Student Loans
Is It a Crisis?
(Updated)
Midwest Teacher Conference
April 1 2013
Kansas City, MO

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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 few years (Equifax); approx 4%/year
  - Likely a function of economy and tuition/assistance

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

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
Student Loan Delinquency

(share of outstanding loans; minimum payment due > $0)

4-month moving average

23% delinquency for those in repayment with zero or increasing balances eliminated (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

Source: U.S. Department of Education, Office of Federal Student Aid
Latest release: September 28, 2012
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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