

Previous Education Loan Borrowers' Current Characteristics

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For a country, higher education is the basis for being competitive in the knowledge-based global economy; for an individual or family, going to college is viewed as a worthwhile human capital investment for the future. However, contemporary college education is a very expensive investment. Seventy-three colleges reported more than 90% of the Class of 2010 graduating with debt that is estimated to average \$25,250 (Reed, 2011). Most research related to education loan targets high school or college students and their parents. The purpose of this study is to empirically explore the current characteristics of previous education loan borrowers and to examine the factors affecting the amount of that borrowing. This exploratory baseline study will contribute to the gap in the literature on previous education loan borrowers.

The sample used in the study was drawn from the 2007 Survey of Consumer Finances. When these data were collected the economy had not dropped to its lowest level, so this sample is useful for a baseline investigation. All five imputates in the Repeated Imputation Inference (RII) method were used. Households with education loans were selected. If education loans were reported but the respondent or spouse (when present) had not reported at least a year of college they were excluded. To assure that loans for children were not included, families with children older than 18 (when present) who reported loans were excluded. If either the respondent or spouse (when present) was currently in school they were excluded since the study focused on those who had previous loans rather than those using them now. The final sample consisted of 294 households.

The debtors had an average of 1.5 education loans with a mean total amount of education borrowing of \$28,428. On average, the borrower was 36.5 years and expected to live to 82.6 years. However, the self-reported health status of this group was more than good (3.2 on a 4 point scale). The average education level of the participants was over 3 years of college (15 years, including 12 years through high school) with a mean income of \$75,906. About 64.4% of participants were homeowners and 4.2% were unemployed. Nearly 70% of participants were married or living with a partner and non-Hispanic Whites, while 18% were non-Hispanic Blacks and about 10% were Hispanics.

Six variables related to human capital that can be hypothesized as being likely for those with greater education loans are: 1) more likely to be better educated, 2) have higher income, 3) are healthier and 4) expect to live longer, 5) be a homeowner, and 6) less likely to be unemployed. However, the Ordinary Least Squares model showed that only education, income, and homeownership have a significant positive relationship with the amount borrowed. Including the number of loans borrowed, it is not surprising that these factors are related to education loan borrowing. Those married or living with a partner are more likely to have borrowed more. This might be because both of them borrowed. Although age and race/ethnicity did not have statistically significant effects on the amount borrowed, the relationship is negative. That means that the younger participants borrowed more, and compared to non-Hispanic Whites, non-Hispanic Blacks and Hispanics were less likely to borrow greater amounts. Current health condition and life expectancy are not necessarily related to previous education debt because this group, with an average age of 36.5, is young and with less health issues. In summary, those with more education loans and more education, and those who currently had higher income, owned their homes, and were married or living with a partner were more likely to have a greater amount of education loan debt. Age, life expectancy, unemployment, and race/ethnicity were not significantly related to higher education loan borrowing. For this better educated younger group who are just starting their career and family, many decisions need to be made in this stage such as the number of children and home buying. Simultaneously, they need to pay off their education loans and mortgage. They need financial counselors to provide advice on how to address these concurrent challenges, including saving for children's college and their own retirement in this financial tight situation. Further research will reveal more about consumers who used student loans or other sources and will help students, families, and those who advise them make better future decisions.

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Reference

Reed, M. (2011). *Student debt and the class of 2010*. The Institute for College Access & Success. Retrieved from <http://projectonstudentdebt.org/files/pub/classof2010.pdf>