

The Impact of Youth Debt on College Graduation

Min Zhan

Associate Professor, University of Illinois
Faculty Associate, Center for Social Development

2012 Asset Building Conference

November 15, 2012



University of Illinois at Urbana-Champaign
SCHOOL OF SOCIAL WORK

Context for Research

- *College graduation rate*: Six-year graduation rate was less than 60% among full-time Bachelor-seeking students at four-year college as of 2008.
- *College cost* is one of the most recognized barriers to college access and graduation.
- Families and youth have increasingly relied on *debt* (both educational loans and credit card debt) to finance college education.

*College Board, 2011; Lewin, 2009;
Long & Riley, 2007; Sallie Mae, 2009.*



Prior Research: Rationale

- Educational loans and credit card debt may have *dual effects* on college education
 - Debt allows access to economic resources and helps reduce anxiety and stress
 - However, heavier debt could have diminishing or negative impact
- Debt may have stronger impact on college education among youth from low-income and minority families due to their limited resources.



Prior Research: Empirical evidence

- Household Debt and College Education
 - Secured debt (*debt associated with asset purchases*) is positively related to children's college graduation (before household assets are considered).
 - Unsecured debt (consumer debt) is negatively related to children's college graduation.

Nam & Huang, 2008;
Zhan & Sherraden, 2011a; 2011b.



Prior Research: Empirical evidence

- Educational Loans and College Graduation
 - Educational loans tend to have negative impact only among low-income and minority families.
 - Educational loans have a stronger impact for students at public universities.
 - Impact of educational loans is not linear.

Alon, 2007; Dwyer, McCloud, & Hodson, forthcoming;
Kim, 2007; Paulsen & St. John, 2002; St. Johns et al. 1992.



Gaps in Research

- Parental household assets/debt have not been considered
 - Studies only examined the relationships between educational loans and college education by *household income*.
- Differential links of debt on college graduation by race/ethnicity has not been examined.
- Impact of credit card debt on college graduation has not been explored.

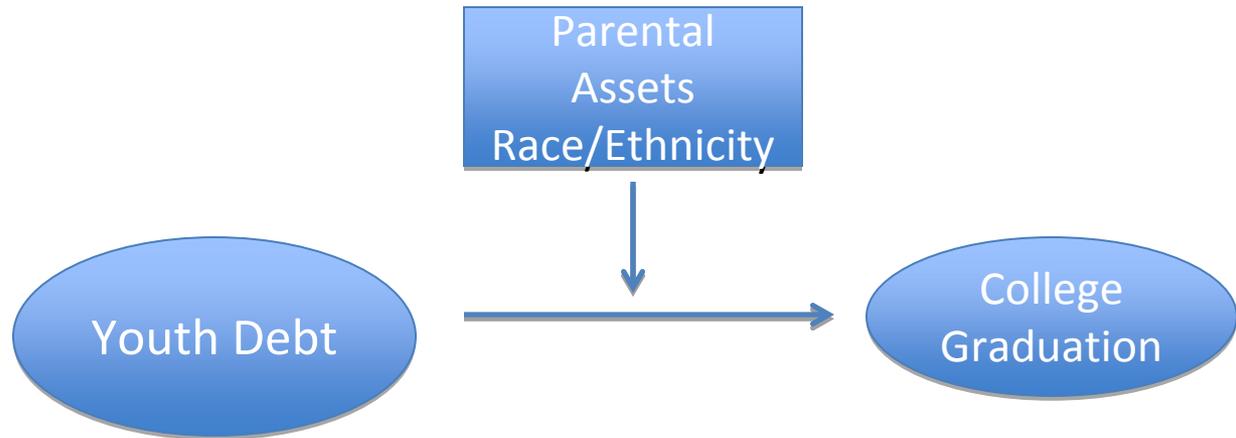


New Research Inquiries

- What are the associations between educational loans and credit card debt and the probability of college graduation?
- Are the associations between youth debt and their college graduation differ by parental assets and by race/ethnicity?
- Do student loans and credit card debt help reduce the college graduation disparities between white and minority college students?



Framework



Youth Debt:
*Educational Loans &
Credit Card Debt*



Data and Sample

- National Longitudinal Survey of Youth (NLSY) Young Adult & Mother Data.
- Study Sample includes about 850 young adults who enrolled in college between 2000 and 2004.
- Study samples includes 379 White students, 295 Black students, and 177 Hispanic students.



