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EMPOWERING THE NEXT GENERATION OF LAWYERS[®]

FEDERAL STUDENT LENDING IN GRADUATE EDUCATION

Analyzing Policy Changes and Consequences



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Student Financial Aid Research Network Conference



Presentation Roadmap

- Who is AccessLex Institute?
- Framework
- Myth-Busting
 - Claim #1 = Bennett Hypothesis
 - Claim #2 = Forgiveness Costs
 - Claim #3 = Private Lending
- Policy Considerations
- Follow-up



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Access
Affordability



**EXAMINING
GRAD PLUS**



Federal Graduate Lending

Programs

- Direct Unsubsidized
 - \$20,500 per year
 - \$138,500 aggregate (*U and G*)
- Grad PLUS
 - Highest interest rate
 - Credit check (*no adverse credit*)
 - Borrow up to cost of attendance

Repayment

- Income Driven Repayment
 - Monthly payment cap*
 - Taxable forgiveness after 25 years
- Standard 10-year amortization
- Public Service Loan Forgiveness

*Depends on the repayment plan



Critics Argue

Grad PLUS

- Borrow “unlimited” money
- Raises tuition costs
- Undifferentiated forgiveness
- Cost to government

Federal Graduate Lending

- Large portion of \$1.5 trillion debt
- No lending discipline
- Private market crowded out
- Taxpayer subsidization



Bottom Lines

Access is the cornerstone of federal investment

1. Bennett hypothesis is unsupported by data
2. Forgiveness concerns are probably overblown
3. Graduate borrowers are best performing cohort in the portfolio
4. Graduate lending privatization would cripple access to many groups, particularly black students



