

# Degreeless in Debt: What Happens to Borrowers Who Drop Out

**Facing heavy debt burdens, a tough economy, and poor job prospects, many college graduates are questioning the value of their college degrees and wondering if they will be able to pay back their student loans.**

If the past is an indication of what is to come, the answer is “probably.” While debt is a serious problem for a growing number of college graduates, degree-holders tend to bounce back the quickest after a recession. In the long run, most college degrees are worth the money.

But it's not just those who graduate who have student loan debt to repay. Those who do not graduate also take out loans and have to repay them. Thus, many of those who drop out are saddled with high loan payments even as they are more likely to be unemployed and earn less than their degree-holding peers. When they default, as many do, they experience devastating financial consequences.

In their 2005 study, *Borrowers Who Drop Out*, researchers Lawrence Gladieux and Laura Perna took a close look at this often overlooked group and examined who they are and what consequences they face.<sup>1</sup> The study, which used the U.S. Department of Education's Beginning Postsecondary Students (BPS) longitudinal survey, looked at data for students who first enrolled in college in 1995–96 and provided a snapshot of what happened to them by 2001.<sup>2</sup> This Chart You Can Trust updates some of Gladieux and Perna's analysis, using BPS data to look at borrowers who enrolled in college in 2003–04 and what happened to them by 2009.

The trends are disturbing:

- From 2001 to 2009, the percentage of students who borrowed to finance college increased from 47 percent to 53 percent.
- Among those who borrowed, the percentage of students who dropped out between 2003 and 2009 was larger than the percentage of students who dropped out between 1995 and 2001.
- Those who dropped out had higher unemployment rates and made less money than those who graduated. Borrowers who dropped out were more than four times more likely to default on their loans.
- The trends are more pronounced in the for-profit sector, which expanded greatly during the 2000s in part by heavily recruiting and enrolling low-income students.

More broadly, the results show how ever-rising college costs are increasingly putting students between a rock and a hard place: the things they need to do to avoid

borrowing too much money, like enrolling part time and working full-time jobs, are also making it harder for them to complete their degrees. Even as the college market becomes more crowded and complicated, the consequences of choosing badly are becoming more severe. Until college becomes more affordable and transparent, the problem of borrowers who drop out will continue to grow.

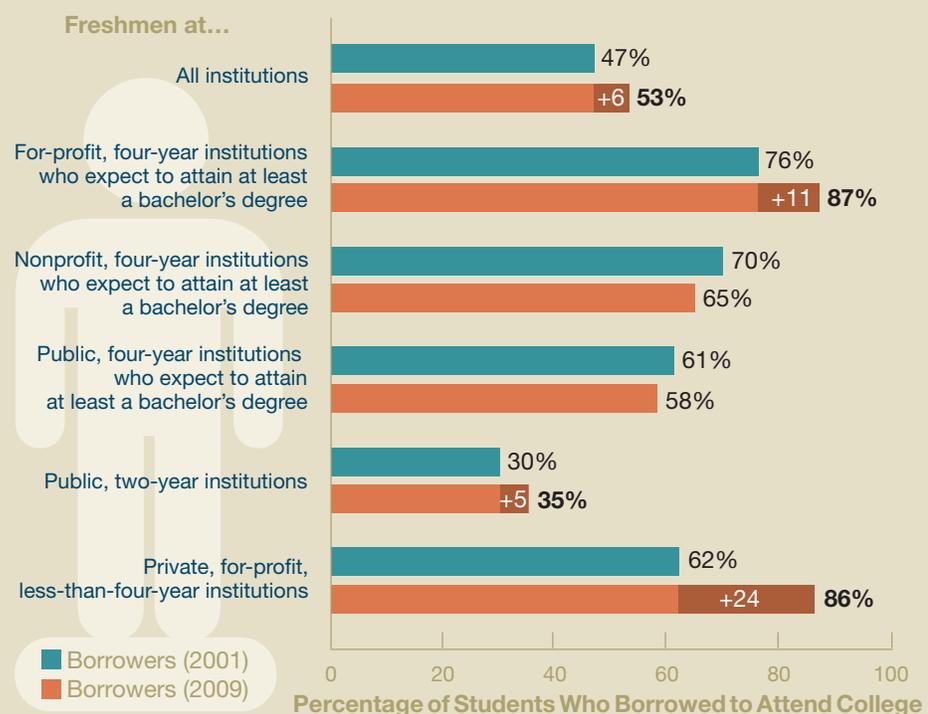
## Borrowing Is Increasing, and So Are Dropout Rates

