



BORROWING FOR COLLEGE:

HELPING HIGH SCHOOL STUDENTS MAKE GOOD DECISIONS

With rising concerns about student debt, should high school students plan to borrow to pay for college?

For most students, federal loans are a necessary part of paying for expenses while in college. Loans can make it possible for students to enroll in colleges that might otherwise be out of reach. They can then repay their debt with the increased earnings they can expect with postsecondary degrees.

Overborrowing can cause significant problems when it is time to repay. But avoiding debt or borrowing too little can sometimes be as much of a problem as overborrowing. Responsible borrowing pays off for most students, expanding their college options and helping them succeed in school by allowing them to work less.

But what is responsible borrowing? High school counselors and other advisers play a critical role in helping students answer that question. Every student has individual needs, but knowing more about how much students typically borrow and how those patterns differ by race or ethnicity, program, and type of institution can help counselors provide better guidance.

KEY TAKEAWAYS

COLLEGE OPPORTUNITIES

Student loans can open doors to college opportunities but cause serious problems for some students after they leave school.

OVERBORROWING

Students from some racial or ethnic groups are more vulnerable to overborrowing than others, reflecting and reinforcing wealth gaps, particularly between white families and Black families.

AVOIDING DEBT

Avoiding debt or borrowing too little can sometimes be as much of a problem as borrowing too much.

RESPONSIBLE BORROWING

The first step to responsible borrowing is carefully choosing a college and a program. Students should consider their likely future earnings when deciding how much to borrow.

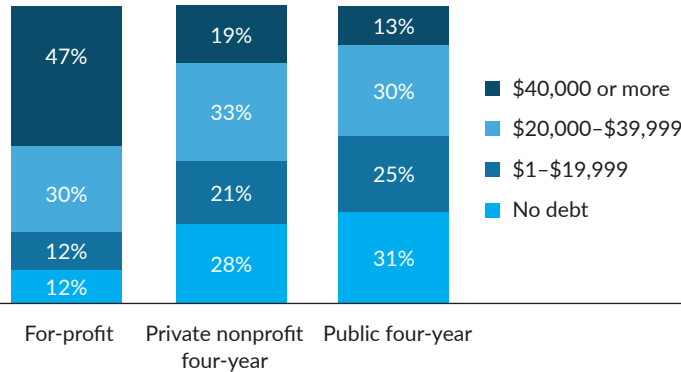
FEDERAL LOANS

Federal loans are safer than private loans from banks or other sources. The federal government allows students to make payments that are an affordable share of their incomes.

HOW MUCH DO STUDENTS BORROW?

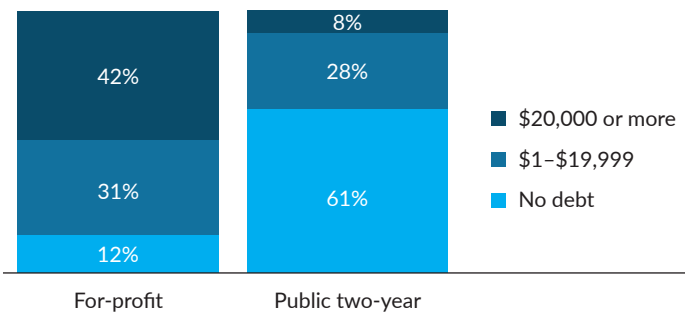
Although every student has unique circumstances, borrowing patterns differ by time in school, type of institution, and demographic group. Looking at students who enroll in college at age 20 or younger reveals the following patterns.

Total Debt of 2015–16 Bachelor's Degree Recipients Who Began College at Age 20 or Younger, by Type of Institution



Source: 2016 National Postsecondary Student Aid Study, PowerStats.

Total Debt of 2015–16 Associate Degree Recipients Who Began College at Age 20 or Younger, by Type of Institution



Source: 2016 National Postsecondary Student Aid Study, PowerStats.

Students at for-profit institutions borrow more than others.

TYPE OF INSTITUTION

Students who attend for-profit schools borrow more than others earning similar credentials. And those attending public institutions, particularly community colleges, borrow less than others.

BACHELOR'S DEGREE DEBT

Almost half of students who began college at age 20 or younger who earned bachelor's degrees at for-profit colleges in 2015–16 borrowed \$40,000 or more, compared with just 19 percent of those who went to private nonprofit colleges and 13 percent of those who graduated from public colleges.

ASSOCIATE DEGREE DEBT

The majority of students who earned associate degrees at public two-year colleges did not take out student loans. Almost half of those who attended for-profit institutions borrowed \$20,000 or more.

WHO STRUGGLES TO REPAY?

High debt levels are not always the problem.

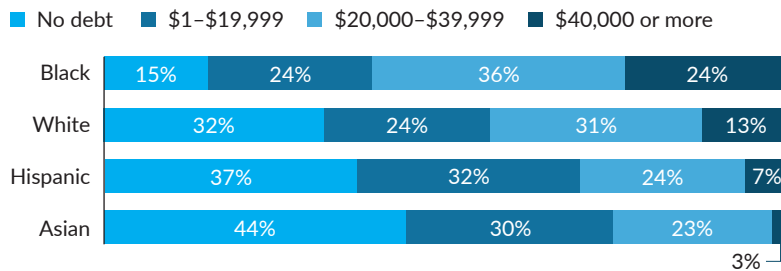
Borrowers with the **lowest levels of debt, many of whom did not complete college, are most likely to default on their loans.** Among borrowers entering repayment in 2010–11, nearly a quarter of those who owed less than \$5,000 defaulted within three years, compared with 7 percent of those who owed \$40,000 or more.

