The Atlantic

Print | Close

Which Colleges Should We Blame for the Student-Debt Crisis?

By Jordan Weissmann

Reuters

With President Obama barnstorming about student debt and the rising price of college, I wanted to spend a little time today on a question that, unfortunately, sometimes gets skipped over in conversations about the cost of higher ed.

Which colleges should we blame for the student debt boom in the first place?

While we tend to talk about higher education as an undifferentiated mass of institutions relentlessly hiking their tuition at the expense of students and the federal government, it's actually a vastly fragmented industry, split between the public and private, for-profit and non-profit, 2-year and 4-year, as well as various levels of prestige and price. And knowing which schools have contributed most to the debt problem might give us a clue about how to fix it, while telling us which institutions have the most to lose in any effort at reform.

So with that in mind, here are three key points:

Public colleges, because they educate so many students, generate the most debt overall.

Private nonprofit schools generate an outsized amount of debt given the number of students they enroll, but a relatively small portion of troubled borrowers.

The for-profits have contributed in an especially malign way to the debt problem, both generating a disproportionate amount of loans, and an even more disproportionate amount of student loan defaults.

Why You Should Blame the Private Sector

Public institutions have played an important role in the growth of student debt for a straightforward reason: they educate the most people. About 71 percent of U.S. undergraduate and graduate students attend a state college or university, and they borrow more than 40 percent of all loans. The growth in public school tuition is, without question, an important factor in this story.

But the most outrageous growth in student borrowing has happened in the private sector.

Without question, students at for-profit schools borrow more than their fair share. In fall 2011, "proprietary institutions" (as the government politely calls them) educated 10.9 percent of undergraduate and graduate students but accounted for 22.2 percent of all federal direct loans.

But the the University of Phoenix and its compatriots actually had some stiff competition when it came to piling their alums with debt. Four-year nonprofit schools, from Harvard all the way down to Baker College of Muskegon, educated 18 percent of students, while sucking up 31.9 percent of all loans.

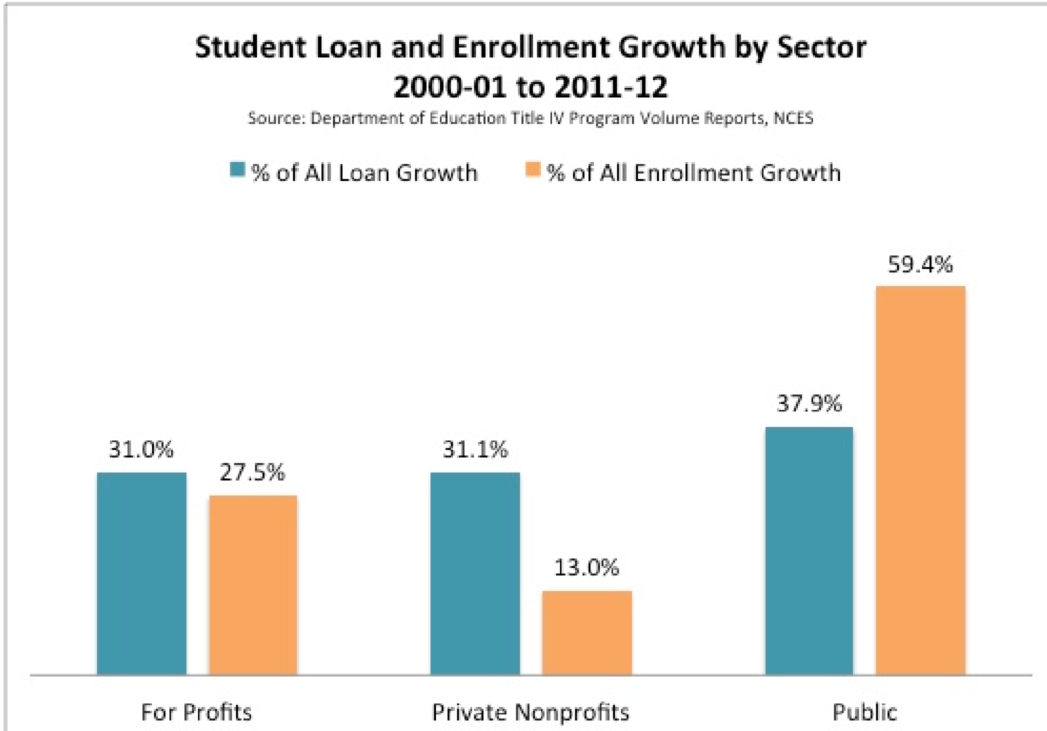
Distribution of New Loan Volume Dollars by Institution

