Children and Youth Services Review 70 (2016) 8–18

Contents lists available at ScienceDirect

Children and Youth Services Review

journal homepage: www.elsevier.com/locate/childyouth

Student debt and hardship: Evidence from a large sample of low- and moderate-income households

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ARTICLE INFO

Article history:
Received 28 April 2016
Received in revised form 1 September 2016
Accepted 1 September 2016
Available online 05 September 2016

Keywords:
Higher education
College financing
Student debt
Student loans
Student loan repayment
Low-income students
Material hardship
Financial difficulty

ABSTRACT

Student debt has risen in recent years as higher education costs have shifted to students and their families, particularly those with low-to-moderate incomes (LMI). Though a college degree continues to convey higher earnings, those who finance their degrees have lower net worth and greater financial difficulties than persons without student debt. We assess the relationship between student debt and material and health care hardship among a large sample ($n = 5558$) of LMI tax filers, using propensity score analysis to adjust for self-selection into student debt status and loan amount and monthly payment quartiles. We find that participants with student debt have a higher likelihood of hardship. Loan amounts only partially predict hardship, and borrowers making current loan payments are at lower odds for hardship than non-payers. We also find that among those with student debt, non-payers and those without college degrees have much greater social and economic disadvantages.

1. Introduction

Evidence consistently demonstrates that higher education is a wise investment, generating myriad economic and social returns for graduates (e.g., Dee, 2004; Carneiro, Heckman, & Vytlacil, 2010; Hérault & Zakirova, 2015; Hout, 2012; Perna, 2003). Yet as the costs of higher education in the US have grown, so too have concerns about rising student loan debt. Almost 70% of US college students borrow to finance their degree, amounting to an average debt burden of $28,950 for four-year graduates (Institute for College Access & Success, 2015). Cumulative student debt is estimated at over $1.2 trillion, exceeding credit cards as the largest form of consumer debt in the US (Chopra, 2013). The proportion of households with student debt rose from 9% in 1989 to 19% in 2010, and the proportion of households with student debt totaling $25,000 or greater increased by 24 percentage points (Bricker & Thompson, 2016). Recent policy proposals and actions such as free tuition at public colleges and universities, early Pell Grants (U.S. Department of Education, 2015a), and the Obama Administration's expansion of income-based student loan repayment plans reflect policymakers' concerns rising student loan debt.

These historic increases in student loan borrowing and debt can be attributed to several factors. More students are attending college and staying in college for longer periods than previously (Lee, van der Klaauw, Haughwout, Brown, & Scally, 2014). Notably, college costs have outpaced inflation, prompting greater borrowing. From the 2000–2001 to 2015–2016 academic years, tuition, fees, and housing costs at four-year institutions rose 67% and 43% at private and public nonprofit universities, respectively (The College Board, 2015). Concurrently, state-level disinvestment in higher education has prompted institutions to reduce need-based forms of financial aid and shift the burden of costs to students and their families (Best & Keppo, 2014). As cost burdens have shifted, lawmakers have increased access to student loans for a larger share of students, particularly those from low- and moderate-income (LMI) households (Elliott & Friedline, 2013).

Recent evidence has uncovered possible consequences of borrowing to pay for college. Households with student debt obligations fare worse

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http://dx.doi.org/10.1016/j.childyouth.2016.09.001
0190-7409/

on measures of assets and net worth compared to non-indebted counterparts (Elliott & Nam, 2013). Moreover, rising borrowing rates may be leaving borrowers with unmanageable debt. Student debt-to-income ratios have risen steadily from 12% in 1989 to 32% in 2010 (Bricker & Thompson, 2016), signaling possible repayment troubles for borrowers and graduates. Indeed, recent figures have pointed to increases in loan delinquency and default for many borrowers. Student loan delinquency rates increased from 10% in 2004 to 17% in 2012. The rate of severe delinquency or default increased from 10% for cohorts in 2005–06 to 15% among cohorts in 2007–10 (Brown, Haughwout, Lee, Scally, & van der Klaauw, 2015). Nationally, federal loan default rates began steadily rising through the mid-to-late 2000s (Hillman, 2014; U.S. Department of Education, 2011), reaching a high of 15% in 2013 before receding slightly to 12% in 2015 (U.S. Department of Education, 2015b).

Certain subgroups of borrowers may be uniquely burdened by student debt and repayment obligations. Odds of student loan default are greater among Black and Hispanic borrowers, borrowers from low-income families, and borrowers who have dependents (Hillman, 2014; Lochner, Stinebrickner, & Suleymanoglu, 2013). Huelsman (2015) found significant disparities in student debt amounts between Black and White students at most 4-year institutions. Among LMI households with incomes under $30,000, Black borrowers accrued $7721 more in student debt than White borrowers (Grinstein-Weiss, Perantie, Taylor, & Raghavan, 2016).

While higher education reliably predicts strong lifetime returns, the evidence reviewed above suggests that financing a degree may carry risks for some borrowers and may make it difficult for households to meet basic needs, save, and build assets while in repayment. However, little research has explored the unique associations between student loan borrowing and hardship among LMI borrowers, who are more likely to have trouble repaying loans.