Bennett Hypothesis

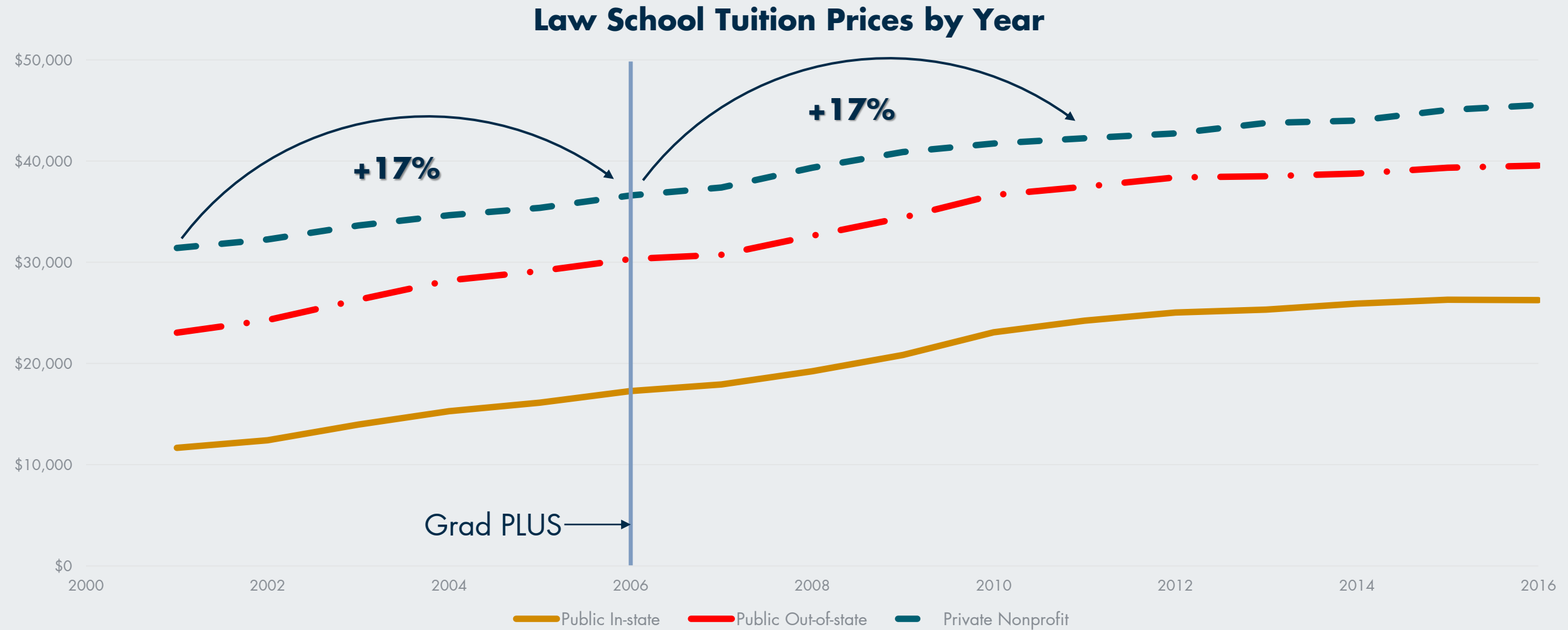


More Federal Aid



Institutions Raise Tuition

~~Bennett Hypothesis~~ ... Not So Much



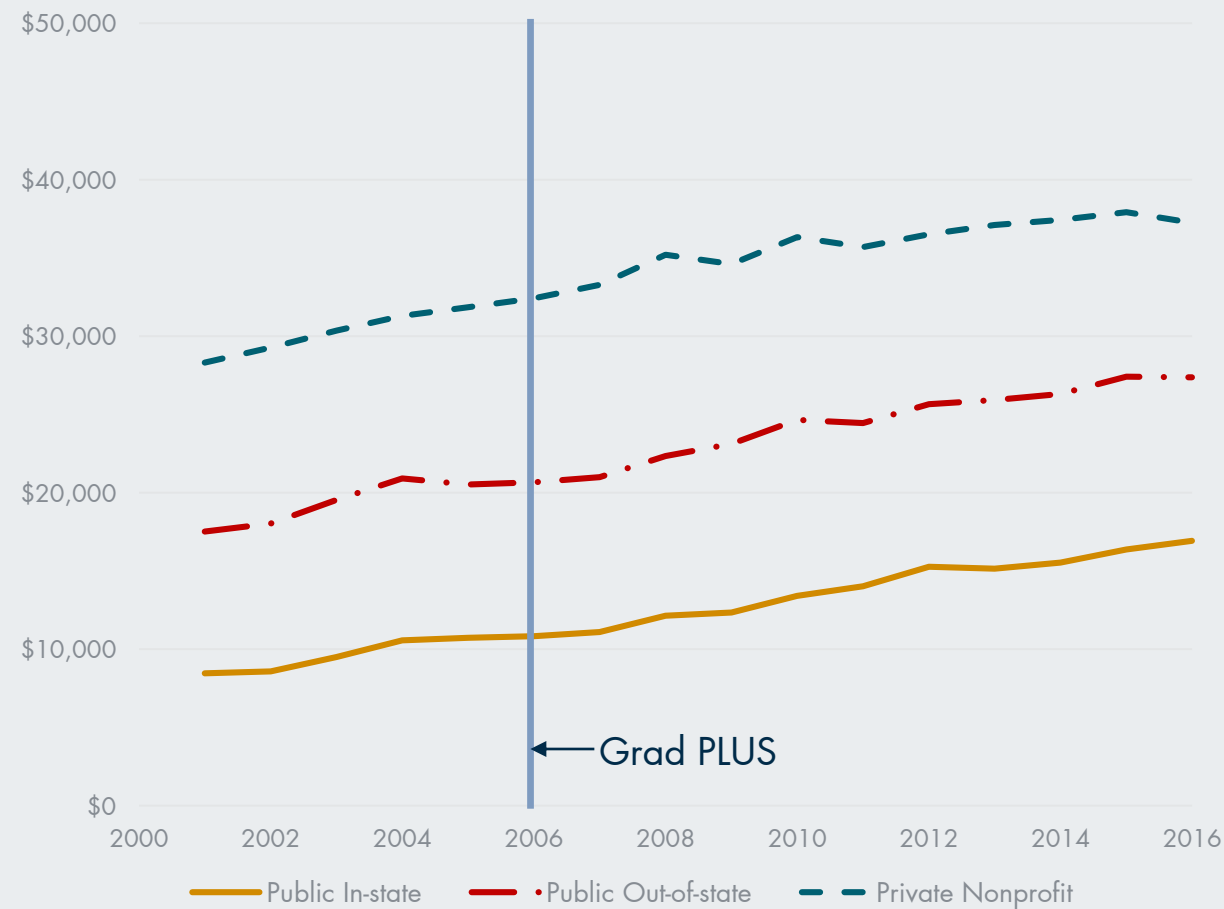
Note: Prices presented are means. All prices are adjusted for inflation and reflect dollars in 2016.

Source: Robert Kelchen, *Does the Bennett Hypothesis Hold in Professional Education? An Empirical Analysis*, Research in Higher Education, 2019.

