

Who borrows for higher education?

The determinants of student loan take-up in England

Ariane de Gayardon, Claire Callender & Francis Green

Outline

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The English Student Loan System

A Theory on Student Loan Take-Up

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Analysis

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Introduction

- In 2016/2017:
 - Average maintenance loan: £4,730
 - Average tuition fee loan: £8,120
 - **Average total loan per year >£12,000**

Important financial gap

- Advantages to not taking loans include:
 - Higher probability of graduating
 - No repayment constraint
 - No effect on life-decisions

Perpetuation of inequalities

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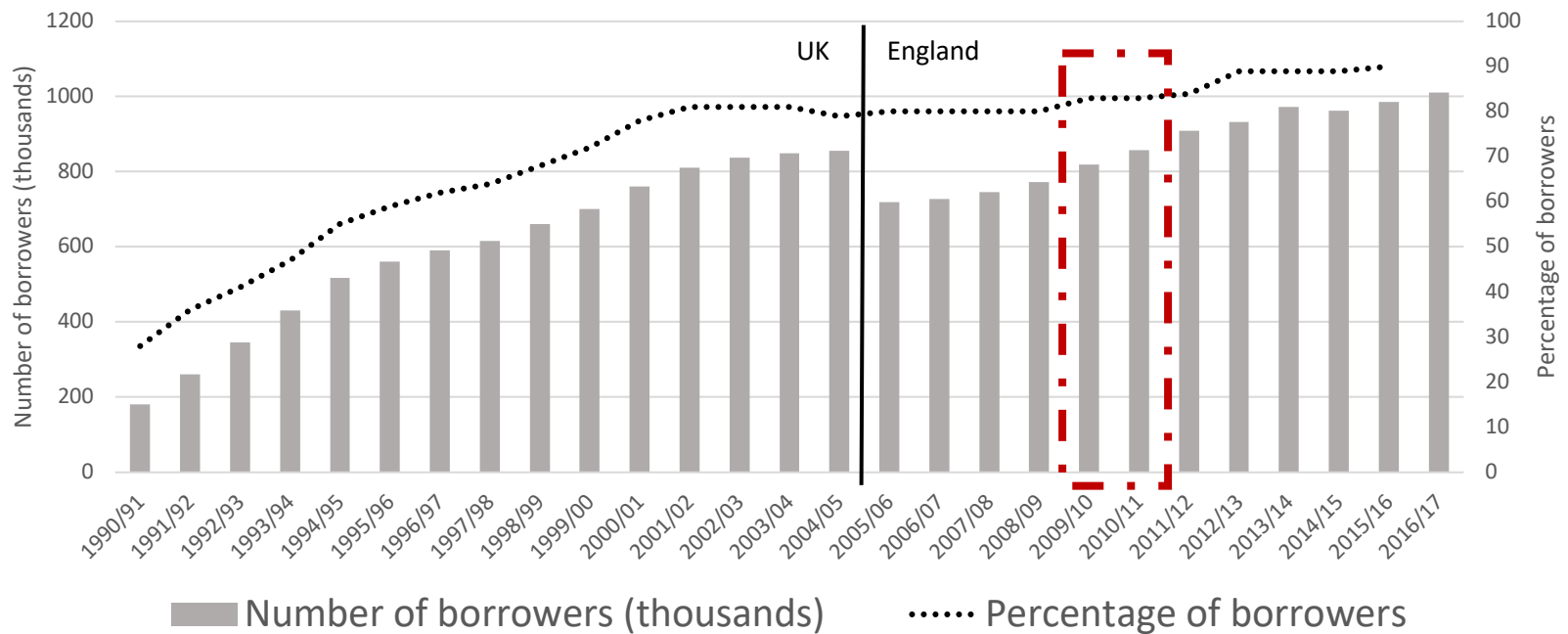
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Two types of student loans for FT undergraduates

- **Maintenance** Loans:
 - Introduced in 1990
 - Maximum amount depends on:
 - Students' family income
 - Location (London or not)
 - Living with parents/away from home
 - Studying abroad
- **Tuition Fee** Loans
 - Introduced in 2006
 - Covers the full tuition fees

