Student Debt in Michigan: Facts, figures, and comparisons

Student debt has generated concern for nearly a decade. General debt levels are on the rise, several lawmakers are calling for student debt cancellation, and payments for many have even been paused due to the pandemic. There is a perception that student debt is the largest debt burden many Michiganders face and could be a barrier to increasing postsecondary enrollment. But this is not the whole story. Student debt is not the most prevalent debt, just the most talked about. Not every college student and/or graduate has student debt and it is surprising to see who owes the most and who is defaulting. This briefing lays out the basics about federal student debt in Michigan and compares it to the another form of consumer debt, car loans.

Basic Facts about Student Debt

Approximately 51 percent of college students at four-year colleges and universities used federal loans to help pay for college in 2019. This also means that 49 percent did NOT take loans to pay for college that year.

73 percent of borrowers in Michigan owe less than $30,000 and 51 percent owe less than $15,000.

The average monthly loan payment for someone with a bachelor's degree is about $200/month.

Annual student loans in Michigan for undergraduate students have been declining for nearly a decade. With students borrowing an average of 25% less in 2019 compared to 2009 in real terms.

Default Data

In Michigan only 6 percent of borrowers that attend a four-year college or university have defaulted on federal debt while 18 percent of community college borrowers have defaulted.

For the majority of those that default, the average debt is only $8,600. This is the average for nearly 60 percent of defaulters.

65 percent of defaulters in Michigan were/are community college students.

Students that complete their degree programs are less likely to default. Those who take out debt but don't graduate are three times more likely to default.

2019 students with loans

51% of students in 2019 took loans to pay for college

2019 students without loans

49% of students in 2019 did NOT take loans to pay for college

Borrowers with less than $30,000

73% of borrowers owe less than $30,000

Borrowers with less than $15,000

51 percent of borrowers owe less thn $15,000

Most defaults are less then $8,600

58% of defaults fall under $8,600 owed.

College vs. Car? Investment vs. Debt Comparison

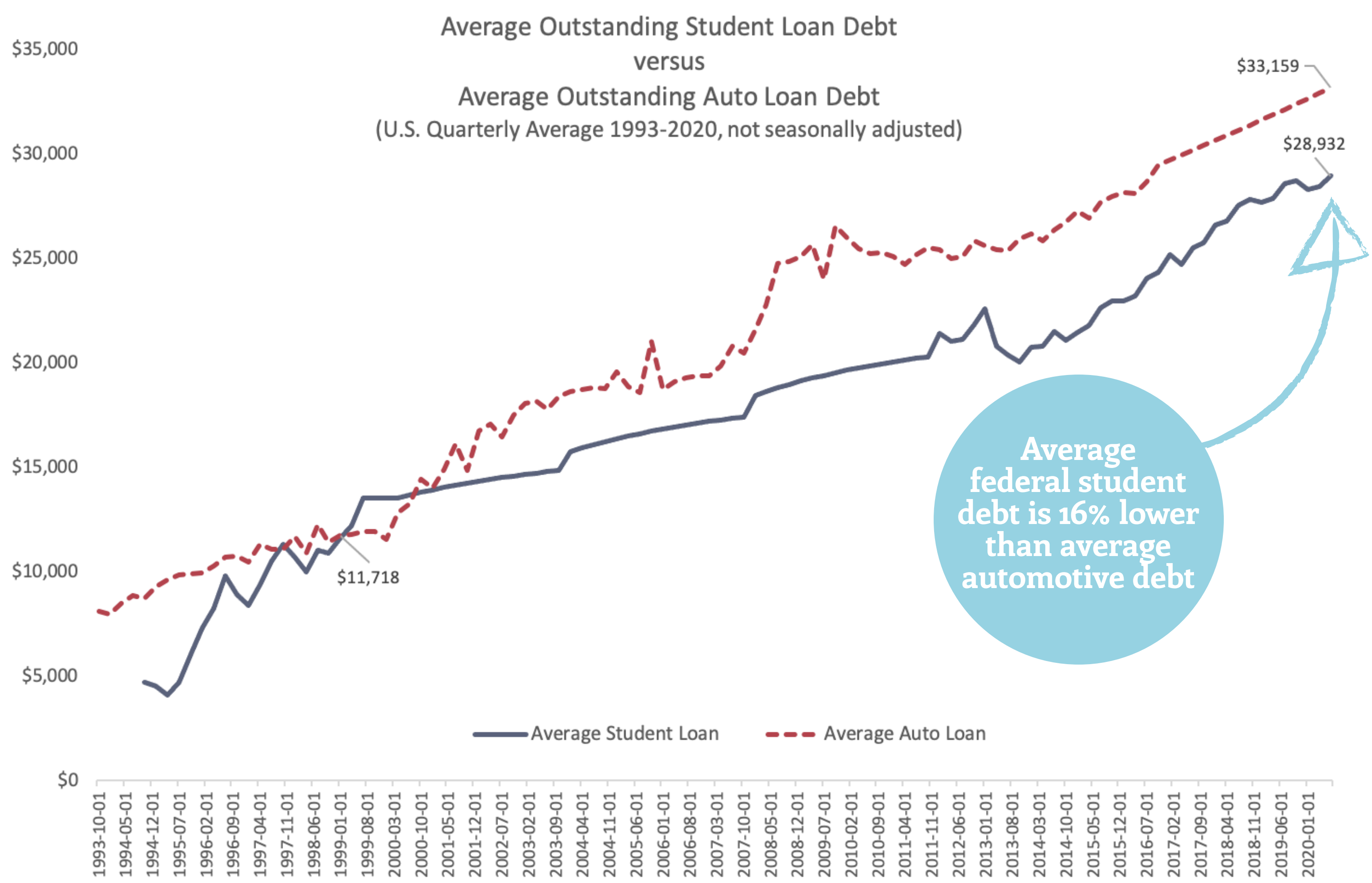
Average annual debt for undergraduate students is declining, and overall student debt (which includes graduate school loans) is rising at less than the rate of inflation. Despite this, a week does not go by without a news report pointing to rising student debt as a cause for concern or a crisis. As a comparison, automotive debt is at an all-time high, with the average outstanding debt per auto loan at over $33,000 - about the price of a Chevy Impala. Yet there is no public outcry about whether rising auto debt, for a depreciating asset, is an issue.