**Chart 1** compares the percentage of first-time undergraduates who received federal Stafford and Perkins loans at any point in the six years after initial enrollment, as reported in the two most recent BPS surveys (1995–96 to 2001 and 2003–04 to 2009). Overall, 53 percent of undergraduates who began college in 2003–04 borrowed to pay for their education, compared to 47 percent of those who began in 1995–96. Chart 1 also shows that borrowing has increased the most at for-profit institutions—growing by 11 percentage points among students who expect to attain at least a bachelor’s degree at for-profit, four-year institutions, and by 24 percentage points among those enrolled at for-profit, less-than-four-year institutions. Borrowing also increased at public, two-year institutions, although only by 5 percentage points.

The for-profit sector’s influence is substantial. The overall percentage of students borrowing in the public and private nonprofit sectors increased by only two percentage points, from 45 percent in 2001 to 47 percent in 2009. For-profits, therefore, contributed a substantial portion of the increase in overall student borrowing from 2001 to 2009, even though they enroll only 9 percent of all college students.<sup>3</sup>

CHART 1

More students are borrowing to attend college.



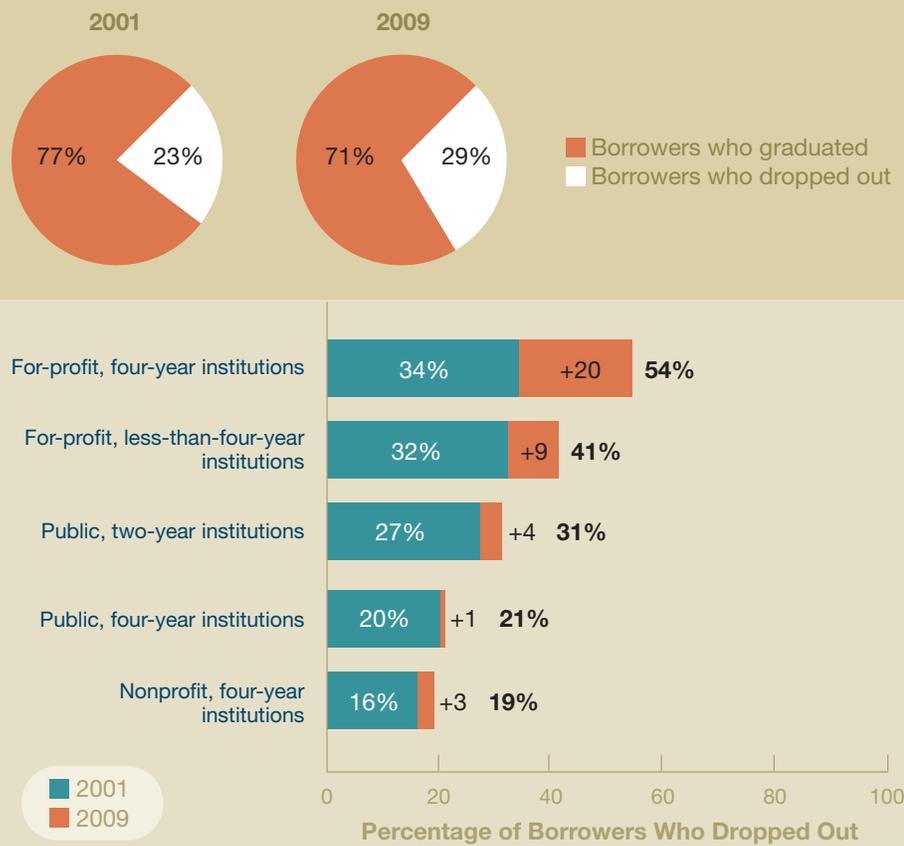
Source: Beginning Postsecondary Students, BPS: 1996/2001; BPS: 2004/2009