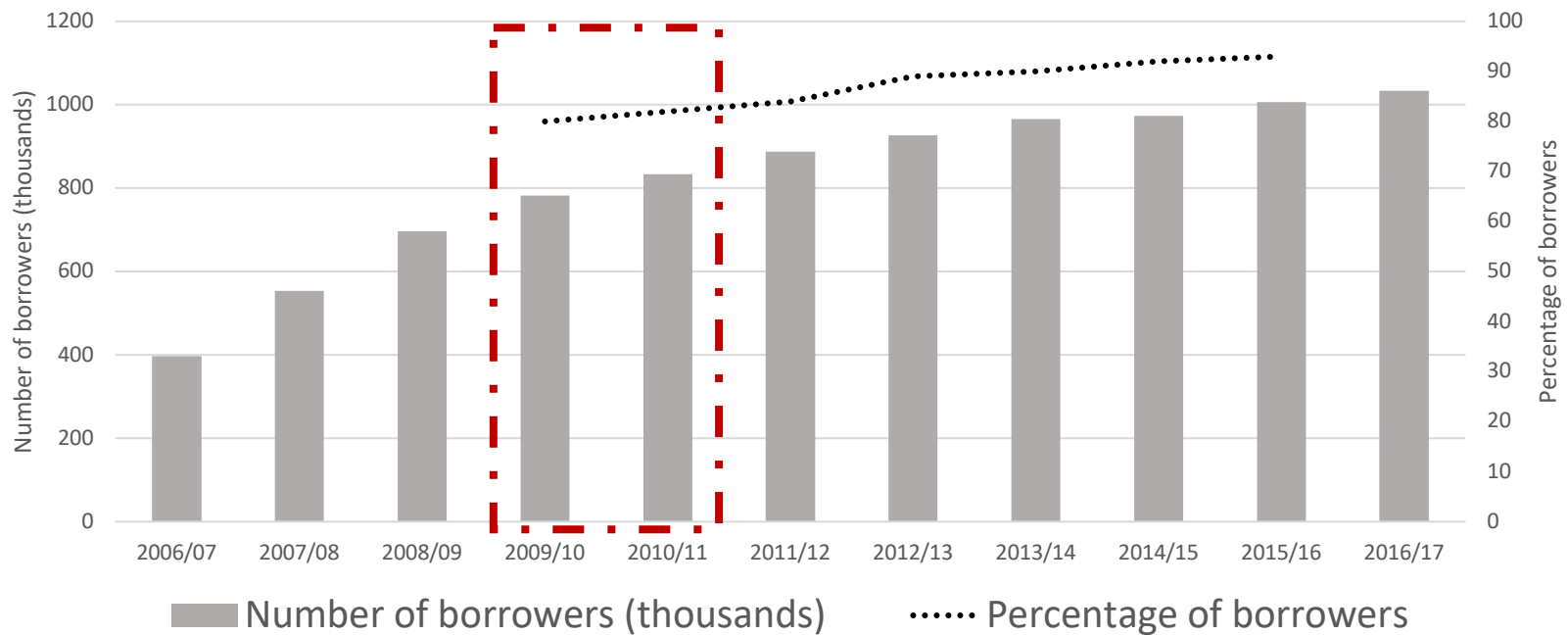
Change in number of borrowers of maintenance loans in the UK/England from 1990 to 2016