FY 2012	4-Yr. Public	4-Yr. Private	2-Yr. Public	2-Yr. Private	Proprietary
Direct Loans	36.9%	31.9%	8.7%	0.3%	22.2%

Distribution of Undergraduate and Graduate Students by Institution

Fall 2011	4-Yr. Public	4-Yr. Private	2-Yr. Public	2-Yr. Private	Proprietary
Students	37.3%	18.0%	33.4%	0.3%	10.9%

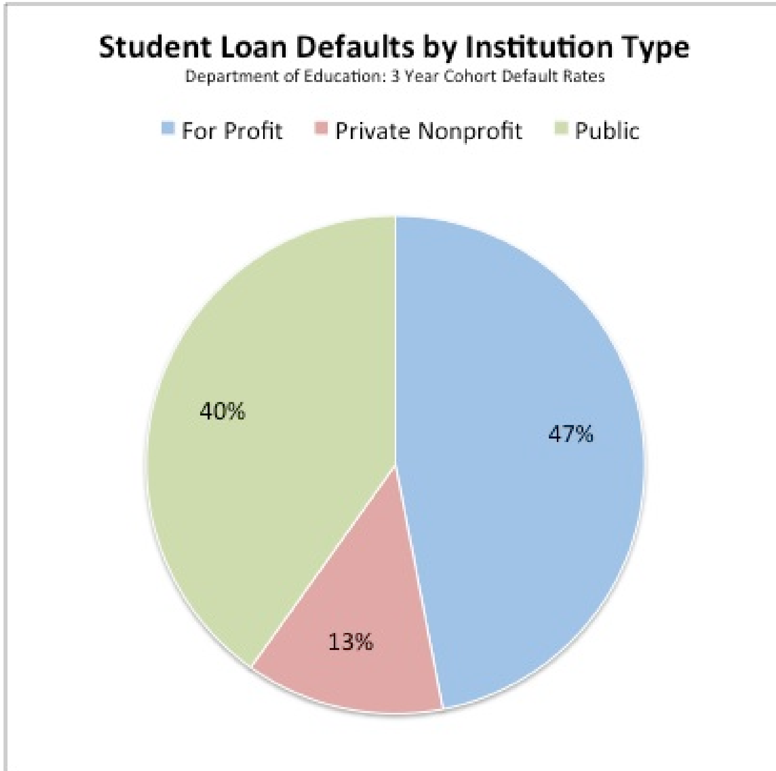
The story is somewhat similar when we look at the growth of loans over the past decade. Between 2000-2001 and 2011-2012, the Department of Education reports that the annual volume of federal loans more than tripled, shooting from $33.1 billion to more than $105 billion per year, while postsecondary enrollment increased just 40 percent.* For-profit colleges and private nonprofit schools were collectively responsible for 62 percent of that increase in borrowing, even though they claimed just a shade over 40 percent of all enrollment growth. (Note about the graph: bars of the same color don't add up to exactly 100%, due to rounding)



Notice, the for-profits aren't the worst offenders in this respect. That distinction goes to the private nonprofits, which were for responsible for a small fraction of all new students, but a large fraction of all new debt. The growth of borrowing has been fueled by private institutions of all stripes, for-profit and nonprofit alike.

Why You Should Blame For-Profit Colleges, Especially

That said, for-profit colleges are the worst offenders in another respect: their alums are singularly incapable of paying back their loans. Despite educating just a small fraction of students, these institutions contributed a full 47 percent of defaults among students who began repaying their debt in 2009. By comparison, the private nonprofits, despite the truckloads of loans they generate, were only responsible for 13 percent of defaults.



This is not particularly shocking. About three-quarters of for-profit college students attend nominally four-year schools. And I say "nominally," because only about 28 percent ever graduate, about on par with the bottom rung of public institutions. They cater to a class of student that is disproportionately poor, and frankly don't always belong in college to begin with.

And that, ultimately, is why the for-profits might currently be the single most important driver of what we call the student loan "crises." The growth of student debt is not good, but it also not inherently a disaster. The fact that millions of students have defaulted on their loans and ruining their financial lives, however, is a disaster. And the for-profits are especially at fault for that development.

So here's the bottom line: Student debt has grown all across higher education. It' has grown disproportionately among private schools. But it has grown most destructively among the for-profits.

---

*In a perfect world, I would be separating out undergraduate and graduate students. Unfortunately, you can't entirely separate grad school and undergraduate loans in the Department of Education's volume data.

This article available online at:

http://www.theatlantic.com/business/archive/2013/08/which-colleges-should-we-blame-for-the-student-debt-crisis/278558/