The comparison is not to say that individuals are making a choice between going to college or buying a car, but instead to illustrate two different types of debt that have followed roughly the same trajectory. Nor is this comparison meant to downplay the hardship many face in paying back student loans. In our view, student loan debt is considerably more valuable because it is an investment in an asset that appreciates over time as opposed to automotive debt, which is a devaluing expense.

Average outstanding student loan debt today rests at about $29,000, 16 percent lower than average automotive debt.

Debt Levels in the U.S.

The data below show that average federal student debt and average auto loan debt track closely. As the cost of most products has increased over time, so has the cost of earning a degree and buying a car. Beginning in 2001, average debt for each of the two assets (education or a car) diverge where the average car loan becomes increasingly higher than the average student loan. Since about 2007, average automotive debt has remained about $4,000-$5,000 higher than average student debt. Overall student debt is increasing primarily because more and more students are attending graduate school and not just obtaining a undergraduate degree. Average annual debt for undergrads is actually declining.



Data: St. Louis Federal Reserve, College Board, National Center for Education Statistics, American Community Survey, Edmonds.com
Analysis: Michigan Independent Colleges and Universities

The Increasing Value of College

Earning a college degree is a long-term financial investment that also provides benefits in the short term. For about 60 percent of students in the U.S., loans are necessary to help finance the cost of higher education, compared to 85 percent of new car purchasers who use a loan.

Income trajectories are strong for those with at least a bachelor's degree . Typical starting earnings in the U.S. for someone with a bachelor's degree hover around $35,500 annually and this average grows each year a person with a degree is working and gaining more experience. After five years, average earnings are close to $74,000. After ten years average earnings grow close to $160,000 annually and this adds up to more and more over time.

While a degree increases in value, a vehicle does the opposite. A new vehicle, a Chevy Impala for example, worth about $32,000 initially, will drop in value each year that it is owned, even if it is meticulously maintained. Just one year after ownership, the vehicle's value falls approximately 19 percent to $26,000. After five years the value falls a total of 60 percent from its starting value, down to just $13,000.