Source: derived from Bolton, 2018

 Next Steps Cohort

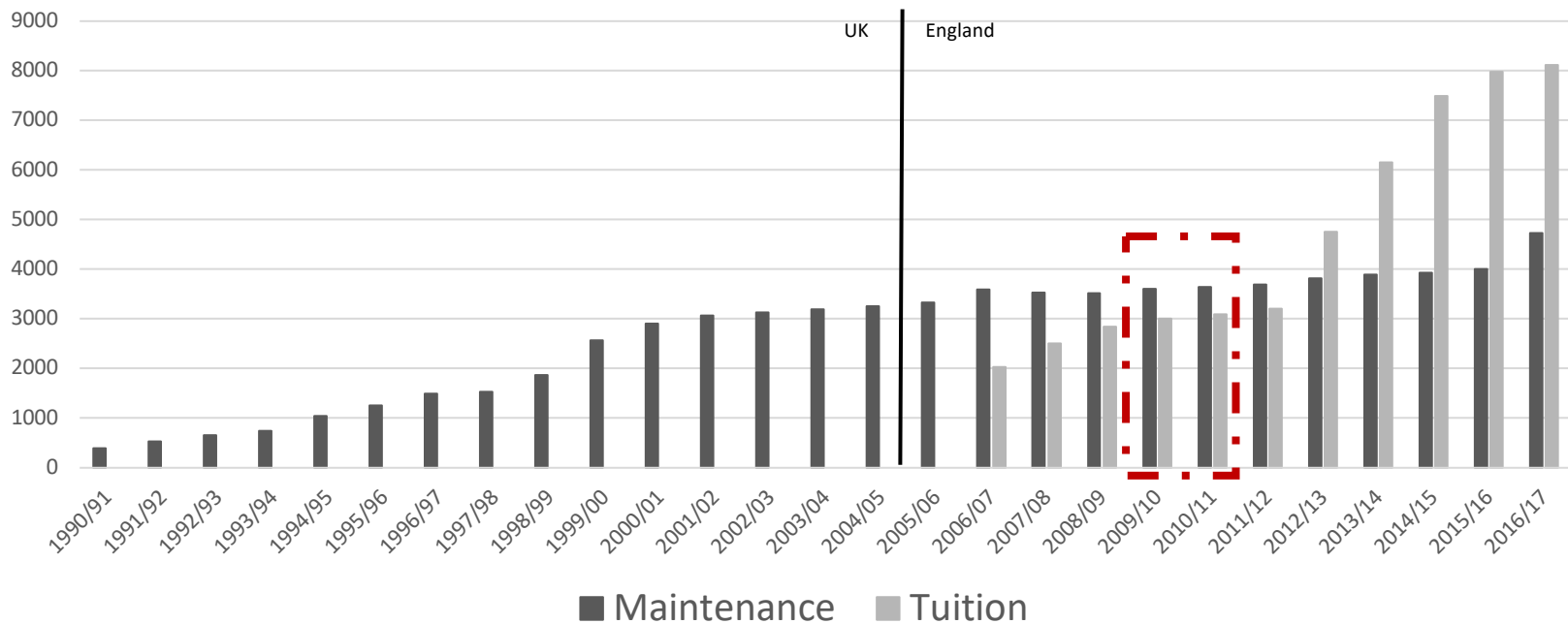
Change in number of borrowers of tuition fee loans in England from 2006 to 2016



