

EDUCATION

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## EFP Takeaways

Student Loan Default: Strategic Choices Amongst Private Student Loan Debtors?

### Background

In 2005, a new policy restricted debtors' ability to discharge private student loan debt in bankruptcy. The change was motivated by the perceived incentive for people to strategically file for bankruptcy, even if they had (or expected to) have sufficient income to repay their loans. However, the policy sparked concern that the inability to discharge student loan debt in bankruptcy can damage debtors' economic health. A new study by Rajeev Darolia and Dubravka Ritter in vol. 15, issue 3 of *EFP* examines millions of anonymized credit records to determine whether there were shifts in bankruptcy filing behavior following the 2005 policy reform.

### The Study

Using data on millions of anonymized credit bureau records, Darolia and Ritter assessed whether the policy induced changes in bankruptcy filings among private student loan borrowers who were affected by the policy, as compared to the behavior of student loan borrowers not directly affected.

#### For more details:

- View the [full issue](#).
- See the [full article in Education Finance and Policy](#).
- [Sign up here to receive future EFP Takeaways](#).
- Summary of:  
Darolia, R., & Ritter, D. (2020). Strategic default among private student loan debtors: Evidence from bankruptcy reform. *Education Finance & Policy*, 15(3), 487-517.

### Findings

Overall, the authors did not find evidence that many private student loan borrowers were strategically filing bankruptcy prior to the policy change. Their results thus do not support the theoretical concerns that inspired the 2005 policy change to restrict private student loan debt dischargeability. Rather than discouraging opportunism, the primary effects of this policy change may instead have been to harm nonopportunistic, struggling debtors.

The authors also found evidence that private student loan supply and access increased after the policy was enacted. This resulted in riskier credit borrowers (those with lower credit scores) having access to higher loan amounts. The post-policy loan amounts among the least creditworthy borrowers were more than 30% higher than pre-policy loan amounts, as seen in the figure below.

#### Student Loan Amount by Risk Score Decile at Origination

