

Student Debt Among Young Entrepreneurs

By Brian Headd, Economist

Student debt is rising.

Mean debt levels rose from \$12,000 in 1995 to \$29,000 in 2013 (Chart 1). Also in 2013, 20 percent of families had education debt, which was a large rise from the 12 percent in 1995. (Source: Federal Reserve Board Survey of Consumer Finances, www.federalreserve.gov/econresdata/scf/files/scf2013_tables_internal_real.xls.)

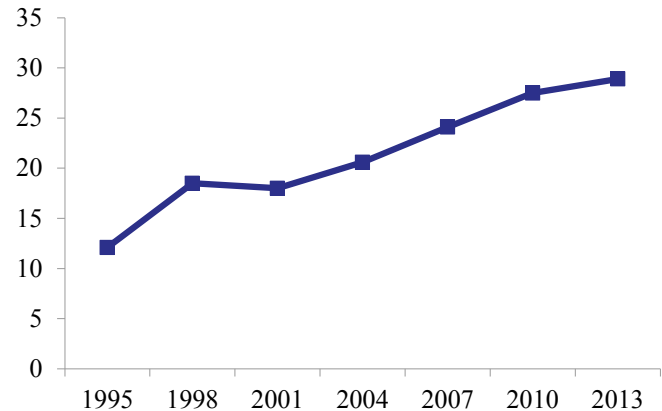
Student debt might affect career choices.

In 2012, about 40 percent of both young self-employed and non-self-employed with student loan debt took a job outside their major or training vs. about 20 percent without student debt. (Source: Office of Advocacy contract to Windwalker Corporation using the Federal Reserve Board Survey of Consumer Finances.)

Student debt is rising among the relatively young, while self-employment is declining.

In 1995, 21 percent of individuals under 40 had student loan debt. This figure rose to 37 percent in 2010. Self-employment for this group declined from 15 percent to 12 percent during the same time period (Chart 2). (Source: Office of Advocacy contract to Windwalker Corporation using the Federal Reserve Board Survey of Consumer Finances.)

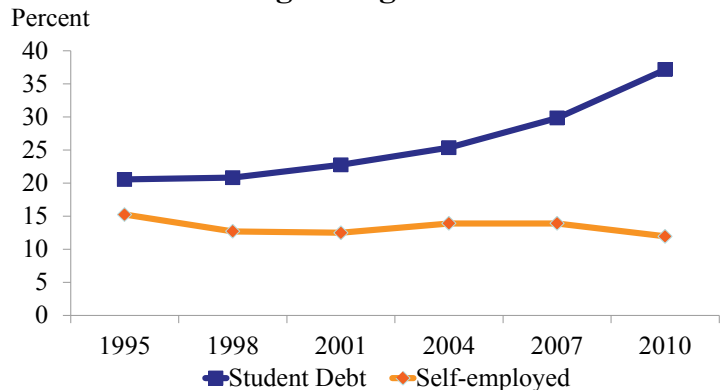
Chart 1: Mean Education Debt for Families
(Thousands of 2013 dollars)



Note: Includes only families with student debt.

Source: Federal Reserve Board, Survey of Consumer Finances.

Chart 2: Student Debt and Self-Employment Among Young Families



Note: Young families defined as under age 40.

Source: Federal Reserve Board, Survey of Consumer Finances.

Households with a self-employed member and student debt were less likely to apply for business loans.

In 2012, about 17 percent of young households with a self-employed member that had student debt applied for business loans in the last five years vs. 27 percent without student debt. (Source: Office of Advocacy contract to Windwalker Corporation using the Federal Reserve Board Survey of Consumer Finances.)

Business owners with student debt had smaller ventures.

In 2010, young self-employed individuals without student loan debt employed about 9 workers, while those with student loan debt employed 2 people. (Source: Office of Advocacy contract to Windwalker Corporation using the Federal Reserve Board Survey of Consumer Finances.)

The self-employed and non-self-employed have similar rates of student debt.

In 2012, the rates of student debt for the self-employed under 40 (34 percent) and the non-self-employed under 40 (38 percent) were both just above one-third. (Source: Office of Advocacy contract to Windwalker Corporation using the Federal Reserve Board Survey of Consumer Finances.)

Data conflict regarding who has bigger loans, the self-employed or non-self-employed.

Using differing definitions, the Survey of Consumer Finances finds the self-employed hold larger amounts of student debt while the Education Longitudinal Study finds the non-self-employed hold larger amounts. (Source: Office of Advocacy contract to Windwalker Corporation using the Federal Reserve Board Survey of Consumer Finances and the National Center for Education Statistics Education Longitudinal Study.)

Student debt for the self-employed differs among races and ethnicities.

A 2012 survey of 25 year olds revealed the percentage of young self-employed with student debt was greater than those without student debt among non-Hispanic blacks (Chart 3). Non-Hispanic black self-employed represented 21 percent of self-employed who had student debt but only 7 percent of the self-employed who did not have student debt. The opposite was true for young non-Hispanic white and Hispanic self-employed. Roughly the same percent of Asian self-employed had student debt as did not. (Source: Office of Advocacy contract to Windwalker Corporation using the National Center for Education Statistics Education Longitudinal Study.)