Source: derived from Bolton, 2018

 Next Steps Cohort

Average annual value of loans by type of loan

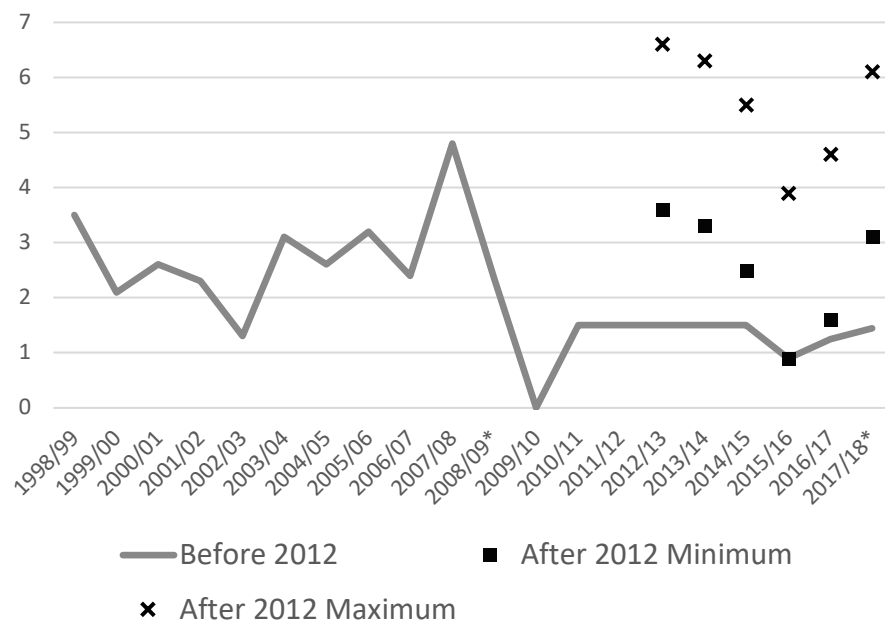


Source: derived from Bolton, 2018

 Next Steps Cohort

Repayment – Income-contingent

- 9% of income above £25,000 (since 2018)
- Interest accrued:
 - Pre-2012: RPI or Bank of England+1% → lowest
 - While studying: 3% + RPI
 - Afterwards: Between RPI and RPI+3% depending on income
- Outstanding debt forgiven after 30 years



The reality of loan repayments

- Under 2017 conditions:
 - Average student debt: ~ **£50,000**
 - £57,000 for low-income (Belfield, Britton, Dearden, & van der Erve, 2017)
- Estimated **83%** will not repay in full
- For every £100 a student borrows, the government is only expected to recoup **£55** (Belfield, Britton, & van der Erve, 2017)

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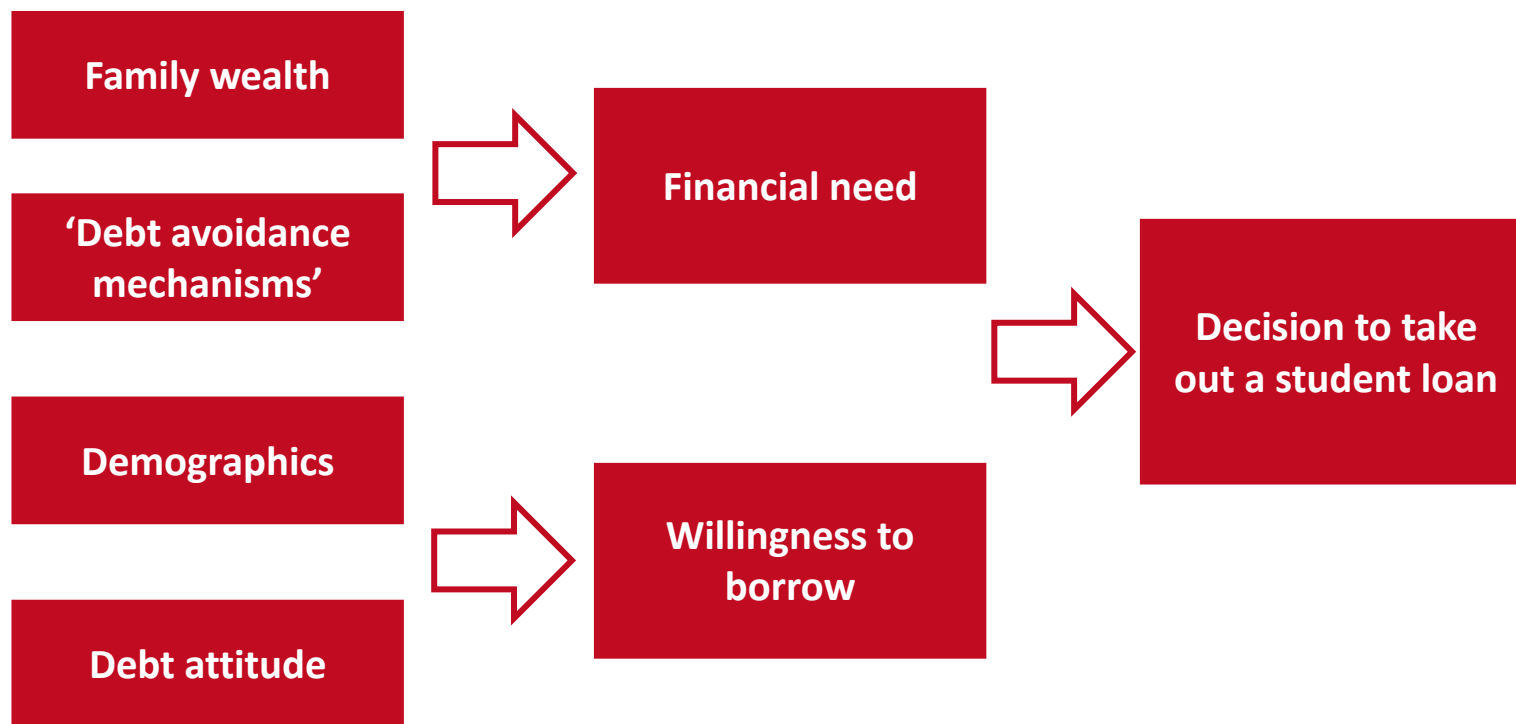
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The existing literature

