Student Loans
Is It a Crisis?

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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
  – Some increase in
    average debt in past year
    (Equifax)
  – Likely a function of economy
    and tuition/assistance

• 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
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% 5% 10% 15% 20% 25%


17.6% 17.2% 17.8% 15.0% 11.6% 10.7% 10.4% 9.6% 8.8% 7.0% 5.4% 5.1% 4.6% 5.2% 6.7% 8.8% 9.1%
Issues Driving Delinquency

• Recession and Recovery
  – Most over-due balances for those over 30
  – Unemployment (real rate?), esp. for young
  – Underemployment
  – Slower wage and salary growth, esp. for young
  – AP: 50% of young unemployed/underemployed

• 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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