Student Loans
Is It a Crisis?
(Updated)
Financing Your Future
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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/
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

Enrollments

Source: National Center for Educations Statistics, Digest of Education Statistics
Average Student Debt (among borrowers) Is Rising Moderately

Federal Reserve Bank of Kansas City Consumer Credit Report, quarter 1, 2013
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

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
Student Loan Delinquencies are Coming Down

Share of Loans (4-quarter moving average)

District

U.S.

Federal Reserve Bank of Kansas City Consumer Credit Report, quarter 1, 2013
Cohort Default Rates

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 → 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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