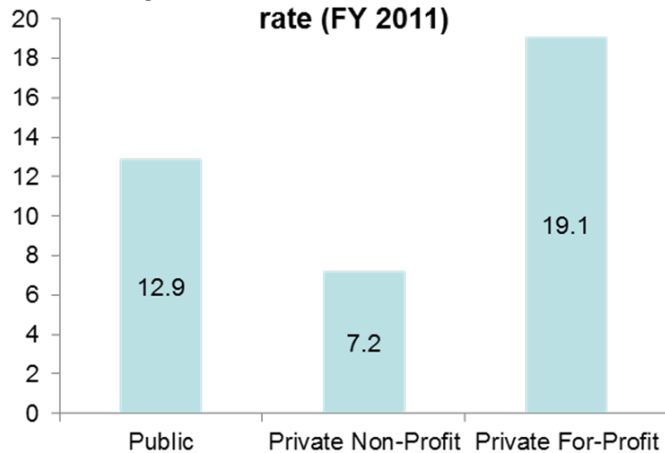
Net tuition growth between 2002 and 2014



Public 2-Year In-State Private Nonprofit 4-year Public 4-Year In-State

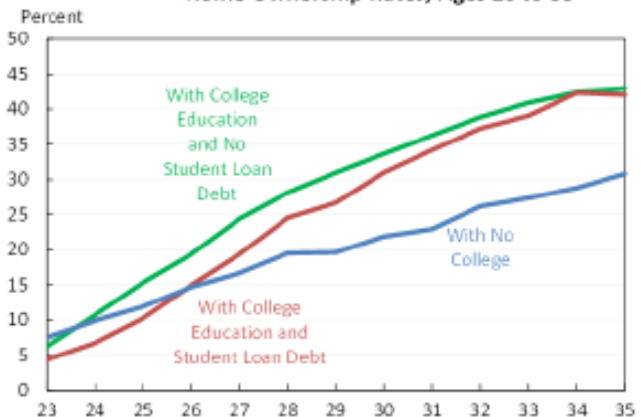
Source: The College Board, Trends in Student Aid 2013, Table 7

2-year student loan cohort default rate (FY 2011)



Source: <http://www2.ed.gov/offices/OSFAP/defaultmanagement/schooltyperates.pdf>

Home Ownership Rates, Ages 23 to 35



Source: Mezza, Sommer, and Sherlund (2014)

Let's talk about some alternatives

- Not every family has sufficient wealth/credit to finance college
- Is financing higher education through (guaranteed, not risk-priced, non-dischargeable, inflexible) debt the best approach?
- Policies to encourage savings pre-college
 - Address the very need to borrow for college
- Contractual form
 - Fund investment in human capital through equity
- State subsidies
 - Not just amount but also structure
- Cannot analyze these approaches while abstracting from the competitive structure of the education sector itself