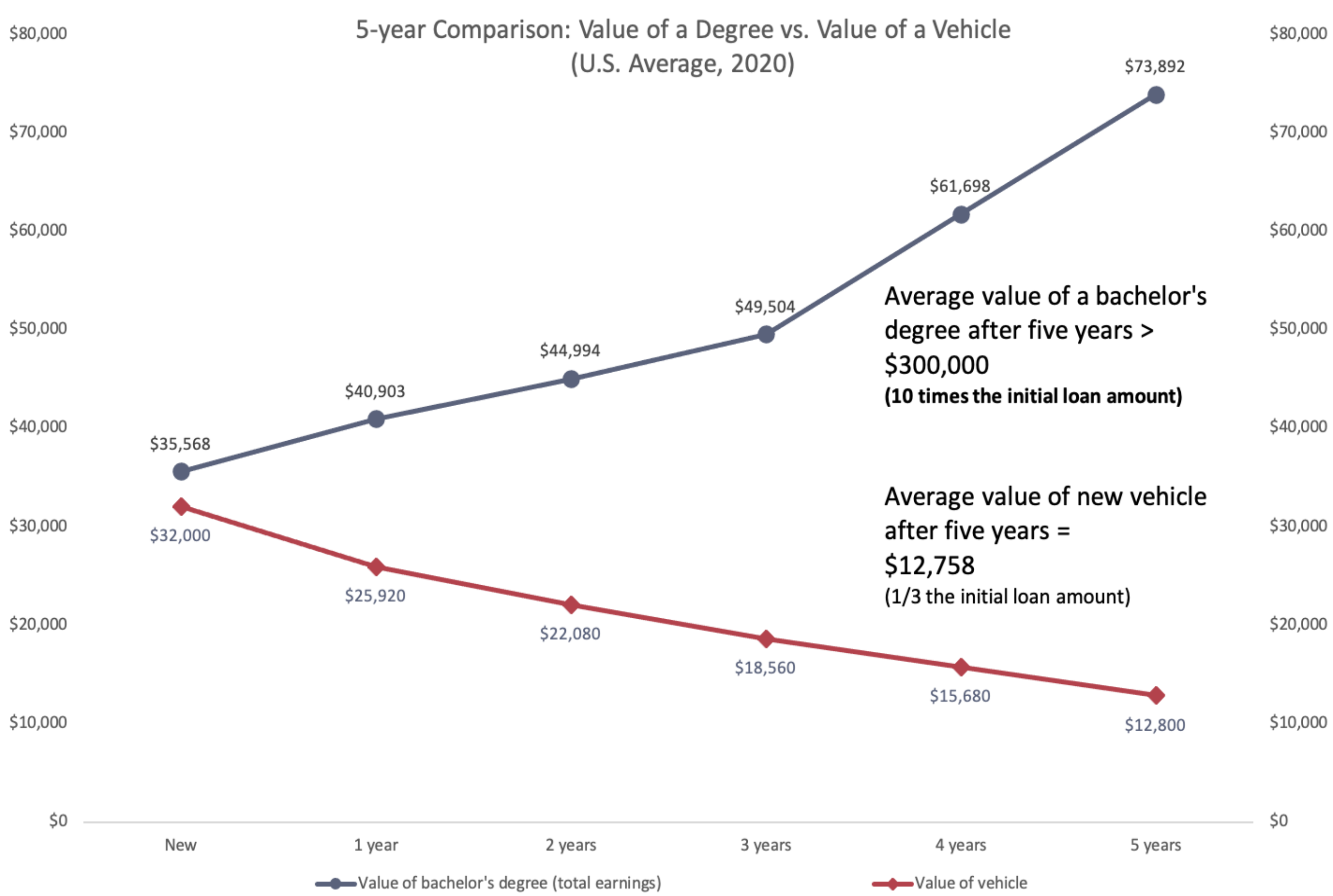
Which type of debt is worth it?

No one will argue that buying a car is not worthwhile, especially when many individuals need a vehicle to get to or from work. However, a vehicle is not an investment because it decreases in value, requires additional costs to cover maintenance, and must eventually be replaced.