RACE AND ETHNICITY

Black students tend to borrow more than others earning similar credentials, while Asian and Hispanic students tend to borrow less. The higher reliance on student loans reflects and reinforces persistent wealth inequality between Black families and white families. Underborrowing can also be problematic. The reluctance of many Hispanic students to incur debt may close off some educational options.

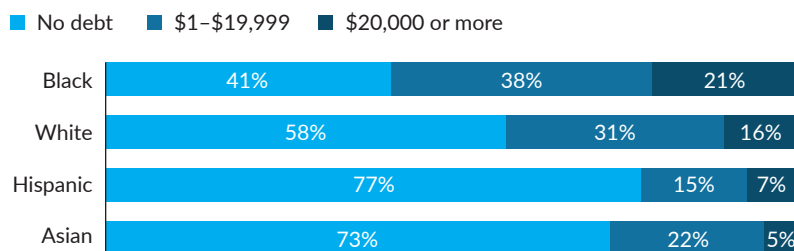
In addition, Black students disproportionately enroll in for-profit schools. For-profit institutions charge higher prices than public four-year colleges—and much higher prices than community colleges—and provide less generous financial aid than most private nonprofits. There is growing evidence that the labor market outcomes of students from for-profit institutions are weaker than those of similar students attending public institutions.

Total Debt of 2015–16 Bachelor's Degree Recipients from Public Four-Year Institutions Who Began College at Age 20 or Younger, by Race or Ethnicity



Source: 2016 National Postsecondary Student Aid Study, PowerStats.

Total Debt of 2015–16 Associate Degree Recipients from Public Two-Year Institutions Who Began College at Age 20 or Younger, by Race or Ethnicity



Source: 2016 National Postsecondary Student Aid Study, PowerStats.

Among recent high school graduates earning college degrees, Black students borrow the most; Hispanic and Asian students borrow the least.

BACHELOR'S DEGREE DEBT BY RACE

Among 2015–16 bachelor's degree recipients from public four-year colleges and universities who began college at age 20 or younger, a quarter of Black graduates borrowed \$40,000 or more. Smaller shares of Asian, Hispanic, and white students borrowed this much.

ASSOCIATES DEGREE DEBT BY RACE

The majority of students who earned associate degrees at public two-year colleges who started college at age 20 or younger did not take out student loans, but the majority of Black graduates did borrow, and 21 percent borrowed \$20,000 or more.

BLACK-WHITE RACIAL WEALTH GAPS

Even among families with similar incomes, Black families, on average, have less wealth than white families. This gap can be traced back to discriminatory policies and practices keeping Black families from owning homes and accessing credit and is made worse by racial wage gaps and unequal treatment in the job market. These disadvantages are perpetuated over generations, as Black families have less wealth to help children pay for college expenses or a down payment on a first home, provide an inheritance, or help with student loan repayment. Hispanic families also have much less wealth than white families, even those with similar incomes. But on average, the gaps are larger for Black families.

ADVISING STUDENTS

So what does all this mean for students? What should they consider before choosing a college or taking out student loans? If taking on too much debt is bad and taking on too little can backfire, what is the right amount to borrow? To answer that question, counselors can help students articulate their goals, choose the right college to meet those goals, and learn about different financing options.

CHOOSING A COLLEGE

SHORT-TERM PROGRAMS

Community colleges are less expensive than for-profits for certificates and associate degrees. Students should check graduation rates and employment outcomes.

TUITION COSTS

Students should not reject a school just because of a high sticker price. Some colleges with high published prices have the most generous grant aid, lowering the net price students pay.

COMPARING COSTS

Students should consider published prices, available financial aid, and average time to degree. Paying for five years at a low-price college may be more expensive than paying for four years at a high-price school.

LIVING ARRANGEMENTS

Students can save money by living at home, but on-campus housing or an off-campus apartment could give them more control over their living situation and be a better learning environment.

STUDENT LOANS

OVERBORROWING AND UNDERBORROWING

Students should not borrow more than they need to cover college expenses. Failing to repay loans after college has serious implications. But some students need reassurance that responsible borrowing can improve their chances of succeeding in college.

HOW MUCH IS TOO MUCH?

The federal government puts strict limits on how much dependent students can borrow: up to \$5,500 their first year and no more than \$31,000 total. Staying within these limits is a good guideline. Part-time students should borrow less each year to stay on track.

FEDERAL VERSUS PRIVATE LOANS

Federal loans come with regulated interest rates and repayment protections, including income-driven repayment. Private loans are riskier.

PLANNING FOR REPAYMENT

Students should think about their career aspirations and how much people in their chosen field generally earn after college. Higher earnings can support repayment of larger debts.

REPAYMENT PLANS

Awareness of federal income-driven repayment plans that make monthly payments an affordable share of income may help some students overcome aversion to borrowing.

RESOURCES

COLLEGE NAVIGATOR

Learn more about net prices paid by students at different income levels to help students estimate how much they will pay.

<https://nces.ed.gov/collegenavigator/>

COLLEGE SCORECARD

This resource provides information about a school's published prices, available financial aid, graduation rates, employment outcomes, and the average time to degree.

<https://collegescorecard.ed.gov/>

URBAN INSTITUTE REPORT

The information in this fact sheet is based on larger research. Learn more about students, borrowing, and repaying by reading the report below.

<https://urban.is/38n624W>