Is this increase in borrowing a problem? Debt can be manageable if students eventually reap the financial rewards of their college investment. A major problem arises, however, when borrowers drop out of college. As **Chart 2** shows, this problem is also getting worse. Between 1995 and 2001, 23 percent of borrowers had dropped out of college; but between 2003 and 2009, 29 percent had dropped out.

The increase appears across all institution types, with the trend again most pronounced in the for-profit sector. In 2009, the majority (54 percent) of students who borrowed money to pursue a bachelor's degree at a for-profit, four-year institution had dropped out. More than 40 percent of borrowers at for-profit, less-than-four year institutions had dropped out. Trailing behind the for-profits were public, two-year institutions, where almost one-third of student borrowers had dropped out.

In addition to dropping out, for-profit borrowers also took on larger amounts of debt in 2009 than in 2001. Median debt accrued by students who dropped out of for-profit, less-than-four-year institutions increased by more than \$1,000, from \$4,200 in 2001 to \$5,300 in 2009 in inflation-adjusted dollars.<sup>4</sup> These figures, moreover, do not include nonfederal student loan borrowing, which increased rapidly during the 2000s and peaked in 2008.<sup>5</sup>

**CHART 2**  
More borrowers dropped out by 2009 than by 2001. The for-profit sector saw the highest increases.



Source: Beginning Postsecondary Students, BPS: 1996/2001; BPS: 2004/2009

## What Happens to Borrowers Who Drop Out?

Borrowers who dropped out in both 2001 and 2009 entered the labor market during a recession. Both the eight-month recession that ended in November 2001 and the 19-month recession that ended in June 2009 made it harder for people leaving college to find jobs.<sup>6</sup> But borrowers who dropped out without a degree were hit harder than graduates, and even more so in 2009, following a recession that was both longer and more severe than in 2001. As a result, they faced higher unemployment rates, lower median incomes, and higher loan default rates than graduates.

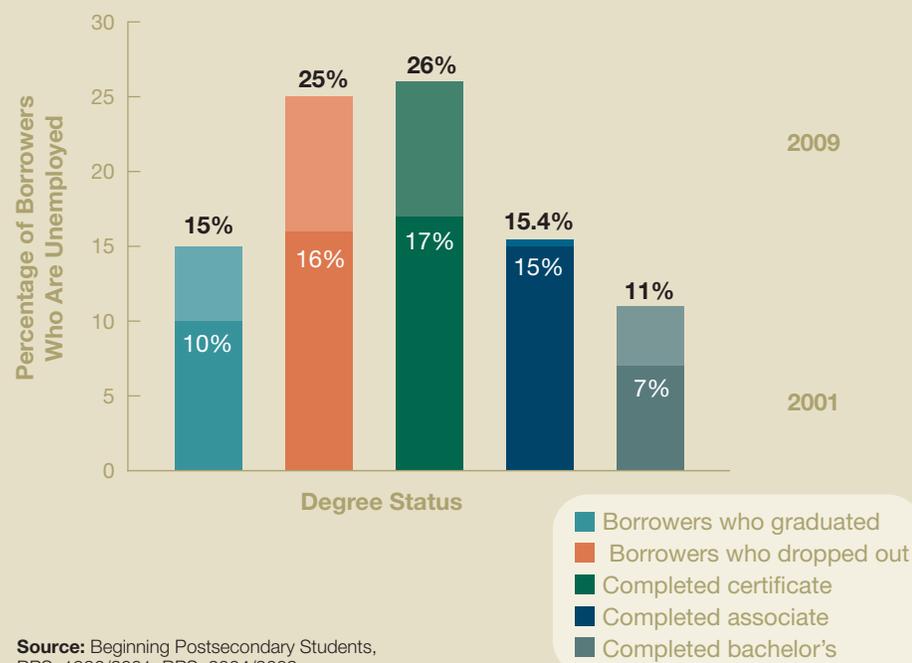
### *They Have Higher Unemployment Rates and Make Less Money*

