2019

The Increasing Reliance on Educational Loans By University of Michigan Law School Graduates

David L. Chambers
University of Michigan Law School, dcham@umich.edu

The Increasing Reliance on Educational Loans By University of Michigan Law School Graduates

David Chambers

NOTE added 2019

In 1967, the University of Michigan Law School began an annual survey of selected classes of its alumni. The survey was administered by mail for forty consecutive years until 2006, when it was suspended upon the retirements of the survey's long-time co-directors, David L. Chambers and Terry K. Adams. In 2014, the survey was revived by Professor J. J. Prescott and has been continued annually thereafter online.

The following memorandum is one of a group of internal papers Chambers wrote in 2009 and 2010 – after the survey project was suspended but before its revival – on a range of topics that the initial forty years of data permit exploring. Some of the internal memoranda became publications, The memo here did not. Thus, the accuracy of the tables and other statistical figures in this memo have not been double-checked as they would have been if formally published. To verify the findings reported here and for access to additional data from years after the Project was revived, qualified researchers may apply for access to the full Project dataset. For guidance, go to https://repository.law.umich.edu/alumni_survey/alumni_survey_dataset.html.

For important background information on the Project, the reader is encouraged to read The University of Michigan Law School Alumni Survey Project: Description, Scope and Limits (2019), a seven-page memo available on this website.
https://repository.law.umich.edu/alumni_survey_scholarship/

For a second, longer memorandum exploring the relationship between debt and careers choices, and particularly the impact of debt on graduates' aspirations and decisions to work in public service, see The Effects of Educational Debts on Career Choices of Graduates of the University of Michigan Law School (2019)
https://repository.law.umich.edu/alumni_survey_scholarship/

David L. Chambers
August 2019

David Chambers
Alumpaper-Educational Debt
March 13, 2011 (with edits in 2019)

The Increasing Reliance on Educational Loans By University of Michigan Law School Graduates

In the classes that graduated from the University of Michigan Law School between 1970 and 1979, only about half of students borrowed to pay for their college or legal education. By the early 80s the portion who borrowed had risen to about 80 percent of students and has remained at that level through the classes of early twenty-first century. Even greater growth has occurred in the average debt of those who incurred debt. In actual dollars, average debts have increased twenty-fold from the 70s to the early 2000s. Even in CPI-adjusted dollars, average debts have tripled. By 2000-2001, 42 percent of students were borrowing more than $90000 to attend law school. This memo tracks the changes over time in the ways law students have paid for their education, in the growth of borrowing as the principal means of financing their education, and in the difficulties reported by our graduates in paying off their loans.

Continued next page

Part 1. Rising tuition

We do not have information on the total living and other expenses that Michigan students incurred during their years in law school, but we do have, from the Law School's own records, information about the relentless rise in law school tuition. Across the forty years between 1970 and 2010, except for a brief period in the late 1970s, tuitions at the Michigan Law School rose at a much faster pace than inflation. Table 1 traces the growth in Michigan Law School's tuition over the years between 1970 and 2009 in both actual dollars and inflation adjusted dollars. The numbers are sobering. Tuition for out-of-state students at Michigan was five times as high in 2009 as it had been in 1970, *even after* controlling for inflation. For instate students, it was more than eleven times as high after controlling for inflation. By 2009, three years of tuition at Michigan exceeded $120,000, and that did not include the living expenses.

Table 1.
Tuition at the University of Michigan Law School,
School years beginning in the year 1970 through year 2000

	1970-1971	1975-1976	1980-1981	1985-1986	1990-1991	1995-1996	2000-2001	2005-2006	2009-2010
Tuition for instate students	$680	$1240	$2008	$4040	$6830	$15820	$20956	$32065	$43200
Instate tuition (adjusted for inflation)*	$3759	$4944	$5227	$8055	$11208	$22262	$26107	$35225	$43200
Tuition for out-of-state students	$1740	$2880	$4308	$8540	$14180	$22020	$26956	$35065	$46200
Out-of-state tuition (adj. for inflation)*	$9619	$11482	$11215	$17028	$23269	$30986	$33581	$38518	$46200

*By the Consumer Price Index, Dec. 2009

File: email Jocelyn Kennedy, 2/17/09; front of Debt notebook; 2009, law school website

Michigan Law School is, of course, not alone in raising tuitions at a rate that exceeds inflation. It is an experience reported at almost all undergraduate and graduate institutions. Still, Michigan's rate of increase has exceeded that of other public institutions – and because its tuition was always higher for both instate and out-of-state students than most other public schools, the absolute cost of attending Michigan is very high indeed. Indeed, for both instate and out-of-state students, it has today the highest tuition of any public law school in the country.[1] In fact, its tuition exceeds that of all but a small handful of private law schools.[2]

[1] http://www.ilrg.com/rankings/law/tuition.php/1/desc/Tuition
[2] Ibid.