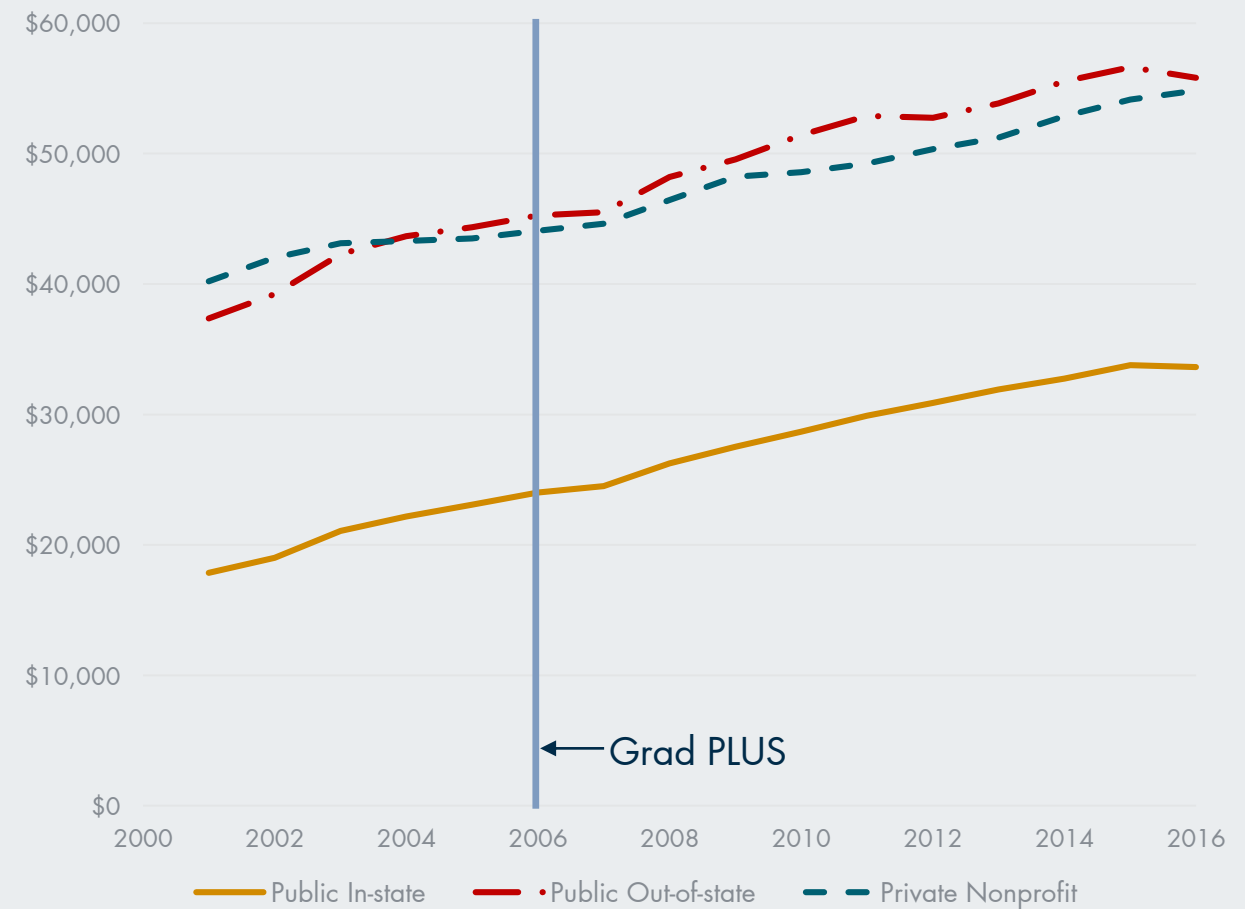


~~Bennett Hypothesis~~ ... Not So Much

Business School Tuition Prices by Year



Medical School Tuition Prices by Year



Note: Prices presented are means. All prices are adjusted for inflation and reflect dollars in 2016.

Source: Robert Kelchen, *Does the Bennett Hypothesis Hold in Professional Education? An Empirical Analysis*, Research in Higher Education, 2019.



Graduate Private Lending

Critics Argue



In Reality





Grad PLUS Borrowing (Part I)

Degree Type	Number of Graduates	Percent of Graduates with Grad PLUS	Number of Graduates with Grad PLUS
All	810,300	17%	139,800
Master's	654,400	12%	79,000
Research Doctoral	51,400	17%	8,600
Professional	104,500	49%	51,000

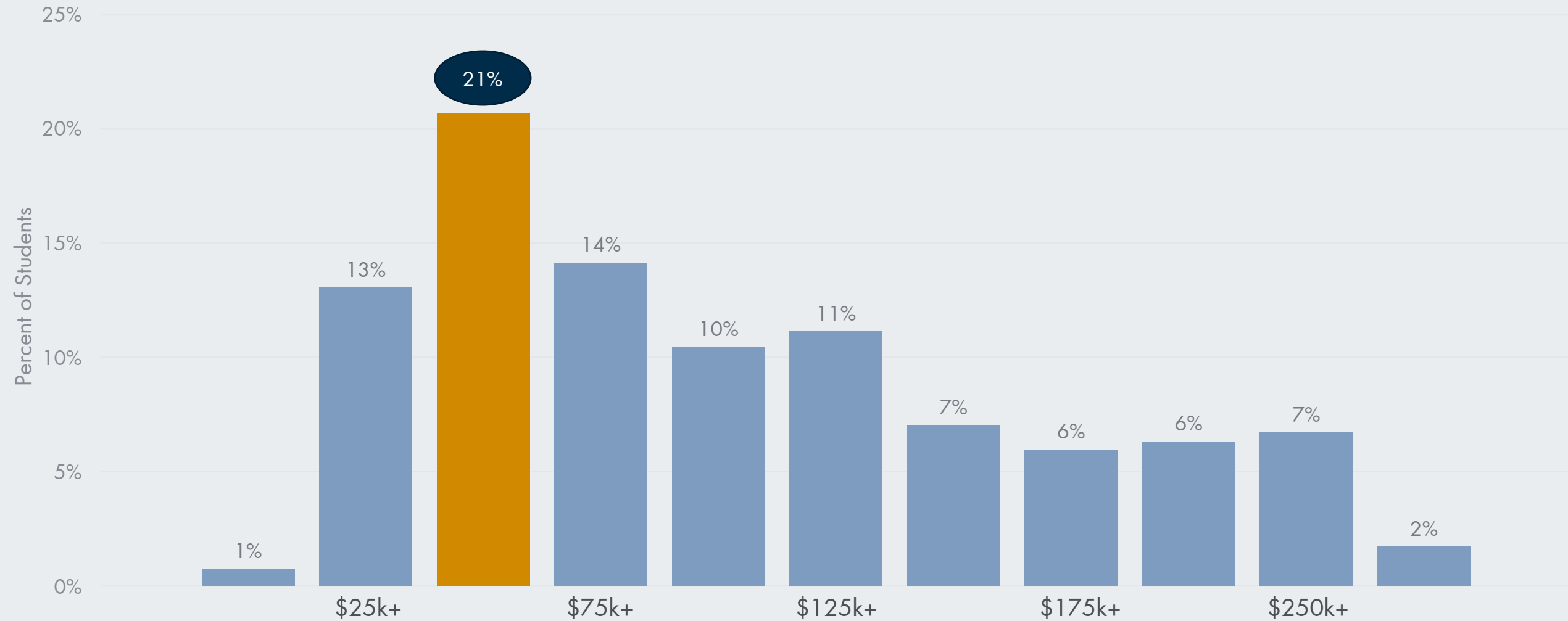
Note: Academic Year 2015-16.