The purpose of this study is to examine the association between student debt and material, health, and financial hardship among LMI borrowers. We examine whether having student debt, and the amounts of student debt and monthly debt payments increase the odds of experiencing hardship – difficulty meeting needs for food, shelter, medical care and other basic needs (Beverly, 2001; Nelson, 2011; Short, 2005).

Concurrent to shifting costs to students and rising student loan debt has been a push to increase college attendance among LMI students (Executive Office of the President, 2014). However, the higher education literature has paid little attention to LMI student loan borrowers as a fast-growing segment of the student loan market (The Federal Reserve Bank of New York, 2015). LMI students borrow at higher rates (Kim, 2007; Houle, 2014) and assume greater student loan (Price, 2004) and other debt (Soria, Weiner, & Lu, 2014) burdens than higher-income borrowers. Greater student loan usage and debt burden may constrain the ability of LMI borrowers to meet basic needs. To the authors' knowledge, this is the first empirical study examining the association of student debt with defined hardship measures among an LMI sample.

2. Literature and background

2.1. Student debt and financial difficulty

The existing literature suggests student debt may be associated with financial difficulty. Examining data from National Student Loan Surveys from 1998 to 2003, Baum and O'Malley (2003) found that LMI borrowers had greater difficulty repaying student loans compared to other borrowers. Analyzing data from the Survey of Consumer Finances (SCF), Bricker and Thompson (2016) found that households with student debt were 4 percentage points more likely to be 60 days late on bill payments and 18% more likely to have been denied credit, or feared credit denial, than those without student debt. As student debt levels increased, the likelihood of experiencing financial difficulty also increased. Interestingly, these findings did not persist when researchers looked at other types of consumer debt. Indeed, student loan debt appeared to be a primary source of financial burden for households under investigation. But Thompson and Bricker's results were modest in size and even weakened when isolated to households with indebted non-graduates. Furthermore, the SCF data used in this study originated from households during the Great Recession, complicating the ability to isolate the effects of student debt over other economic forces destabilizing many households at the time.

Student debt is also associated with increased odds of bankruptcy for some borrowers. Using SCF data over a longer time period (1995 to 2010), Gicheva and Thompson (2015) found that as the amount of student debt increases, the likelihood of declaring bankruptcy increases, even after controlling for income, predicted earnings, and other demographic factors. The strength of the relationship between student debt and bankruptcy was greater for households with at least one borrower who did not complete their degree and decreases, but was still statistically significant, when controlling for economic condition in their models (aggregate unemployment and bankruptcy rates). In contrast to other research, student debt amount was unrelated to late bill payments or credit denials (Gicheva & Thompson, 2015).

Despite wage and earnings premiums long associated with earning a college degree (Greenstone & Looney, 2012; Hershbein, Harris, & Kearney, 2014), student debt may constrain graduates' investment choices and inhibit the accumulation of assets (Gicheva & Thompson, 2015). College-educated households without student debt have seven times the net worth of similar households with student debt (Fry, 2014). Retirement savings are 52% higher for non-indebted households than indebted ones (Elliott, Grinstein-Weiss, & Nam, 2013). Because students borrow against future earnings, higher borrowing rates during college reduce the availability of discretionary income to build wealth post-college (Elliott & Lewis, 2015). This may be particularly true for recent, early-career graduates who are repaying debt while earnings are lower (Hershbein et al., 2014).

Conventional life-cycle vehicles through which households accumulate assets may also be affected by student debt. College graduates with large student debt levels had significantly lower odds of purchasing a home than those without outstanding debt (Brown & Caldwell, 2013; Brown et al., 2015; Gicheva & Thompson, 2015; Shand, 2007), which may be due to reluctance to assume more debt (Houle & Berger, 2015). These divergent rates of homeownership amount to vastly different short- and long-term wealth profiles. Compared to homeowners without student debt, indebted homeowners are estimated to have $70,000 less in home equity (Hiltonsmith, 2013).

2.2. Student debt and health

Research examining the independent effects of student debt on health is limited. However, a small body of evidence has demonstrated that the burden and stress associated with student debt may have adverse mental or physical health impacts. Nelson, Lust, Story, and Ehlinger (2008) found that credit card debt of at least $1000 was associated with several health risks including obesity, overeating, substance abuse, and lack of physical activity among undergraduate and graduate students attending a public university. Among a sample of university students in the United Kingdom, attitudes toward one's debt were associated with worse mental health (Cooke, Barkham, Audin, Bradley, & Davy, 2004). Walsemann, Ailshire, and Gee (2016) found that higher levels of student debt among Black young adults were associated with fewer hours of sleep, though no such relationship was found among White and Latino young adults.

Evidence concerning the relationship between other forms of consumer debt and health is more robust. Household financial debt is associated with poor health and mental health outcomes (Sweet, Nandi, Adam, & McDade, 2013). Based on a meta-analysis of 65 studies,