Student Loans
Is It a Crisis?

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(with Lara Brooks and Steven Shepelwich)

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The views in this presentation are those of the speaker and authors and do not necessarily represent the views of the Federal Reserve Bank of Kansas City or the Federal Reserve System.
Student Loans
Overview and Issues

• Growth in Student Loan Lending
• Student Burden, the Capacity to Repay, and Delinquency
• Fiscal Impact

Paper is available at
http://www.kansascityfed.org/publications/research/cap/index.cfm

Presentation is available at
http://www.kansascityfed.org/speeches/
Outstanding Student Loan Debt

Source: Federal Reserve Bank of New York
Growth in Student Loan Lending

Source: The College Board, *Trends in Student Aid*
Outstanding Student Loan Debt

• Most of increase coming from increased number of borrowers – increases in average debt is moderate
  – Largely driven by enrollments
  – Moderate increase in share who borrow
  – Fairly substantial increase in average debt in past year (Equifax)

• What is the issue?
  – Borrower capacity to repay / burden
  – Fiscal burden
Capacity to Repay / Burden

Individual Student Loan Debt Statistics (First Qtr, 2012)

• Median $13,662; Average $24,218
  – 25% under $5,977
  – 25% over $29,155
    • > 3% with debt over $100,000
    • 0.5% over $200,000

• Payments (in repayment): $190 median; < $95 for 25%; >$382 for 25%

• 40% of borrowers under 30 (1/3 over 40)

Sources: Authors’ calculations using data from the Federal Reserve Bank of New York Consumer Credit Panel; Federal Reserve Bank of New York
Capacity to Repay / Burden
Individual Student Loan Debt Statistics

Source: Authors’ calculations using data from the Federal Reserve Bank of NY Consumer Credit Panel
## Capacity to Repay / Burden
### Credit Profile of Student Loan Borrowers

Profile of Student Loan Borrower Credit Conditions, First Quarter, 2012

<table>
<thead>
<tr>
<th>Credit Item</th>
<th>Student Loan Borrowers</th>
<th>Non-Student Loan Borrowers</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Average</td>
<td>Median</td>
</tr>
<tr>
<td>Student Loan Debt</td>
<td>$24,218</td>
<td>$13,662</td>
</tr>
<tr>
<td>Total Debt</td>
<td>82,994</td>
<td>24,576</td>
</tr>
<tr>
<td>Consumer Debt /*/</td>
<td>31,883</td>
<td>17,999</td>
</tr>
<tr>
<td>Revolving Debt</td>
<td>6,888</td>
<td>644</td>
</tr>
<tr>
<td>Credit Score</td>
<td>626</td>
<td></td>
</tr>
</tbody>
</table>

/*/ Total debt less first mortgage.

Source: Authors’ calculations using data from the Federal Reserve Bank of New York Consumer Credit Panel / Equifax
Student Loan Delinquency
(share of outstanding loans)

NY Fed: 47% in school/deferment or forbearance 27% delinquency for those in repayment (past due balance)

Sources: Authors’ calculations using data from the Federal Reserve Bank of New York Consumer Credit Panel
Cohort Default Rates

Share of cohort in default

- 0% to 25%
- 1987 to 2010
Issues Driving Delinquency

• Recession and Recovery
  – Younger hit hard
    • Peak unemployment 17.1 percent (Apr 2010)
    • Underemployment
    • Slower wage and salary growth
    • AP: 50% unemployed/underemployed
    • Most over-due balances for those over 30, but deferment?

• Noncompletion
  – Better prospects for completers (buying an asset; lifetime income)
  – Especially high for for-profit (28% completion for-profit, 56% public, 65% private not-for-profit)

• No credit consideration
• Poor borrower information
Fiscal Impact

• Accrual-based budgeting
  – NPV (incl disbursements, subsidies, payments)
  – Federal Credit Reform Act (FCRA, 1990) method
  – Federal Government Costs using FCRA
    • FY2011: -$47.3b
    • FY2012: -$34.3b (est.)
    • FY 2013: -$32.2b (proposed)

– Updates
– vs. fair-value
Fiscal Impact

• Accrual-based budgeting (cont)
  – Fair-value estimates
    • CBO: 11 percent of disbursements
    • Implies $13.3b (+$3b consolidation)

• Indirect
  – Greater income $\Rightarrow$ tax revenues; lower costs
  – Interest deductions

• Outlook
  – Not expected to see much higher default rates
  – Could see continued rapid increases in borrowing
  – Reform options
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