Source: IPEDS 2015-16 and NPSAS 2016, PowerStats.



Grad PLUS Borrowing (Part II)

Percentage Distribution of Grad PLUS Borrowers By Debt (AY 2015-16)

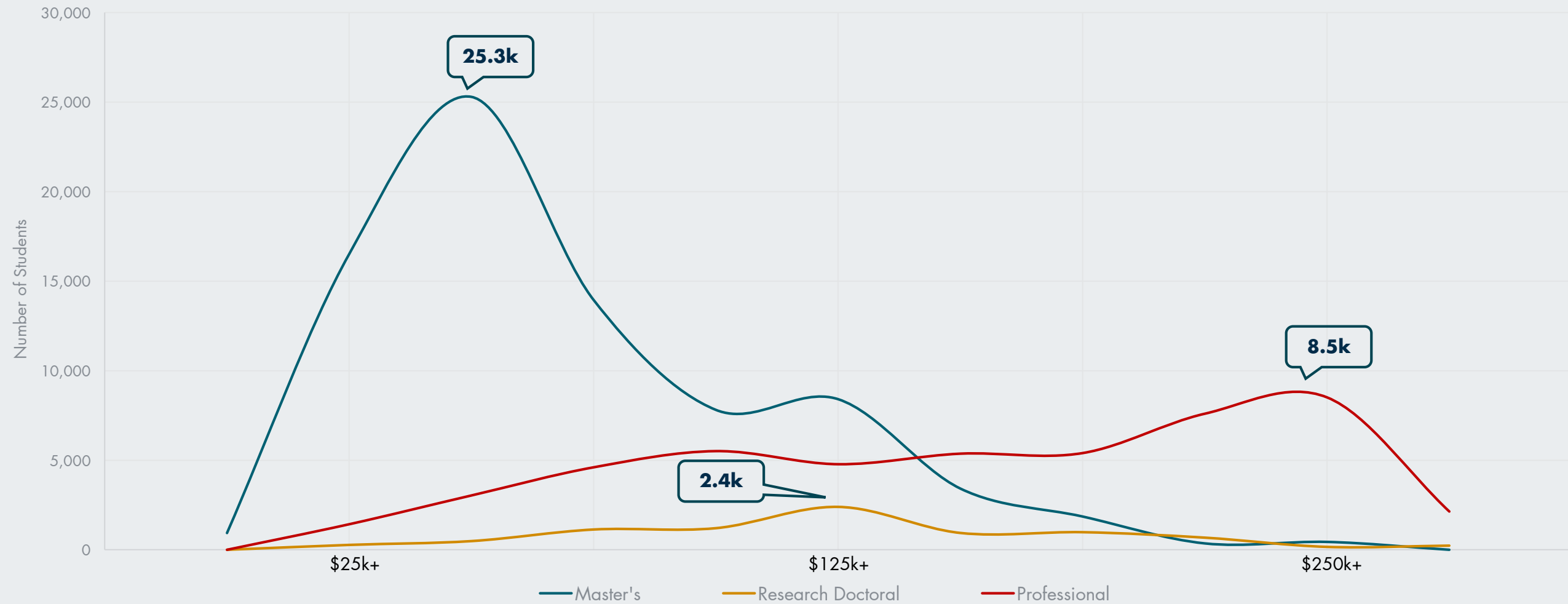


Note: Debt above \$200,000 is presented in \$50,000 increments to ensure data reliability.
Source: NPSAS 2016, PowerStats.



Grad PLUS Borrowing (Part III)

Distribution of Number of Grad PLUS Borrowers By Debt and Degree Type (AY 2015-16)



Source: IPEDS 2015-16 and NPSAS 2016, PowerStats.

Forgiveness Assumptions

Income and Repayment

Average "Starting Salaries"

- Master's = \$73,000
- Research Doctoral = \$90,000
- Professional = \$106,000

Loan Repayment

- 1 to 1.25 x Adjusted Gross Income
- Debt \geq 1.25 x AGI = Forgiveness

Forgiveness Threshold

\$100,000

"High-debt"