**Chart 3** shows that in both 2001 and 2009, borrowers who dropped out had higher unemployment rates than their degree-holding peers. In 2009, however, the unemployment rate for borrowers who dropped out was 10 percentage points higher than that for borrowers who graduated: 25 percent versus 15 percent. In 2001, the gap was only 6 percentage points.

Not all graduates, however, are on the winning side. Chart 3 also shows that in 2009, borrowers who *graduated* with a certificate were as likely to be unemployed (26 percent) as borrowers who dropped out (25 percent). For certificate-holders, the unemployment rate increased by nine points from 2001. Compare this to bachelor-degree holders whose unemployment rates increased only four points to 11 percent, and associate-degree holders whose unemployment rates remained virtually unchanged in 2009, staying at 15 percent.

CHART 3

Overall, borrowers who drop out have higher unemployment rates. But many certificate-holders were also likely to be unemployed.



The choice of institution matters, too. Borrowers who *graduated* from for-profit, less-than-four-year institutions had an unemployment rate comparable to, but slightly higher than, the overall unemployment rate for borrowers who *dropped out* (27 percent versus 25 percent). The unemployment rate for borrowers who dropped out of for-profit, less-than-four-year institutions was 10 percentage points higher (36 percent) than the overall rate for borrowers who dropped out. The for-profit sector also showed the biggest increase—15 percentage points—in unemployment rates for borrowers who dropped out from 2001 to 2009. This is likely a function, in part, of for-profit colleges recruiting a large number of lower-income students who qualify for federal financial aid.

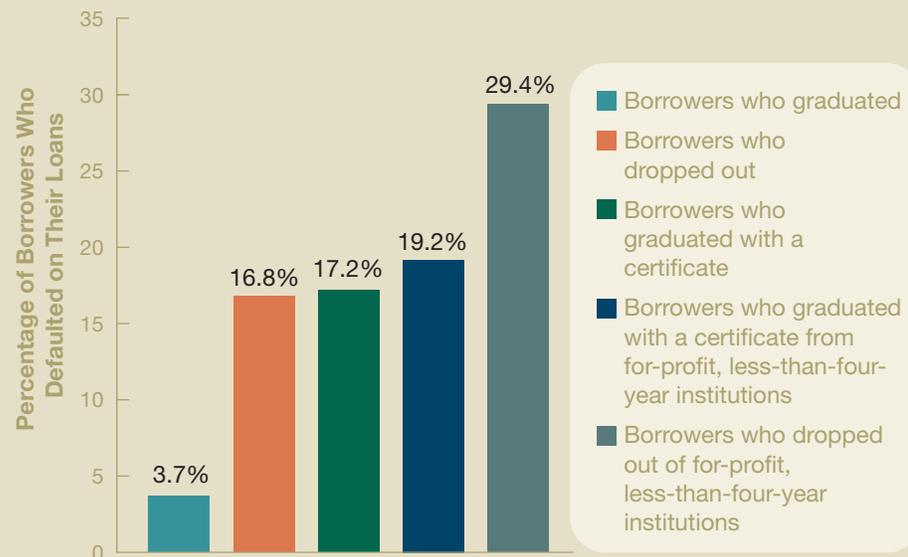
A similar pattern exists when comparing median incomes for borrowers who dropped out to those of their degree-holding peers. While the median income for borrowers employed in 2009 decreased from 2001 for both those who graduated and those who dropped out, borrowers who dropped out fared worse: In 2009, the median income for borrowers who dropped out was \$25,000, compared to \$30,000 for borrowers who graduated.

