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POLICY BRIEF

Parental credit constraints and child college attendance

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With rapidly increasing costs of college, many students and families struggle to pay for postsecondary education. In fact, nearly 70% of students take out student loans through federal financial aid policies to help finance their education. However, even with federal financial aid options, many students still are unable to fully finance their postsecondary education. Therefore, parents often help supplement loans available to their children through cosigning on a loan, borrowing against their home equity, or via debt/loans taken out in their own names.

As financing college plays a critical role in access to postsecondary education, many students may not be able to access or attend college because of financial constraints. This study investigates if there are students who fail to attend college because of their lack of access to credit markets.

Utilizing data from multiple surveys, the author examined over 800 people's credit scores, demographic data, economic data, and college attendance data. Essentially, the study linked parental credit scores to children's educational attainment levels to estimate the relationship between parents' financial status and students' access to college. Overall, good parental credit significantly improves the child's probability of attending college. This is especially important for middle class families, which is a group that would likely not qualify for need-based aid, but might not have sufficient wealth to pay for tuition out of their own assets. Credit constraints could limit access for up to 5% of young people.

The findings from this study have important policy implications. First, the current limits that the Department of Education imposes on its direct loans appear to be restrictive. Therefore, raising these limits would allow for more young people to attend college, without relying on their parents' financial status. Further, shifting underwriting constraints on parental PLUS loans could allow more families to borrow enough to pay for college. However, before enacting these policy shifts, more information is needed regarding returns on investment for education for this credit-constrained population. And, it will be important to determine ability for this group to repay loans. Further research is needed on the potential effects of relaxing constraints on federal loans before changing federal financial aid policies.