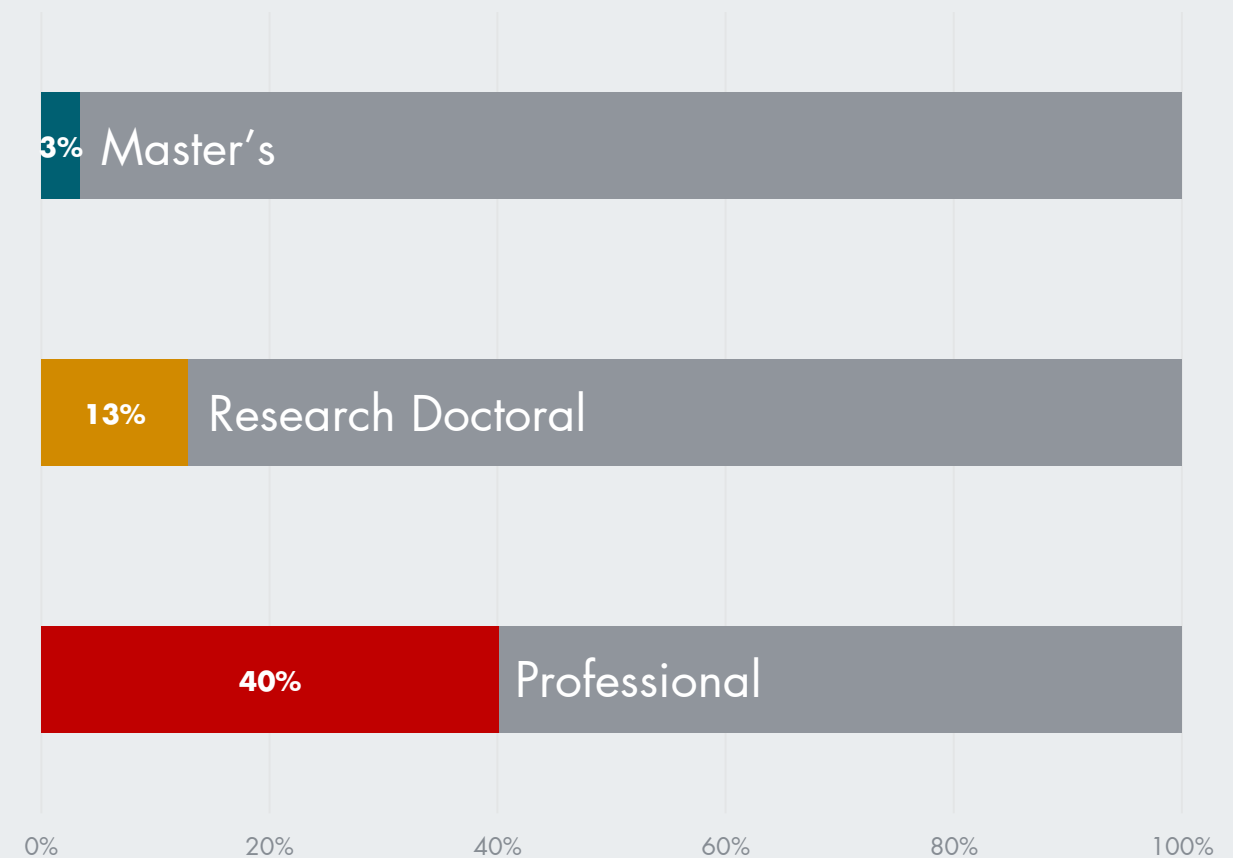
Note: Income for ages 25 to 34 were used as proxy for a "starting salary."
Source: U.S. Census Bureau, Current Population Survey, 2017 Annual Social and Economic Supplement.



High-debt Borrowers (Part I)

	Number of Grad PLUS Borrowers	Percent of High-debt Grad Plus Borrowers	Number of High-debt Grad PLUS Borrowers
All	139,800	51%	71,800
Master's	79,000	28%	22,300
Research Doctoral	8,600	77%	6,600
Professional	51,000	82%	41,900

High-debt Grad PLUS Borrowers as a Share of Degree Recipients by Degree Type (AY 2015-16)