### ***They Have Higher Default Rates***

Because they were less likely to find jobs and made less money, borrowers who dropped out were more than four times more likely than borrowers who graduated to default on their loans: 16.8 percent versus 3.7 percent. But **Chart 4** shows that borrowers who *graduated* with a certificate had a virtually identical default rate (17.2 percent), and those with a certificate from for-profit, less-than-four-year institution had a higher default rate of 19.2 percent. Borrowers who dropped out of for-profit, less-than-four-year institutions had a default rate of 29.4 percent in 2009, almost twice as high as the rate for the average borrower who dropped out.

CHART 4

**Borrowers who graduated with certificates had higher default rates than the average borrower who dropped out.**



Source: Beginning Postsecondary Students, BPS: 2004/2009

## Why Are More Borrowers Dropping Out?

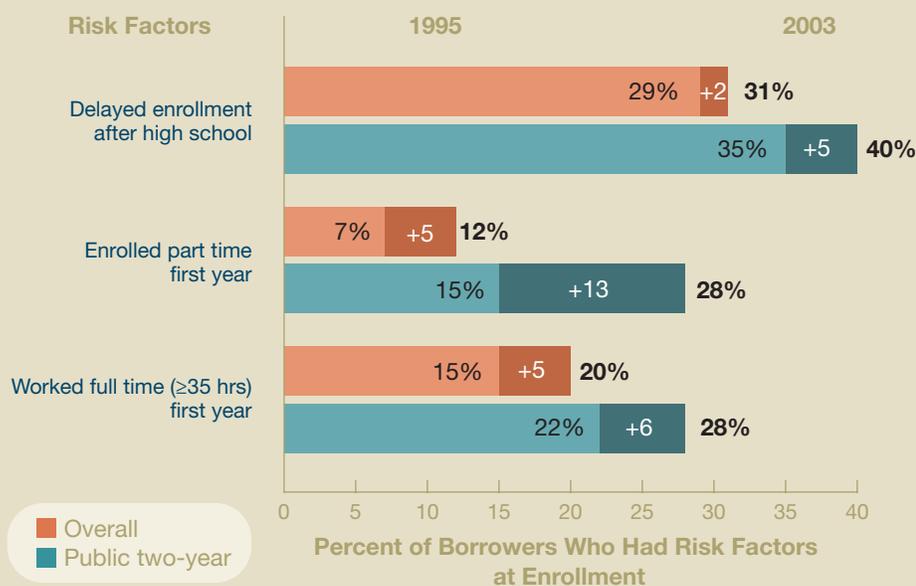
In their 2005 study, Gladieux and Perna suggest that while borrowing may accelerate students' progress toward completing their degrees, avoiding borrowing may promote risky behaviors associated with dropping out. Several of the known risk factors they studied include delaying enrollment after high school, enrolling part time in the first year, and working full time (35 or more hours per week) the first year. It appears that among borrowers who dropped out between 2003 and 2009, more borrowers than before displayed these risky behaviors: 45 percent delayed entry into college, 16 percent enrolled part time, and 28 percent worked full time. (The rates are even higher for those who did not borrow and dropped out: 54 percent, 42 percent, and 35 percent, respectively.)

These risk factors are likely driving the increase in borrowers who drop out.

**Chart 5** highlights the increases in risk factors among borrowers who enrolled in 2003 across all schools and at public, two-year institutions.

CHART 5

In 2003, borrowers were more likely to have risk factors associated with dropping out than in 1995.



Source: Beginning Postsecondary Students, BPS: 2004/2009

Each of the risk factors is a strategy students can use to pay their college bills. Students might delay enrollment in order to work and save money for school; they might enroll part time to allow time to work and reduce tuition bills; or they might work full time to cover costs. But each of these strategies also increases the risk that students won't graduate because they will have to juggle the competing time demands of work and school. Two of the driving imperatives of college attendance—minimizing debt and maximizing the likelihood of graduating with a high-quality degree—are therefore in tension with one another. As the overall cost of higher education has risen, these tensions have become more acute. Students are

being forced to adopt debt-reducing strategies like full-time work that put them at greater risk of dropping out.

