Student Loans
Overview and Issues

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Kelly D. Edmiston
Federal Reserve Bank of Kansas City
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
  – Modest moderate increase in share who borrow
  – Fairly substantial increase in average debt in past year (Equifax data)

• 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

• Average mortgage debt (all) $52,000

• 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

$15,155
$19,544
$27,351

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: 27% delinquency in repayment

Sources: Authors’ calculations using data from the Federal Reserve Bank of New York Consumer Credit Panel
State Delinquency Rates
(past due)

Legend

- < 7%
- 7% - 10%
- 10% - 12%
- 12% - 14%
- > 14%

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

Source: U.S. Department of Education
Capacity to Repay / Burden
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

• Noncompletion
  – Better prospects for completers
  – Especially high for 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
Contact Information:

Kelly D. Edmiston  
Senior Economist  
Community Development  

1 Memorial Drive  
Kansas City, MO 64198  
(816) 881-2004  
Kelly.edmiston@kc.frb.org