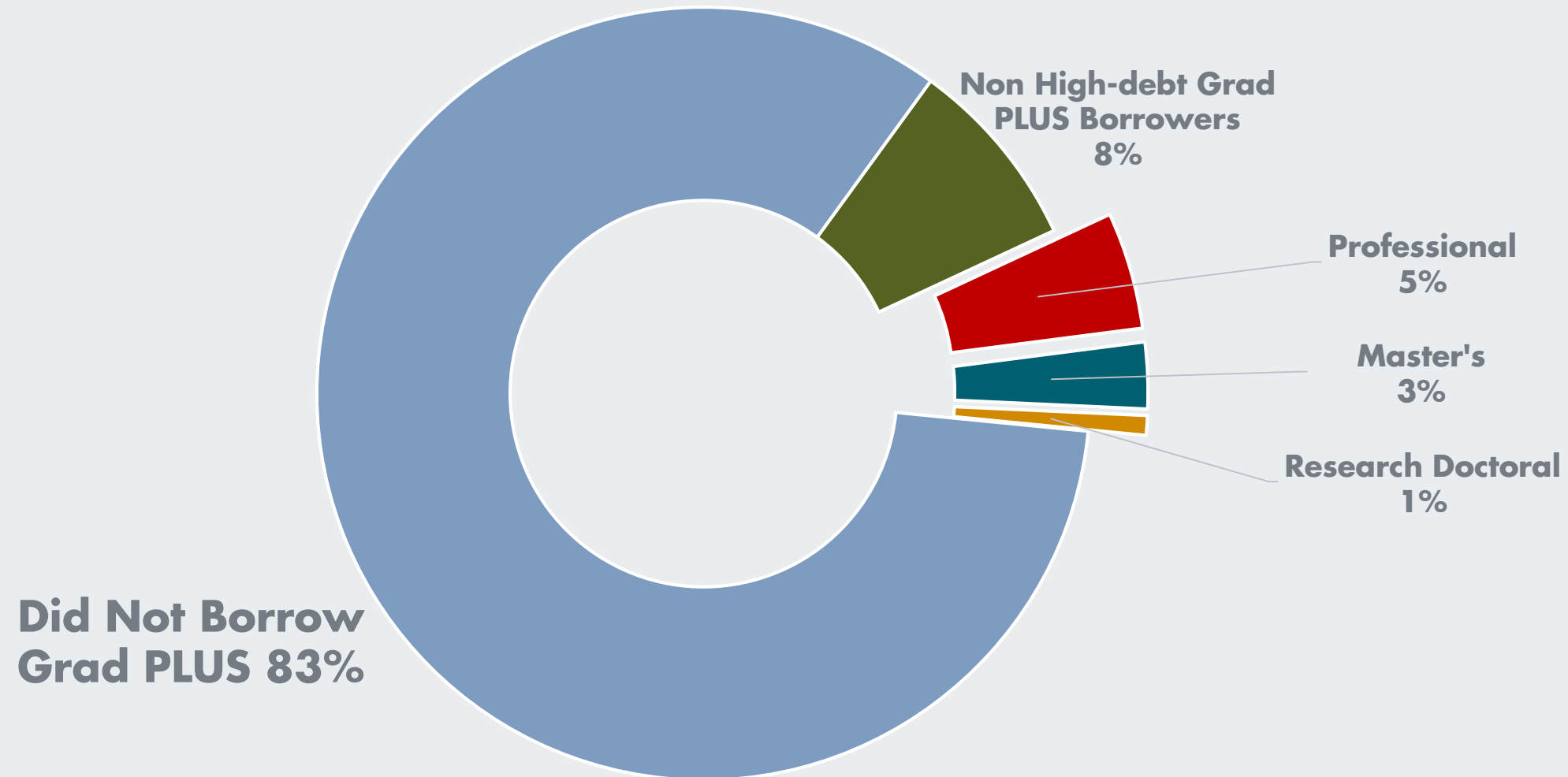


Source: IPEDS 2015-16 and NPSAS 2016, PowerStats.



High-debt Borrowers (Part II)

High-debt Grad PLUS Borrowers as a Share of All Graduate Degree Recipients
(AY 2015-16)



△ Probable Overestimation



U.S. GOVERNMENT ACCOUNTABILITY OFFICE

loans to 1.7 million unique borrowers, with borrowing amounts per borrower of \$5,000 (10th percentile of borrowers) to \$98,554 (90th percentile of borrowers). To manage their debt, the majority of Grad PLUS borrowers in repayment status as of June 2017 used the Standard 10-year repayment plan. As of June 2017, 36 percent of Grad PLUS borrowers in repayment status had ever participated in an Income-Driven Repayment plan. As of June 2017, 11 percent of Grad PLUS borrowers in repayment status had been certified as eligible for Public Service Loan Forgiveness. As of March 2017, 2

Our small estimates are probably too high!



EXAMINING GRADUATE LENDING



Graduate Private Lending

Critics Argue

- We can just “go back” to when private lending dominated
- Market-based discipline would control institutions’ costs
- Save the government money and bolster private enterprise
- Spur “innovation”

