EFP Takeaways
Measuring the Effect of Student Loans on College Persistence

Background
Families’ and students’ financial burdens contribute to socioeconomic gaps in college completion. Colleges’ financial aid programs can ease these burdens. While researchers have studied the effects of financial aid programs and especially of grant packages, relatively little prior work has specifically examined loan programs and reenrollment; unlike grant programs, loan programs only shift college costs intertemporally for students and their families. Using data from Chile, David Card and Alex Solis explore the effects of loan eligibility on college persistence and degree completion. Their work is published in vol. 17 issue 2 of EFP.

Findings
The authors find that access to loans increases students' likelihood of reenrolling in a university program, reducing dropout rates. The effects remain significant, after 5 years, and translate into an increase in the likelihood of completing a bachelor’s degree. Access to loans seem to provide greater benefits to lower-income students, suggesting that socioeconomic differences in educational attainment are partially due to credit constraints.

The Study
The authors utilize administrative records for students who participated in the Chilean university admission system in the post-2006 period, focusing on those students who retake the national admission test after their first year of studies. Those who score above a certain threshold become eligible for loans covering around 85 percent of tuition costs for the duration of the program.

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