Part 2. How Law Students have Paid for their Years in Law School

When the Alumni Survey began in 1966, it was administered only to the graduates fifteen years after graduation. The survey instrument asked graduates for their most important and second most important source of financial support during law school. For the class for 1951, the first class surveyed, a written report survives although the original data does not. That report records that for 59 percent of the class, the GI Bill or other veterans' benefits were the most important source of financial support and support from parents, spouses, and other family ("family support") the second. By the classes of the late 1950s, family support had become the most important source, with veterans' benefits trailing. Through the classes of the 1960s, family support remained the most important source with the graduates own earnings from summer and school-year employment becoming next most important, and veteran's benefits shrinking to a few percent.

Beginning with the surveys conducted in 1991 of the 15-year class of 1976 and the 5-year class of 1986, the survey was altered to ask for the percentages of financial support the graduate had received from each of many possible sources. Table 2 reports on the findings from these later surveys. We have information from twenty-two classes: the classes of the 1976-1981, and the classes of 1986 through 2001.

Go to next page

Table 2
Sources of Financial Support During Law School,
University of Michigan Law School
Classes of 1976-81, 1986-2001
(means)

	Classes from 1970s (1976-79)	Classes from 1980s (1980-81, 1986-89)	Classes from 1990s (1990-99)	Classes from 2000s (2000-01)
	n=929	n=1454	n=2307	n=402
The student himself or herself				
Employment during school years or summers	22%	19%	13%	12%
Previous savings	8%	6%	5%	4%
Subtotal: student contribution	**30%**	**25%**	**18%**	**16%**
The student's family				
Parent/other blood relative	31%	31%	27%	21%
Spouse/partner	13%	5%	3%	4%
Subtotal: family	**44%**	**36%**	**30%**	**25%**
Loans, grants, scholarships				
UM Law School loans, grants, scholarships	15%	16%	23%	29%
Other (nonfamily) loans, grants, scholarships,	10%	21%	27%	29%
Subtotal: loans, grants	**25%**	**37%**	**50%**	**58%**
Other	**1%**	**1%**	**1%**	**1%**
Total	**100%**	**99%**	**99%**	**100%**

File: sb32c; sb32c1 (used only for 15 year classes of 80-81)

As Table 2 reveals, in the late 1970s, on average, 30 percent of the financial resources students used to meet the costs of attending law school came from their own earnings or savings and an additional 44 percent came from relatives, particularly from parents or spouses. Over time, these individual and familial sources of support have declined steadily as a percentage of students' expenses, though they still remain substantial. By the beginning of this century, on average, 16 percent of financial resources came from the student himself or herself and another 25 percent came from family. In one important sense, the substantiality of family contributions has actually increased over time, for, given the huge increases in tuition and the rise of other expenses, what represented 25 percent of total support in the early 21st century, is substantially more in inflation-adjusted dollars than what 44 percent of total support represented back in the 1970s. Three cheers for parents and spouses. (A note: the figure for parental support may often have come in the form of loans, not gifts. We do not know the proportion of parental contribution that took the form of loans, nor do we have any information about repayment.)

A bit more on the contribution of students' own earnings. As a source of their financial resources during law school, students' earnings during law school and other savings declined between the 1970s and the 2000s from an average of 22 percent down to about 12 percent.[3] In one sense this decline is somewhat surprising, because, though we did not ask about summer earnings during law school, we know from other sources that summer salaries in law firms rose hugely over the years of our survey and, from our own data, that the huge majority of our students worked in a law firm during the summer after their second year of law school. On the other hand, our information about work *during* the school year while classes were going on is consistent with the decline. Thirty five years of graduates (the classes of 1966 through 2001) were asked approximately how many hours of paid employment they averaged during their third year of law school. In the classes of the late 1960s and the 1970s 50 percent of graduates reported working during their third year and 22 percent reported working 20 or more hours a week. By the 1990s and early 2000s, only 35 percent of graduates reported working during their third year and only about 9 percent reported working an average of 20 of more hours a week. Part of the reason for the decline in during-the-school-year earnings is probably due to the fact that Michigan's students, even when working part-time, increasingly sought work at large law firms and that Ann Arbor, though having branches of some large Detroit firms, offered few large-firm opportunities unless a student commuted an hour or so each way into Detroit.

