Student Loans
Is It a Crisis?

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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


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

Source: Federal Reserve Bank of New York


$0.0 $0.2 $0.4 $0.6 $0.8 $1.0 $1.2

0.966

3
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 few years
  – Likely a function of economy and tuition/assistance

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

Enrollments

Source: National Center for Educations Statistics, Digest of Education Statistics
Capacity to Repay / Burden

Individual Student Loan Debt Statistics (Fourth Qtr, 2012)

• Median $13,924; Average $24,699
  – 25% under $6,003
  – 25% over $29,846
    • 3.1% with debt over $100,000
    • 0.5% over $200,000

• Payments (in repayment): $193 median; < $97 for 25%; >$397 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
Borrowing Trends (Missouri)
Inflation-Adjusted Student Loan Debt per Consumer Holding Student Loan Debt

U.S. (Average)
MO (Average)
MO (Median)
U.S. (Median)
Borrowing Trends (Kansas)
Inflation-Adjusted Student Loan Debt per Consumer Holding Student Loan Debt
Student Loan Delinquency

23% delinquency for those in repayment, determined by eliminating loans with zero or increasing balances that are not past due.

Sources: Authors’ calculations using data from the Federal Reserve Bank of New York Consumer Credit Panel.
Delinquency Trends (Kansas)
Share of Outstanding Student Loans 30 or More Days Past Due
(including those in forbearance and deferment)

May 14, 2012
K. Edmiston, FRBKC
Delinquency Trends (Missouri)
Share of Outstanding Student Loans 30 or More Days Past Due
(including those in forbearance and deferment)
Issues Driving Delinquency

• Recession and Recovery

• 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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