

Community Colleges and Student Debt

The growing reach of student debt has become a crisis for many borrowers. But the impact has been uneven, with Black borrowers and students at for-profit colleges hit the hardest. Students with lower balances also have higher default rates, because often they have not completed their degrees.¹ Though community college students borrow less often and generally have smaller balances than students in other sectors, they have their own struggles with debt. Community college students who do borrow default at somewhat higher rates than four-year college students, although this difference can be fully accounted for by differences in student background characteristics. Community college students are less likely than students in other sectors to resolve loan defaults, potentially keeping them from going back to school and damaging their finances overall. At the same time, in the absence of grants, loans provide an important way to finance college and can increase the chances that students graduate.

WHAT THE RESEARCH TELLS US

Community college students are less likely to borrow than other college students and accrue less debt overall. But the percentage who borrow is going up.

- About 48% of public two-year college² students who started in 2003-04³ borrowed within 12 years of college entry, fewer than students in other sectors even while community college students have greater unmet financial need. About 68% of public four-year students and 89% of students at for-profit colleges borrowed.⁴
- The percentage of students who borrow has increased at public two-year colleges (to 48% among 2003-04 entrants, from 40% for those who started in 1996).⁵ This increase is larger than for students at public or private four-year colleges, but much smaller than the increase at for-profit colleges.
- The cumulative amount owed after 12 years is an estimated \$10,300 per student who started at public two-year college in 2003-04 (for all entrants, not just borrowers). For public four-year entrants it's nearly \$20,000. For those starting at for-profit colleges, it's \$13,000.⁶

Many community college students appear to benefit from access to student loans, though they are often discouraged from borrowing.

- While access to loans increases debt, research indicates it can also increase credits earned, GPA, degree completion, transfer to four-year colleges, and later-life earnings for community college students.^{7 8}
- Colleges have discretion over whether to include loan offers in financial aid letters. Millions of community college students attend colleges that opt out of federal loan programs or do not include loan information in financial aid letters, even though most students would be eligible for loans.⁹
- While access to loans may be better than not having access, grants may help even more. Students at colleges that offer federal loans appear to borrow less if they receive a Pell Grant. They also appear to work less and take more credits.¹⁰

Community college students experience default at higher rates than four-year college students, but much less often than for-profit college students. There are disparities in default by race and income.

- Thirteen percent of all public two-year college students, or 26% of public two-year borrowers, who started in 2003-04 experienced a default within 12 years.¹¹ This is compared to 47% of all for-profit students, or 52% of for-profit borrowers defaulting over the same time period.
- Default rates grew substantially between the cohort that entered in 1995 and the cohort that entered in 2003. Simulations suggest that twenty years out, more than 45% of the 2003 public two-year college entrants are predicted to experience a default, compared with just over 25% of the earlier entrants.¹²
- Among all students who started at public two-year colleges in 2003-04, Black students had borrowed 66% more than White students by 12 years later (\$12,300 versus \$7,400) for their undergraduate studies; 25% of Black students had defaulted, compared with 10% of White students. Income, wealth, amounts borrowed, college attended, job status, and other characteristics account for only part of the difference in defaults.^{13 14}
- Low-income students who started at public two-year colleges in 2003-04 had borrowed \$8,800 by 12 years later; high-income students had borrowed \$6,000. Low-income students were much more likely to have defaulted (18% versus 7%).¹⁵
- Defaults have risen most rapidly among students who never complete an associate or bachelor's degree.¹⁶

Borrowing and Default Rates, and Undergraduate Loans for All Public Two-Year College Students Who Started in 2003-04

	% EVER BORROWED	TOTAL BORROWED UNDERGRADUATE	% EVER DEFAULTED
TOTAL	48	\$7,837	12
WHITE	47	\$7,390	10
BLACK OR AFRICAN AMERICAN	62	\$12,344	25
HISPANIC OR LATINO	40	\$6,020	9
ASIAN/PACIFIC ISLANDER	44	\$6,493	6
LOW INCOME	52	\$8,841	18
HIGH INCOME	37	\$5,968	7

Source. U.S. Department of Education, National Center for Education Statistics, 2003-04 Beginning Postsecondary Students Longitudinal Study, Second Follow-up (BPS:04/09).

KEY CONSIDERATIONS FOR FEDERAL POLICY

- Student loan policies should avoid discouraging students from attending college to avoid debt. Instead, the federal government should increase support so students borrow less, and increase protections for those who do borrow, including for students who do not finish or struggle to repay their loans.
- The federal government could consider additional direct grant support for students, support to states, and other funding to lower the effective cost of college and decrease the loan burden on future students, especially at the start of their college experience.
- The federal government should consider debt relief to address the default crisis among those already in repayment.
- Borrowers need more support to increase utilization of existing income-contingent repayment plans, which offer significant protection against the worst outcomes of student loan debt.

**For more information contact Judith Scott-Clayton,
CCRC Senior Research Scholar, at scott-clayton@tc.edu**

Endnotes

- ¹ Dynarski, S. (2015, August 31). *Why students with smallest debts have the larger problem*. Brookings. <https://www.brookings.edu/opinions/why-students-with-smallest-debts-have-the-larger-problem/>
- ² Federal data sources define public two-year colleges as colleges that offer associate degrees but not bachelor's degrees. States have a wider definition of community colleges that includes public two-year colleges and another 100 or so colleges that primarily offer associate degrees but also offer some bachelor's degrees.
- ³ Data for the 2003-04 cohort are the most recent available that include cumulative debt and repayment numbers.
- ⁴ Scott-Clayton, J. (2018a). *The looming student loan default crisis is worse than we thought*. <https://www.brookings.edu/research/the-looming-student-loan-default-crisis-is-worse-than-we-thought/>
- ⁵ Scott-Clayton (2018a).
- ⁶ Scott-Clayton (2018a).
- ⁷ Black, S. E., Denning, J. T., Dettling, L. J., Goodman, S., & Turner, L. J. (2020). *Taking it to the limit: Effects of increased student loan availability on attainment, earnings, and financial well-being* (NBER Working Paper No. 27658). National Bureau of Economic Research. <https://www.nber.org/papers/w27658>
- ⁸ Marx, B. M., & Turner, L. J. (2019). Student loan nudges: Experimental evidence on borrowing and educational attainment. *American Economic Journal: Economic Policy*, 11(2), 108–41. <https://www.aeaweb.org/articles?id=10.1257/pol.20180279>
- ⁹ Marx & Turner (2019).
- ¹⁰ Park, S. E., & Scott-Clayton, J. (2017). *The impact of Pell Grant eligibility on community college students' financial aid packages, labor supply, and academic outcomes*. Center for Analysis of Postsecondary Education and Employment. <https://ccrc.tc.columbia.edu/publications/impact-pell-grant-eligibility-community-college-students.html>
- ¹¹ Scott-Clayton, J. (2018b). *What accounts for gaps in student loan default, and what happens after*. Brookings. <https://www.brookings.edu/research/what-accounts-for-gaps-in-student-loan-default-and-what-happens-after/>
- ¹² Scott-Clayton (2018a).
- ¹³ National Center for Education Statistics. (n.d.). 2003-04 *Beginning postsecondary students longitudinal study, second follow-up* (BPS:04/09) [Data set]. <https://nces.ed.gov/surveys/bps/index.asp>
- ¹⁴ Scott-Clayton (2018b).
- ¹⁵ National Center for Education Statistics (n.d.).
- ¹⁶ Scott-Clayton (2018a).