A bit more on financial contributions by parents and spouses. Unsurprisingly, students whose fathers were lawyers, other professionals or business executives have all along received a higher proportion of their financial support from parents than those whose fathers were blue collar workers, clerical workers or public employees.[4] Similarly, and also unsurprising, the *younger* graduates were at the time they began law school, the more likely they were to receive parental financial support during law school

[3] (file sb32f).

[4] (sb32d. Remember, v116, family includes spouses. V764 must be subtracted from v116 to get parents without spouses.)

and conversely, the *older* students were at the start of law school the more likely they were to be married or cohabiting and to receive support from a spouse or partner.

As the table above makes clear, and all of us already know, while earnings, savings and familial contributions declined as a proportion of support, what grew enormously between the 1970s and the 2000s were loans and grants from the law school and loans from sources other than the law school, more than doubling as a proportion of financial support during those years. The question we asked on our questionnaire didn't separate loans from grants and scholarships, but we know from other sources that outright scholarships accounted for only a modest part of total support. The rest of this memo concerns the non-family debt that looms so large today.

Part 3. The growth of educational debt

Beginning with the class of 1970 surveyed in 1985, the alumni survey asked a direct question about educational debt: "when you completed law school, approximately how much contractually enforceable debt resulting from attending college and law school did you have?" Note that the question includes both debt from loans to attend college debt and debts from loans to attend law school. Especially for the earliest classes on which we report, but continuing into the beginning of the 21st century, few students who came to Michigan carried significant debt from their undergraduate education. The great majority of the debt reported here, for nearly all students, was incurred during law school. Table 3 shows the growth in total education debt.

Table 3
Educational Debt of Michigan Graduates,
By Decade of Graduation,
Classes of 1972 - 2001

	1970-1974	1975-1979	1980-1984	1985-1989	1990-1995	1995-1999	2000-2001
	n=1158	n=1158	n=1245	n=1252	n=1209	n=1139	n=408
Percent of students with debt	50%	56%	80%	79%	73%	80%	80%
Mean debt of those with debt	$6058	$9740	$14832	$26243	$45551	$69046	$78462
Inflation-adjusted debt* of those with debt	$29504	$32640	$32200	$47194	$67230	$89560	$93308

* The adjustment is into 2007 dollars, using the Consumer Price Index.

Between the early 1970s and 2001, the proportion of students borrowing to attend law school rose from half the students to 80 percent and the amount borrowed by those who borrow has, even after adjusting for inflation, more than tripled, from $29,504 to $93,308. By the final year of our survey, many students carried debts of more than $110,000. Fortunately for the graduates through 2001 who entered private practice, salaries in firms also rose at a much faster pace than the rate of inflation. Unfortunately for other graduates, salaries in government, public interest and legal services work did not kept pace. In a later section of the book, we explore the degree to which the rising debts of students accounts for the large numbers of students who give up during law school a plan for public service work in comparative low-paying settings.

Part 4. What sorts of students borrowed more than others.

Table 4 reports on the last ten years of classes for which we have information, the graduating classes of 1992 through 2001. It shows the proportion for a few subgroups within our sample, what proportion of them graduated with with educational debt, and, for those who did have debt, their mean debt in actual dollars.

Table 3
Comparisons of contractually enforceable education debts of various groups
Classes of 1992-2001

	n=	% with any debt	mean debt of those with debt
All graduates	**2270**	**78%**	**$64,911**
African American	135	90%*	$67889
Hispanic	111	91%*	$72799
White	1884	76%*	$64211
Women	978	80%	$65863
Men	1292	76%	$64152
Father’s job: attorney	294	58%*	$57562*
Father’s job: blue collar	195	91%*	$70564*
Father’s job: mgr, owner bus	520	76%*	$65,131*
Under 24 at start of law school	1306	73%*	$64239
24 or over at start of law school	964	83%*	$65913

*p<.01 File:dt01g

None of the comparisons above seem surprising, except perhaps for the higher incidence of non-family borrowing by students over 24, and here the explanation is that more of those over 24 have become financially independent of their parents. In every decade of graduates, fewer of the graduates 24 or over at the start of law school have received financial support from their parents than is the case for those who started law school before age 24.

