

System-Level Accountability Framework

Graduate Debt Burden: Summary Report

December 2004

Measure 1B: Graduate Debt Burden

Definition: Measure 1B reports System graduates’ student loan principal and interest payments as a percent of their average monthly income. Average monthly income was measured in the year that begins with the third calendar quarter after the quarter of graduation. This is typically the point in time when graduates begin to make payments on their student loans. Graduates’ loan balances include borrowing from federal and Minnesota state student loan programs at all colleges and/or universities they attended.

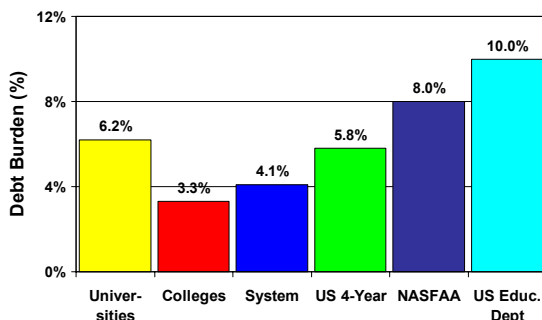
Significance: Measure 1B is significant in that it indicates the percent of income which graduates must commit to their education costs at a time when many are establishing households and beginning families. This measure is complementary to Measure 1C, Affordability Index, which indicated the proportion of the costs of attendance paid by students and their families while they are attending.

Graduates: There were 12,592 System graduates in Fiscal Year 2002 who borrowed from federal or state loan programs to finance their education. This group represents 47.2 percent of all graduates that year. It was assumed that 3,733 of these graduates received loan repayment deferments because they were attending a college or university after graduation or because their income was low enough to meet deferment requirements. An additional 2,342 graduates were excluded because complete data on earnings or borrowing were not available. The 6,291 graduates included in the debt burden analysis represented 23.6 percent of all System graduates in 2002 and 50 percent of the graduates who borrowed from state or federal loan programs.

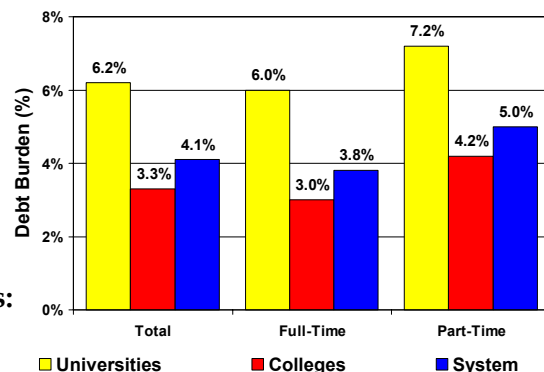
Measure: System graduates in Fiscal Year 2002 who borrowed to finance their postsecondary education had a median debt burden of 4.1 percent of the monthly income, as shown in Figure 1B-1. The median debt burden was 6.2 percent for state university graduates and 3.3 percent for state college graduates.

Context: The U.S. median debt burden for graduates of non-doctoral universities in 2000 was 5.8 percent, compared to the 6.2 figure for state university graduates, as shown in Figure 1B-1. No national comparative information is available for graduates of public two-year colleges. Two organizations have established thresholds to indicate the level of debt burden that is of concern to policy makers. The National Association of Student Financial Aid Administrators (NASFAA) indicates that debt burdens should be below 8 percent to reduce the risk of loan defaults. The U.S. Education Department has established a goal of keeping the federal student loan debt burden below 10 percent.

