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Is There a Student Loan Debt Crisis at Private Colleges?

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Is there a student loan debt crisis at private colleges?

Are students at private colleges more indebted today than they were 10 years ago?

Data from The College Board show that measured in constant dollars, total student loan borrowing rose nationally from $76.8 billion per year in 2003-04 to a peak of $122.1 billion in 2010-11. Since the peak, the annual loan volume dropped to a level of about $106 billion in 2013-14. However, the higher rate of borrowing since 2003-04 has produced an increase in student indebtedness across every part of higher education – at private schools, public schools and for-profit schools alike.

Yet the increased borrowing by students at private schools has been relatively moderate. Data from The College Board show that measured in constant dollars, the amount of debt per graduate at private schools was $26,400 in 2003-04, rising to $31,200 by 2012-13 – an increase of less than 2 percent per year. Additionally, the share of graduates at private schools who borrowed remained essentially unchanged at about 65 percent.

At Linfield, debt per graduate stood at $26,870 in 2003-04 and ended up at $27,955 in 2012-13. Over the same period, the share of Linfield graduates who borrowed fluctuated between 65 and 75 percent.

Will students at private colleges be able to pay off their student loans?

Research from The Hamilton Project, a public policy research center, shows that the student loan repayment problem is usually a short-term cash-flow problem. It occurs because student loan payments take up a much larger share of early-career earnings than they do of mid-career earnings. Income-based repayment options, where required loan payments vary by income level, may be one way to help students bridge this cash-flow gap.

Even so, loan default data available from the U.S. Department of Education suggest that students from private colleges tend to pay off their loans at higher rates than do students from any other type of institution. For example, in 2010-11 the default rate among students from public schools was 12.9 percent. For students from...
for-profit schools, the rate was 19.1 percent. But only 7.2 percent of students from private schools defaulted in 2010-11. And at Linfield, the default rate was an even lower 2.8 percent.

**Is a private college education still a good investment?**

A study by The Hamilton Project estimates that over a lifetime the average college graduate earns roughly $450,000 more than does the average high school graduate. This $450,000 difference is called the “college wage premium.” Its estimated value over time is shown by the red line in the accompanying figure. The figure’s blue line shows the estimated average cost of obtaining a college education over time. Note the red line lies above the blue line by about $350,000 in recent years, indicating that the college wage premium is more than three times greater than the average cost of obtaining a college degree. This shows that an investment in a college education provides a sizeable, annual positive rate of return.

Payscale Human Capital is a compensation research firm. Its 2014 ROI Report presents estimated annual rates of return to degrees obtained from 487 private colleges. For these schools, the median annual rate of return is around 7 percent. By comparison, PayScale reports that the investment in a Linfield College education provides an above-median, 7.5 percent annual rate of return. That’s the Power of a Small College.

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**For more information:**

- The College Board, “Trends in Student Aid” trends.collegeboard.org/student-aid
- U.S. Department of Education www2.ed.gov/offices/OSFAP/defaultmanagement/cdr.html
- The Hamilton Project, “Regardless of the Cost, College Still Matters” www.hamiltonproject.org/papers/regardless_of_the_cost_college_still_matters/