THE WALL STREET JOURNAL.

THE RISE OF THE JUMBO STUDENT LOAN

Most students with loan balances exceeding $50,000 in 2010 had failed to pay down any debt four years later

By Josh Mitchell
February 16, 2018

During the housing boom of the 2000s, jumbo mortgages with very large balances became a flashpoint for a brewing crisis. Now, researchers are zeroing in on a related crack but in the student debt market: very large student loans with balances exceeding $50,000.

A study released Friday by the Brookings Institution finds that most borrowers who left school owing at least $50,000 in student loans in 2010 had failed to pay down any of their debt four years later. Instead, their balances had on average risen by 5 percent as interest accrued on their debt.

As of 2014 there were about 5 million borrowers with such large loan balances, out of 40 million Americans total with student debt. Large-balance borrowers represented 17 percent of student borrowers leaving college or grad school in 2014, up from 2 percent of all borrowers in 1990 after adjusting for inflation. Large-balance borrowers now owe 58 percent of the nation's $1.4 trillion in outstanding student debt.

"This is comparable to mortgage lending, where a subset of high-income borrowers hold the majority of outstanding balances," write Adam Looney of Brookings and Constantine Yannelis of New York University.

"A relatively small share of borrowers accounts for the majority of outstanding student-loan dollars, so the outcomes of this small group of individuals has outsized implications for the loan system and for taxpayers," the authors say.

The problem is particularly acute among borrowers from graduate schools, who don't face the kinds of federal loan limits faced by undergraduate students. Half of today's big balance borrowers attended graduate school. The other half went to college only or are parents who helped pay for their children's education.

Grad school borrowers tend to be among the best at paying off student debt because they typically earn more than those with lesser degrees. But the rising balances unearthed in the latest study suggest that pattern might be changing.

Overall across the U.S., one-third of borrowers who left grad school in 2009 hadn't paid down any of their debt after five years, compared to just over half of undergraduate students who hadn't, federal data show.

Mr. Yannelis and Mr. Looney, a former Treasury Department official under President Barack Obama, built the research out of exclusive access to federal student-loan and tax data.

The findings on graduate schools are particularly noteworthy because the government offers little information on the loan performance of grad students, who account for about 14 percent of students at universities but nearly 40 percent of the $1.4 trillion in outstanding student debt.

The data set accompanying the new study breaks down performance for students at 934 schools with 100 or more graduate borrowers whose loans first came due in 2009.

At Nova Southeastern University, a large private nonprofit school in South Florida, just over half of the 10,319 graduate borrowers who departed in 2009 had reduced their balances by just a dollar or more five years later, the data show. Many sought or received advanced degrees in health fields. They collectively borrowed $412 million for grad school, or an average $40,000, excluding any debt from other schools, the study showed.

George Hanbury, Nova Southeastern's president, said many of the school's former grad students went into health fields, where salaries often start low and then rise quickly later on.

"They all have the capability to see higher incomes the longer they stay in their career, which means they have the greater capability to increase their rate of payback than they do in the earlier stage," Mr. Hanbury said. He said the school's former students earn more, on average, than workers with bachelor's degrees.

At Arizona State, a large public university in Tempe, 51 percent of the 4,000 grad students who left in 2009 had reduced their initial balances by 2014.

Arizona State, through a spokesman, declined to comment.

At Walden University, a large collection of graduate programs run by Wall Street giant Laureate Education Inc., 53 percent of 9,530 graduate borrowers paid down their balances by at least a dollar or more over five years. Many were enrolled in programs involving social services.

Walden, in a statement emailed by a spokeswoman, said many former graduate students are in fields that often pay modestly at first but serve a social good. "This is consistent with our social mission where we are educating in professions like teaching, social work, and counseling, for example, and those professionals may not earn significant salaries right after graduation, but who are making a significant societal impact," the statement said.

Most borrowers from those schools aren't in default. Instead, a big share of them are in debt-relief plans that lower monthly payments, known as income-driven repayment, or they've won permission from the government to postpone payments due to a range of circumstances, including unemployment or further study.