**Figure 1B – 1
STATE UNIVERSITY GRADUATES’
DEBT BURDEN IS SLIGHTLY ABOVE
U.S. AVERAGE**



**Figure 1B – 2
GRADUATES EMPLOYED PART-TIME
HAVE HIGHER DEBT BURDENS**



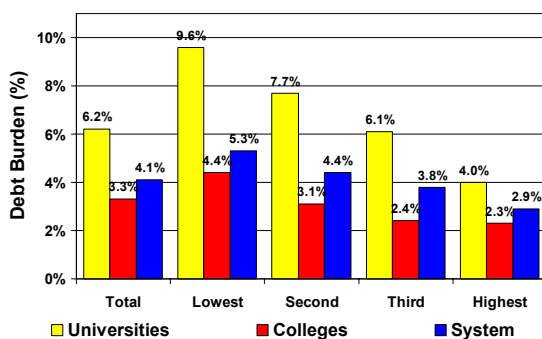
Drill-Downs:

Graduates employed on a part-time basis after graduation had higher debt burdens (6.0%) than did graduates employed on a full-time basis (3.8%), as shown in Figure 1B-2. The part-time group likely includes graduates working for employers that are not covered by Minnesota Unemployment Insurance and consequently complete wage data were not available.

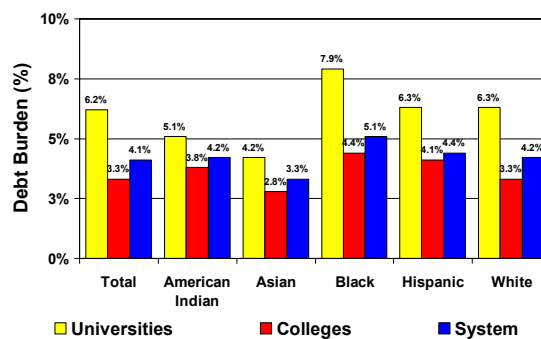
Graduates in the lowest income quartile after graduation had higher debt burdens (5.3%) than did graduates in the highest income quartile (2.9%), as shown in Figure 1B-3. State university graduates in the lowest income quartile had a median debt burden of 9.6 percent which is higher than the NASFAA threshold and close to the US Education Department threshold.

Black graduates (6.1%) and Hispanic graduates (4.4%) had higher debt burdens than did White graduates (4.2%), American Indian graduates (4.2%) or Asian graduates (3.3%), as shown in Figure 1B-4. Black graduates from state universities had a median debt burden of 7.9 percent which is just below the NASFAA threshold.

**Figure 1B – 3
LOWEST INCOME GRADUATES
HAVE DEBT BURDENS NEAR THRESHOLD**



**Figure 1B – 4
AFRICAN AMERICAN GRADUATES
HAVE HIGHER DEBT BURDENS**



Trends: Recent trends in student borrowing suggest that the System will see increases in graduate debt burden and in the number of graduates with student loan debt during the next several years. The average amount that students borrowed increased by 23 percent or \$1,000 between Fiscal Years 2002 and 2004, as shown in Figure 1B-5. During the same time period, the number of students borrowing increased by 30 percent from 58,819 to 76,549, as shown in Figure 1B-6. The number of students borrowing at the state colleges increased by 45 percent. The combination of increased borrowing and more students borrowing resulted in a 60 percent increase in total borrowing from \$250.1 million in Fiscal Year 2002 to \$401.7 million in Fiscal Year 2004.

Figure 1B – 5
AVERAGE BORROWING INCREASED BY
23 PERCENT OR \$1,000 IN TWO YEARS

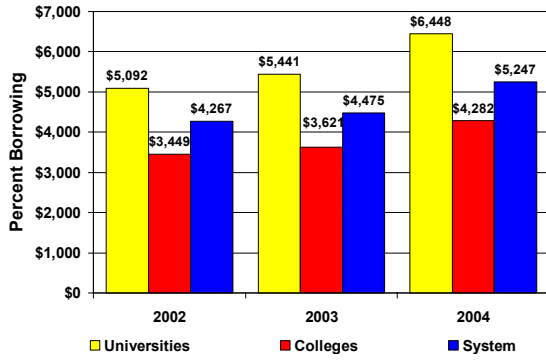


Figure 1B – 6
NUMBER OF STUDENTS BORROWING HAS
INCREASED BY 30% IN TWO YEARS