This is a complex calculation, and students may not always make the best choices. Some students may borrow the entire cost of college, including living expenses, as a means of successfully earning a degree, only to default on loans that are too large to repay. Other students might not borrow *enough* money, taking on so much remunerative work that they don't devote enough time to their studies and end up dropping out. As we showed earlier, risk factors among non-borrowers who dropped out were substantially higher than those among borrowers who dropped out, with almost three times as many non-borrowers enrolled part time their first year and then dropped out.

The presence of these risk factors is often cited by colleges as an excuse for high student loan default rates, which are used by federal regulators to judge whether programs should be eligible for federal student aid. But it's important to note that these risk factors are not static traits, like race or gender. They are *behaviors*, choices that students make, in significant part, in response to college prices. If colleges weren't so expensive, they wouldn't have as many working students with some combination of debt and work-related risk factors for dropping out.

If college prices continue to rise, and family income and grant aid remain stagnant, students' reliance on loans will only continue to grow. For many students, federal student loans can be a reasonable way to finance part of their higher education. But student loan borrowers who leave college without a degree may find it difficult to obtain the higher earnings needed to repay their financial obligations. They are more likely to be unemployed, have lower median incomes, and have much higher default rates than borrowers who graduate. The long-term trend of increasing college prices is creating a growing class of students left with no degrees, but with burdensome debt.

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## Notes

1. College dropouts, along with those who do not finish high school and those who stop with a high school diploma, are often referred to as "the forgotten half" of our nation's young adult population. See Laurence Gladieux and Laura Perna, *Borrowers Who Drop Out* (San Jose, CA: The National Center for Public Policy and Higher Education, 2005); William T. Grant Foundation, Commission on Work, Family and Citizenship, *The Forgotten Half: Pathways to Success for America's Youth and Young Families* (Washington, D.C.: 1988); and American Youth Policy Forum, *The Forgotten Half Revisited* (Washington, D.C.: 1998).
2. Laurence Gladieux and Laura Perna, *Borrowers Who Drop Out*. The study's authors define "dropped out" as not enrolled, no attainment at time of the survey.

3. While enrollment at for-profit colleges only represents 9 percent of total enrollment in fall 2009, enrollment rates have more than tripled over the past decade. See National Center for Education Statistics, *Digest of Education Statistics 2010*. Table 197. “Total fall enrollment in degree-granting institutions, by attendance status, sex of student, and control of institution: Selected years, 1947 through 2009.”
4. Data is not available for for-profit, four-year institutions.
5. This study only looks at federal lending because Gladieux and Perna’s original analysis only looked at federal Stafford and Perkins loans. Nonfederal borrowing increased rapidly in the 2000s: it increased by \$16.1 billion from \$3.0 billion in 1997–98 to \$19.1 billion in 2007–08. From 2005–06 to 2007–08, nonfederal loans accounted for 25 percent of total student borrowing. By 2010–11, nonfederal loans dropped dramatically to 7 percent of total borrowing. This is a result of the private student loan market consolidating in recent years, with a number of smaller lenders leaving the business and some larger lenders selling their loans to others. See: College Board, *Trends in Student Aid 2008*; and College Board, *Trends in Student Aid 2011*.
6. According to the National Bureau of Economic Research, the most recent recession began in December 2007 and ended in June 2009. Since this 19-month recession took place well in the latter half of the 2003 BPS six-year study period, unemployment rates have increased significantly for both borrowers who graduated and borrowers who dropped out since 2001. On the other hand, the eight-month recession that ended in November 2001 only captured the very tail end of the 1995 study period during the data collection phase. As a result, the consequences for borrowers who dropped out are much more pronounced now, as they entered an unwelcoming economy with a debt but no degree. For recession dates, see: National Bureau for Economic Research, US Business Cycles and Contractions, available at <http://www.nber.org/cycles.html>

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