Measures

- Debt: Amount of debt over the course of a student's college enrollment
 - Cumulative amount of educational loans (no loans; <\$5,000; \$5,000--\$10,000; >=\$10,000)
 - Average credit card debt per year (no debt; <\$500; >=\$500)
- College graduation: Whether or not a youth completed a Bachelor's degree as of 2008



Measures

- Parental Assets: Parental net worth in the year when a youth first enrolled in college
 - Negative or zero net worth; $< \$50,000$;
 - $\geq \$50,000$
- Control variables
 - Youth characteristics: age, gender, race/ethnicity, marital status, parental status, high school GPA, & enrollment status.
 - Parental characteristics: educational status, family income, and parental net worth.



Analysis

- Logistic Regression on college graduation of educational loans and credit card debt.
 - Several models were conducted with different groups of predictors included to test if debt helps reduce disparities in college graduation by race/ethnicity
- Interaction variables between debt & race/ethnicity and between debt & net worth were added to the model to test if the group differences were statistically significant.



Results

- Graduation rate was low among the sample of college students (about 40%), even lower among minority students.
- A large proportion of students had educational loans (47%) or credit card debt (58%).
- Hispanic students were more likely to have credit card debt but less likely to have educational loans.



Results

- Students with educational loans of \$10,000 or above were more likely to graduate from college than those without loans.
- But the graduation rate of students with educational loans of \$10,000 or above were not different from students with loans less than \$10,000.



Results

- Furthermore, among minority students (Black and Hispanic students), those with education loans \$10,000 or above were less likely to graduate than those with loans between \$5,000 and \$10,000.
- For Hispanic students, educational loans did not have positive impact on college graduation.
- Credit card debt only some modest positive impact on Hispanic students' graduation.



Results

- The impact of debt on graduation did not differ by levels of parental net worth;
- But parental net worth (\$50,000 or above) was a strong positive predictor of college graduation of college students.



Results

- Being a minority student was negatively related to college graduation.
- Student loans and credit card debt did not help reduce the college graduation gaps between white and minority college students.



Results

- Having child(ren) during college enrollment were negatively related to college graduation.
- Students whose mother with Bachelor's degree were more likely to graduate.
- High school GPA and being a full-time student were positively related to college graduation.



Research Strengths and Caveats

- Use high-quality longitudinal data set and controls for many other variables.
- Examines student debt and their impact in later attainment of a bachelor's degree, so temporal order is established.
- Temporal order is suggestive, but not sufficient to establish causality.



Future Research

- Long-term impacts of educational loans and credit card debt, such as graduate school attendance and post-collegiate career choices, need to be examined.
- Possible mechanisms (both financial and attitudinal) through which debt influences college graduation need to be investigated.



Implications

- Addressing unmet financial needs for college students through additional educational loans and other debt may be counterproductive, especially for minority students.
- It is necessary to include financial asset accumulation and college savings as a long-term investment strategy to enhance college access and graduation.



References (1)

- College Board (2011). *The college completion agenda: 2011 progress report*. Available online: <http://completionagenda.collegeboard.org/reports>
- Alon, S. (2007). The influence of financial aid in leveling group differences in graduating from elite institutions. *Economics of Education Review*, 26, 296-311.
- Dwyer, R. E., McCloud, L., & Hodson, R. (forthcoming). Debt and graduation from American universities. *Social Forces*.
- Kim, D. (2007). The effects of loans on students' degree attainment: Differences by student and institutional characteristics. *Harvard Educational Review*, 77(1), 64-100.
- Lewin, T. (2009, August 11). *Study shows rise in average borrowing by students*. New York Times. Available online: www.nytimes.com/2009/08/12/education/12college.html.
- Long, B. T., & Riley, E. (2007). Financial aid: A broken bridge to college access. *Harvard Educational Review*, 77(1), 39-63.



References (2)

- Nam, Y., & Huang, J. (2009). Equal opportunity for all? Parental economic resources and children's educational achievement. *Children and Youth Services Review*, 31,625-634.
- Paulsen, M. B., & St. John, E. P. (2002). Social class and college costs: Examining the financial nexus between college choice and persistence. *Journal of Higher Education*, 73, 189-236.
- Sallie, Mae. (2009) How undergraduate students use credit cards. Available online: http://static.mgnetwork.com/rtd/pdfs/20090830_iris.pdf
- St. John, E. P., Oescher, J., & Andrieu, S. (1992). The influence of prices on within-year persistence by traditional college-age students in four-year colleges. *Journal of Student Financial Aid*, 22, 27-38.
- Zhan, M., & Sherraden, M. (2011a). Assets and liabilities, educational expectations, and children's college degree attainment. *Children and Youth Services Review*, 33, 846-854.
- Zhan, M., & Sherraden, M. (2011b). Assets and liabilities, race/ethnicity, and children's college education. *Children and Youth Services Review*, 33, 2168-2175



Contact Information

Min Zhan

School of Social Work

University of Illinois at Urbana-
Champaign

mzhan@illinois.edu

THANKS!