A bachelor's degree, on the other hand, may seem like an expensive investment, but after just five years, a college diploma is worth an average aggregate over $300,000 in earnings. Compared to an average vehicle value of $12,758 after five years, it is clear that the college degree is a better bet in both the short and long run.

What about higher than average debt?

Some college graduates have higher debt than average. These individuals tend to be in fields like engineering, business, medicine, law, and the sciences where education and training cost more than your typical college degree. However, the income potential for these individuals is even higher with starting salaries at an average of $65,000, increasing to over $200,000 with several years of experience.

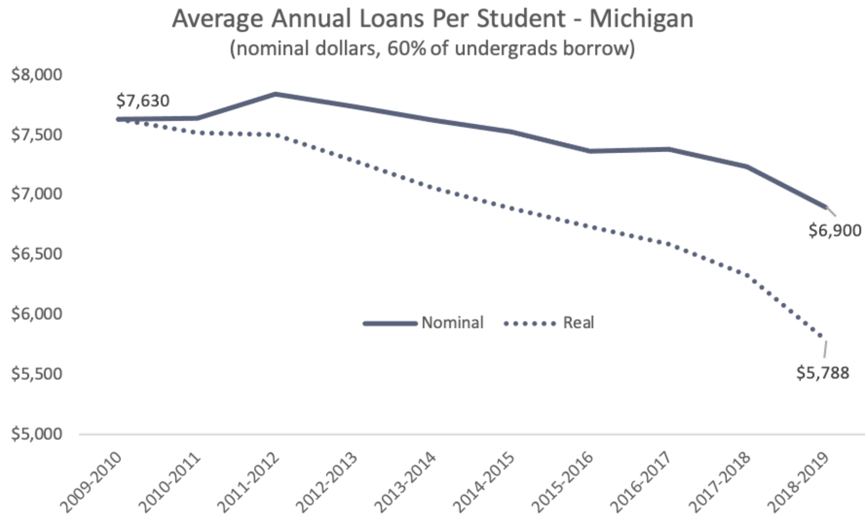


Data: St. Louis Federal Reserve, College Board, National Center for Education Statistics, American Community Survey, Edmonds.com
Analysis: Michigan Independent Colleges and Universities

Annual borrowing is declining

For students that borrow, the average federal loan taken each year has dropped over the past decade. In nominal terms the average annual loan for an undergraduate has dropped nearly $900 between 2010 and 2019. Putting this in real terms (accounting for inflation) students in 2019 borrowed an average of $2,000 less than students in 2010.

It is also important to remember that only about 60 percent of students use loans to help pay for their education.



Data: Integrated Postsecondary Education Data System
Analysis: Michigan Independent Colleges & Universities

Payments for investments compared to other debt

Students with debt have a monthly payment burden to manage. We are not suggesting that this is not a hardship, especially for recent graduates and graduates with families, the added expense of a student loan is formidable concern. For the typical graduate (about 60% of grads) with an undergraduate degree, a 5% interest rate, and a 20 year payment horizon, monthly payments are about $197 per month. For a ten year repayment plan the monthly requirement is $393 per month. A car loan or lease on the other hand can run upward of $500 and this does not include gas, maintenance, or insurance.

A student loan is more closely aligned with a mortgage than any other type of debt. A mortgage is considered an investment in a home rather than paying off a depreciating asset. A home often increases in value over time similar to a degree.

Comparing monthly payments

Mortgage or rent	Car payment (loan or lease)	Student Loans	Internet/ Cable	Utilities	Cell Phone
$753 - $1,071	$397 - $563	$197 - $393	$165	$115	$70

Who is defaulting on loans?

Defaulting on a loan is not in any student's financial plan. But, it happens less often than many assume and defaults are more prevalent among certain borrowers. Most loan defaults are for less than $8,600. In fact, 35 percent of borrowers that default owe less than $4,000. These borrowers are those who spent a year or two in college and did not complete a degree. The average default rate for students who attended 4-year public and private, nonprofit colleges and universities is 5 percent. To put this in context, the average auto loan default rate is also close to 8 percent but the average amount of auto debt defaulted on is $36,000.

Borrowers who do not graduate are three times more likely to default that those that complete a degree.

5% Average default rate for students from 4-year colleges & universities

<$8.6k Average default amount

3x Increased likelihood of default if a student does not graduate