- 2 studies on the 1990 introduction of maintenance loans
- Student Income and Expenditure Surveys (SIES) (1997-2018)
- Association with student loan take-up

Demographic (<i>gender, ethnicity, family status</i>)	Used to, no longer the case
Family wealth (<i>social class, income, education</i>)	Mixed evidence, but measures of wealth used limited
Debt attitude	Not explored
Debt avoidance mechanisms	Living at home is; paid work is not

Our study

- New dataset
 - Different sample, variables etc.
 - Confirms or questions what SIES shows
- More variables on wealth
 - Richer indicators
- Link debt attitude before entering HE to loan take-up
- Distinguishes take up by type of loan – tuition fee and maintenance

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Research questions

- How large is the connection, if any, between **various indicators of wealth** and the propensity to take up a student loan? Do these effects differ significantly between maintenance and tuition loans?
- How strong is the connection between **debt aversion** and loan take-up of either type?
- What are the important **debt-avoidance mechanisms** that students use, and do these apply equally to maintenance and to tuition loans?

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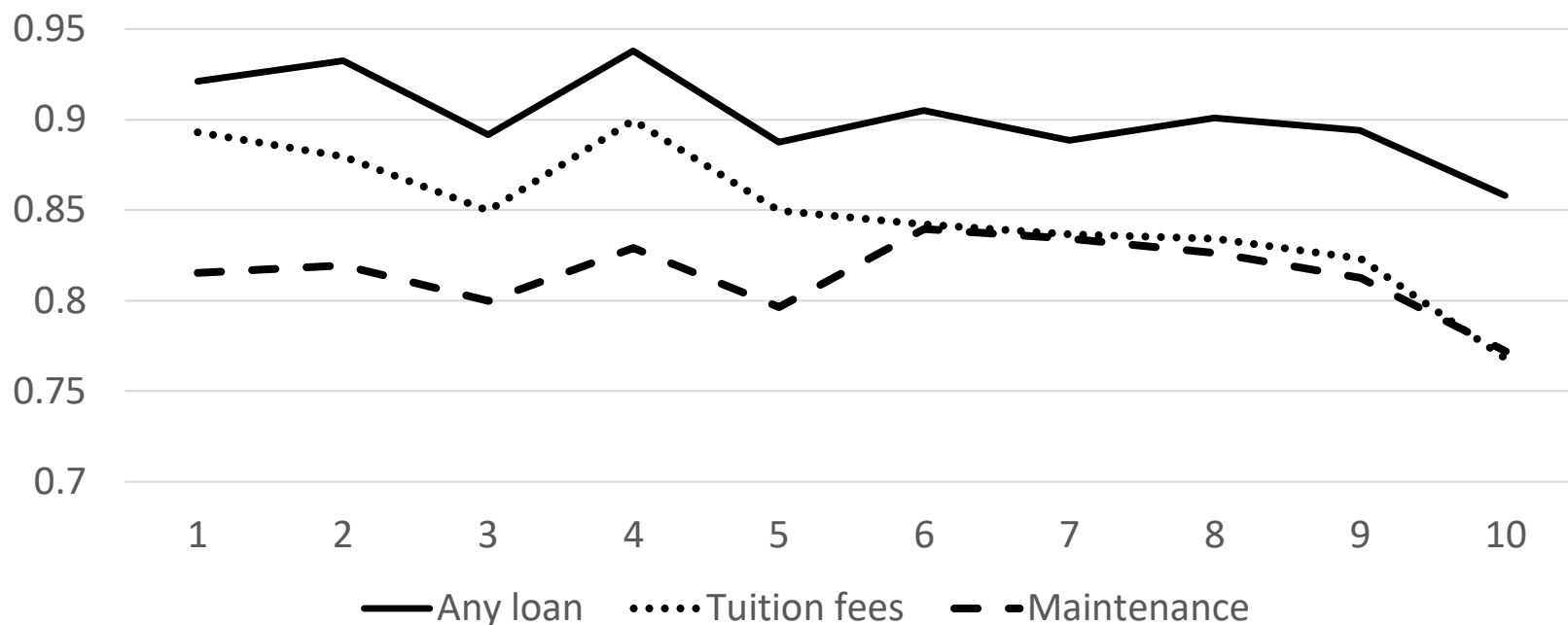
Next Steps (former LSYPE)