4. Difficulties paying off educational debts

The survey also asked graduates, "Since law school, how much difficulty have you experienced in paying off your loans?" with graduates asked to circle a number between 1 (indicating "no difficulty") and 7 (indicating "a great deal of difficulty). Here we have a smidgeon of good news, at least about the graduates of the Law School up through the early years of this century: despite the huge increase in educational debts, most of our graduates have not encountered serious difficulties in paying them off, though the proportion who do report serious difficulties has greatly increased over time. Table 4 displays the reported levels of difficulty experience by those with educational debts in paying them off.

Table 4
Among graduates five years out of law school who had educational loans,
Their reported degree of difficulty in paying them off,
By groups of graduating classes, 1972-2001

	1972-1974	1975-1979	1980-1984	1985-1989	1990-1994	1995-1999	2000-2001
	n=367	n=644	n=952	n=976	n=870	n=909	n=324
Mean level of difficulty on 7 pt scale	1.51	1.54	1.86	2.58	3.16	2.96	2.88
% who recall having no difficulty or almost no difficulty*	89%	87%	79%	61%	59%	50%	52%
% who recall having substantial difficulty **	5%	4%	7%	18%	29%	24%	22%

* circling 1 or 2 on scale of 7 file: dt07
** circling 5, 6 or 7 on scale of 7.

Which graduates have experienced the greatest difficulties paying off their loans? Through preliminary regression analysis, by far the strongest factor relating to having difficulty is simply the size of the graduate's debt in inflation-adjusted dollars. 42 percent of those with inflation-adjusted debts of $100,000 or more report having had substantial difficulty (that is, put themselves in categories 5, 6 or 7 out of 7), whereas substantial difficulties are reported by 27 percent of those with debts between $60,000 and $99,999 and only 13 percent of those between $30,000 and $59,000, and 2 percent of those with debts under $30,000.[5] The overwhelming significance of the total amount borrowed to reported difficulties is revealed in Table 5.

Table 5.

REGRESSION ON DIFFICULTY EXPERIENCED IN REPAYING LOANS,
Graduates with debt at graduation from classes of 1981-2001
surveyed five or fifteen years after graduation,
using as controls class year, years since graduation, and a
few variables hypothesized to be related to economic burden.

DEPENDENT VARIABLE: V426   DIFFICULTY IN PAYING DEBT

Total Case Count: 4020

MULTIPLE CORRELATION COEFFICIENT   0.5563   ADJUSTED   0.5549

FRACTION OF EXPLAINED VARIANCE   0.3095   ADJUSTED   0.3079

VARIABLE	NAME	BETA	MARGINAL RSQD
a.	class year	-0.08104	.0011
b.	years since grad.	-0.14849	.0049
c.	Law School Debt in $	0.55228	.1377
d.	Income first yr after L.S	-0.24885	.0292
e.	Total household income year before survey	-0.16442	.0215
f.	Has children now	0.01953	.0003
f.	# yrs in private prac	-0.06528	.0019
g.	# yrs in government	0.00994	.0001
h.	# yrs in public interest	0.03526	.0012

(dt03b)

[5] File:dt03c

After the inflation-adjusted size of debt is taken into account, the next strongest indicators of difficulty in paying off the debt were, unsurprisingly, the graduate's income during his first year after law school and the graduate's total household income in the year prior to the survey.[6] Though these income figures are significantly related to difficulty in paying off the loans, they account for so much less of the reported difficulty than the size of debt alone that we suspect that, up to a very high level of income, the size of educational debt alone looms large in their assessment, partly subjective, of the difficulties they've encountered in paying off their debt.

Not reported in Table 5 are differences in the experiences of difficulty by sex or race. We found that, after taking size of debt and earnings into account, women were no more likely than men to report experience difficulty. On the other hand, after controls, nonwhite graduates reported experiencing somewhat more difficulty than whites. Why they did we cannot say, but it is quite possible that our measures of income do not capture insecurity nonwhites experience more frequently than whites in their financial situations. Nonwhite students may also more frequently bear some financial responsibilities for parents or siblings.

[6]We also ran the regression using the respondents' own earned income in the year before the survey only, but it was weaker as a predictor than total household income in the same year.