The Great Recession, College Enrollment, and the Dynamics of Student Debt

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Americans owe roughly $1.6 trillion in federal student loans, more than triple what they owed in 2007. Politicians and commentators debate why balances have grown so dramatically and so many borrowers struggle to repay. This study, using the federal government's loan records, points to an underappreciated culprit: the 2008–2009 Great Recession may be responsible for as much as one-third of the total increase in student debt outstanding today.

What we did. We examined the federal student loan database—covering tens of millions of borrowers—from 2005 through 2019. We compared local labor markets that were hit harder by unemployment during the recession against those that were hit less hard. If the recession drove college enrollment and borrowing, harder-hit areas should have seen larger rises in student debt. They did—and those differences persisted for over a decade.

What we found. Every one percentage point rise in local unemployment during the recession was associated with 7–8% more student borrowers and 7–10% higher loan balances still outstanding in 2019. Defaults rose too: the recession accounts for an estimated 10–25% of the increase in undergraduate loan defaults by 2019, with community colleges and for-profit four-year institutions hit especially hard—sectors that absorbed large numbers of workers displaced by the downturn and tend to have higher rates of financial distress among graduates.

Students who were already enrolled when the recession struck fared worst. Those in college in 2007–2009 stayed enrolled longer, borrowed more, graduated later, and ended up carrying roughly $1,900 more in debt (in 2019 dollars) for each additional percentage point of local unemployment. Their repayment rates were still measurably lower a full decade later. The research links this pattern to delayed and forgone graduation: extended enrollment spells piled on more debt without a corresponding improvement in outcomes.

The picture was more nuanced for borrowers who had already left school before the recession. For those who returned to college during the downturn, additional borrowing appears to have actually *reduced* their risk of default—consistent with the idea that earning new credentials helped them find steadier footing in a weak job market. The recession's effects were harmful or helpful depending largely on where a borrower was in their educational journey when it hit.

One reason the damage did not show up more dramatically in default statistics is the expansion of income-driven repayment (IDR) plans, which cap monthly payments at a share of income and can set them to zero for borrowers with little earnings. IDR enrollment among recession-exposed borrowers rose sharply after 2014, keeping many out of official default while their balances continued to grow unchecked.

Why it matters. Debates over student debt relief often treat the crisis as a product of rising tuition or poor individual decision-making. This research shows that a substantial share of today's debt burden is the lasting financial scar of a macroeconomic disaster. For policymakers weighing debt relief, repayment reform, or responses to future recessions, understanding that a single severe downturn can reshape borrowers' finances for fifteen years or more is a finding with significant implications.