- English cohort born in 1989-1990
 - Started in 2004 (age 13-14)
 - Annually until 2010 → 7 waves
- Sample:
 - Wave 7 (age 19-20)
 - Had enrolled in HE
 - N = 4,530

General statistics

- In our sample:
 - **89%** students took a loan
 - **83%** students took a tuition fee loan
 - **81%** students took a maintenance loan
- Being wealthy makes a difference
 - Percentages change to 68%, 56%, and 62% for those who both attended private schools and whose parent own their home outright
 - However, still more than 2/3 took out loans in the richest group

Take up of loans by type of loan and income decile



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Models

- General loan take-up
 - Probit models
 - Without, and then with, debt avoidance mechanisms (endogenous)
- Tuition fee and maintenance loan take-up
 - Bivariate probit – seemingly unrelated equations
 - Estimate the two equations together because decisions taken simultaneously
 - Confirmed by the significant correlation of the errors
 - Also without, and then with, debt avoidance mechanisms

Parental Wealth

- Parental social class makes no difference
- Parental wealth associated with lower loan take-up
 - Owning house outright
 - Low IDACI region
 - Income
 - Private schooling
- Parental education associated with higher loan take-up
 - Maintenance loans (geographic mobility)



True of both types of loans

Tuition fee loans only

Demographics

- Females have lower probability of borrowing
 - Higher effect for tuition fee loans
 - **2.9 percentage points** less likely to take any type of loan
- Being Indian is associated with lower maintenance loan take up
- Being Muslim is associated with lower loan take-up
 - Higher effect for maintenance loans
 - Sharia law

Debt attitude

- Associated with lower loan take-up
 - True of both types of loans
 - 1 standard deviation rise in debt aversion → **2.7 percentage points** reduction in probability of borrowing

Debt avoidance mechanisms

- Two independent endogenous variables
- Work during term-time not associated with loan take-up
- Living at home associated with lower loan take-up
 - **-16.5 percentage points** on probability to borrow
 - Larger effect for maintenance loans
 - Linked to
 - Parental education
 - Being Indian
 - Being Muslim

SIES 2011/2012:

Students can save up to **£5,000 a year** in housing and living costs when living with parents

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Summary (1/2)

1. **Wealth** matters

- Except for social class

2. **Parents with first degree** or higher means higher maintenance loan take-up

- Less likely to discourage children from moving away for HE

3. **Gender** plays an important role

- Higher debt aversion
- Recent changes to these attitudes might not be reflected in our sample

Summary (2/2)

4. Relevance of **debt attitude**

- Associated with decision to take out a loan
 - might be linked to decision to enter HE
 - might be linked to the choice of university (mobility)
- Possible impact for social mobility since low-income students are more debt-averse

5. **Living at home** is a key debt avoidance mechanism

- Increases in living at home linked to location, ethnicity, religion, SES
- Problematic for choice of HEI
 - And for labor market mobility

6. **Ethnicity and religion** matter

Implications

- Wealthy non-borrowers are privileged during and after HE
 - Issue of **inequality**
 - Issue of **social mobility**
- Fear of borrowing creates constraints
 - **Geographic mobility**
- Findings could be relevant to other countries where students depend on loans
 - US, Netherlands



Thank you !