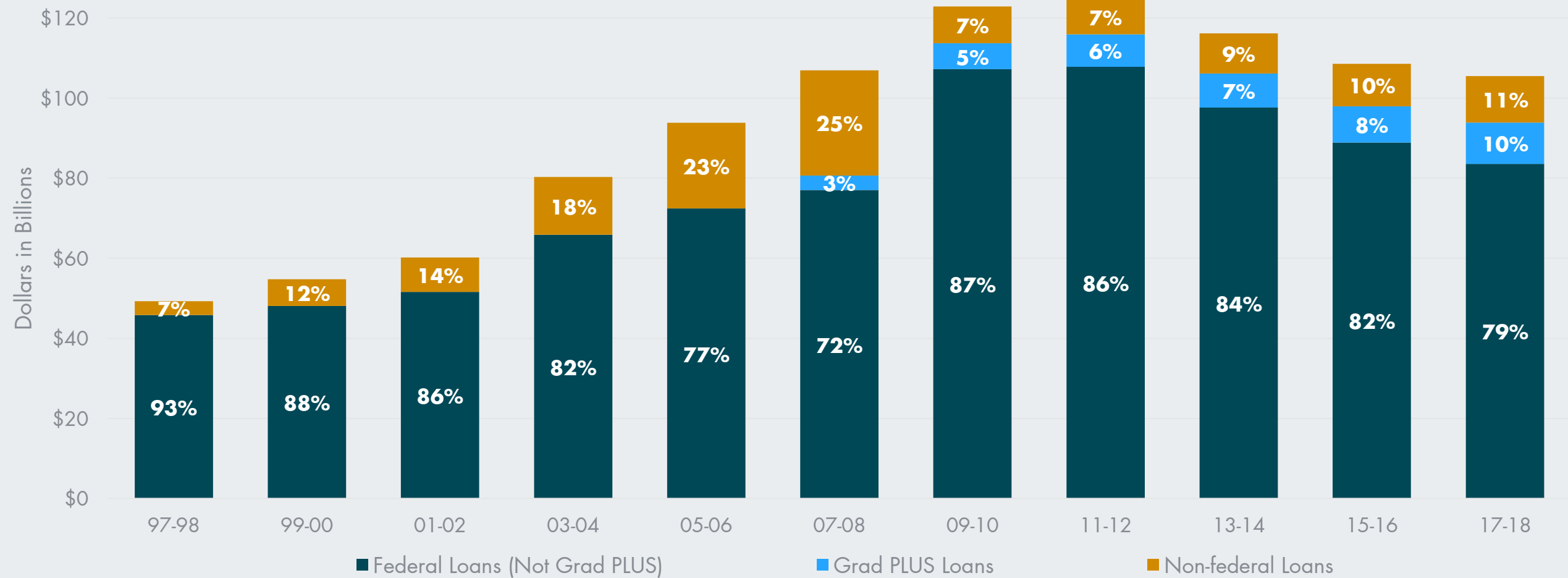
In Reality

- Private lending has never been a large source of graduate funding
- Graduate borrowers are the best performing cohort in loan portfolio
- Underwriting standards would preclude large swaths of students
- Differing priorities (Access v. Profit)



Private Lending Never Dominant

Total Federal and Non-federal Loans by Lending Source (AY 1997-98 to 2017-18)

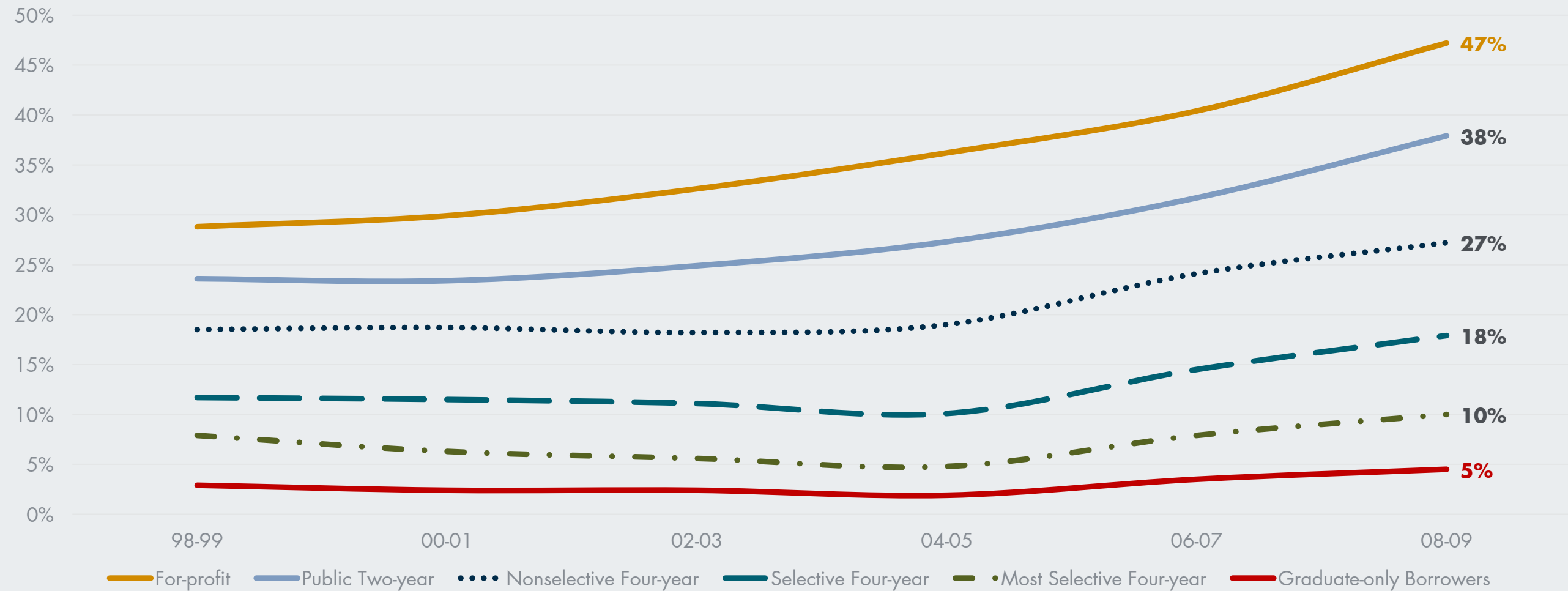


Source: Sandy Baum et al., *Trends in Student Aid 2018*, Figure 6, The College Board, 2018.



Grad Borrowers Are Best Performers

Five-year Federal Student Loan Default Rates by Institution Type (1998-99 to 2008-09)



Source: Sandy Baum et al., *Trends in Student Aid 2018*, Figure 2016_11B, The College Board, 2018



Private Underwriting Criteria

Willingness to Repay

- How borrowers handled repaying financial obligations in the past
 - On-time payments, defaults, etc.
 - Fairly predictive of future habits
- Credit report (borrower/cosigner)
- Formulaic and efficient

Ability to Repay

- Assesses if borrower will have the means to repay the loan
 - After showing positive repayment
 - Institutional or program outcomes
- Extra info over a credit report
- More nuanced and opaque



Black Graduate Borrowers

Cumulative Federal Loan Debt for Graduate Education by Race and Degree (AY 2015-16)

	White	Black
All Degrees		
Average	\$59,997	\$70,207
Median	\$38,473	\$51,250
Master's		
Average	\$40,217	\$50,594
Median	\$31,282	\$46,632
Research Doctoral		
Average	\$73,131	\$107,272
Median	\$59,682	\$113,054
Professional		
Average	\$140,603	\$198,982
Median	\$130,741	\$207,205

Percent of Graduates Who Had Above Average Debt by Race (AY 2015-16)

	White	Black
Degree Type		
Master's	9%	19%
Research Doctoral	25%	63%
Professional	57%	74%
Degree Program		
M.S.	7%	18%
M.A.	8%	17%
M.Ed.	4%	30%
MBA	6%	19%
Ph.D.	25%	71%
Ed.D.	21%	68%
J.D.	53%	88%

Note: Average cumulative federal loan debt is approximately \$63,000.
Source: NPSAS 2016, PowerStats.

Additional Concerns

Repayment

- Little info on grad repayment
- Undergraduate repayment (Black):
 - Median grad owed more than original principal 12 years after
 - Four (4) times more likely to be in default than white peers
- Private underwriting standards could block black borrowers from obtaining financing

Other Factors

- HBCU's would be most harmed using *ability to repay* underwriting
 - Recent study says many are not reducing principal 5 years after
 - HBCU's are well above national average for repayment metrics
- Disparate impact claims under the Equal Credit Opportunity Act could complicate lending



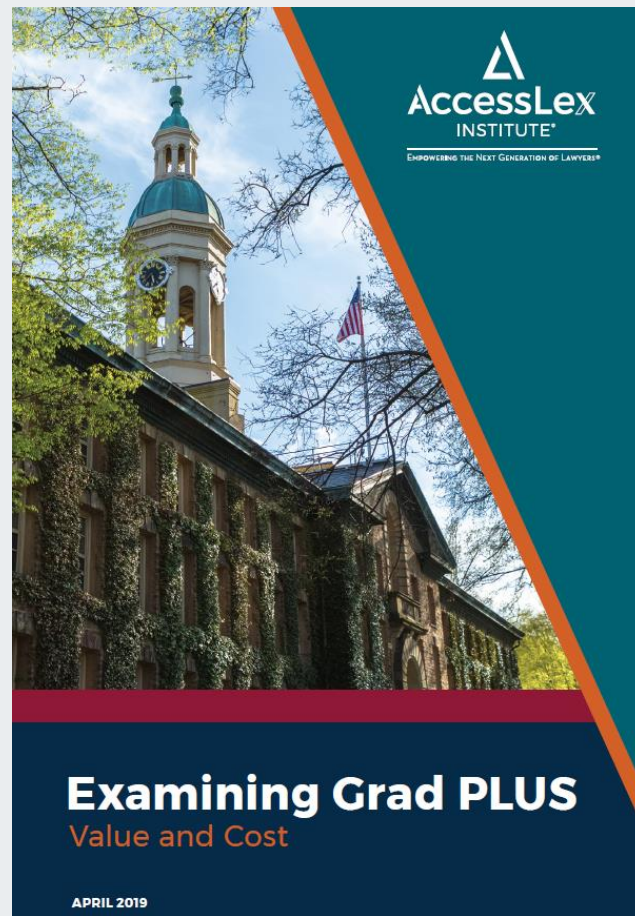
Policy Considerations

- Federal policy must focus on **access** to graduate education
 - Opportunity is the backbone of the Higher Education Act
 - Black borrowers would be most negatively impacted by privatization
- Critics' **concerns are overblown** and misguided
 - Proffered proposals target students and do not address costs
 - Government has more appropriate levers and tools to address quality

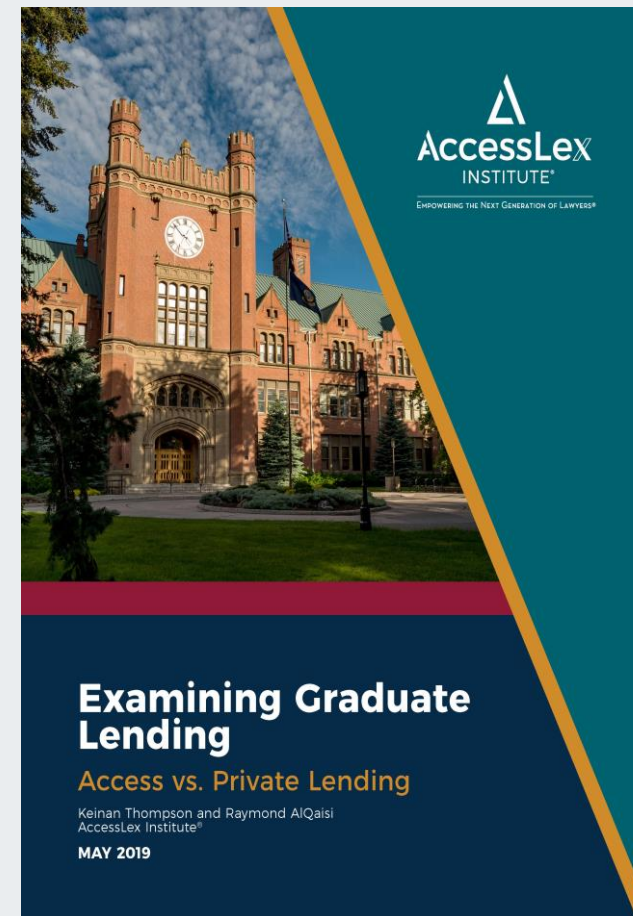
QUESTIONS / COMMENTS

Full Reports

Examining Grad PLUS



Examining Graduate Lending



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THANK YOU



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