Student Loans: Painting a Clear Picture

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Outline

• Outstanding Student Loan Debt
• Capacity to Repay / Burden
• Delinquency
• Fiscal Impact
• State Level Variation
Outstanding Student Loan Debt

Source: Federal Reserve Bank of New York
Growth in Student Loan Lending

In Constant 2010 Billions of Dollars

Source: The College Board, Trends in Student Aid

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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 recently, but has started to come down (Equifax)
  – Likely a function of Economy and tuition/assistance

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

Source: NCES. IPEDS
Trend in Debt / Borrower

Nominal Dollars


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Source: NCES. IPEDS
Capacity to Repay / Burden
Individual Student Loan Debt Statistics (Fourth Qtr, 2013)

- Median $14,050; Average $25,745
  - 25% under $5,824
  - 25% over $31,001
    - > 3% with debt over $100,000
    - 0.5% over $200,000
- Payments (in repayment): $197 median; < $97 for 25%; >$423 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
## 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>
</tbody>
</table>

**Credit Score**

- **Student Loan Borrowers**: 626
- **Non-Student Loan Borrowers**: 696

/* 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

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.
Cohort Default Rates

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

Share of cohort in default

Source: U.S. Department of Education, Office of Federal Student Aid
Latest release: September 28, 2012
Delinquency Rate (All Loans)

Source: Federal Reserve Bank of New York Consumer Credit Panel / Equifax

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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
State Variation in Student Loan Debt and Performance (Purpose)

• State-level analysis may shed light on understanding a consumer’s decision to take out loans and his/her behavior repaying them

• An understanding of how state-level support for higher education influences student loan borrowing and performance may inform policy-making on effective student aid at the national level
Overall Student Loan Delinquency Rate (All outstanding loans)

Legend

- < 6%
- 6% - 8%
- 8% - 10%
- 10% 12%
- > 12%

Data generated from the Federal Reserve Bank of New York Consumer Credit Panel/Equifax. This number is based on the percentage of student loan trades overdue, even if not in repayment.
Delinquency Rates for Outstanding Loans (Balances)

Legend
- Blue: < 10%
- Light Blue: 10% - 12%
- Orange: 12% - 14%
- Yellow: 14% - 16%
- Pale Yellow: 16% - 18%
- Red: 18% - 20%
- Reddish Orange: > 20%

Data generated from the Federal Reserve Bank of New York Consumer Credit Panel. Repayment here is based on delinquent balances.
Delinquency Rates for Loans in Repayment (Method 1)

Legend

- < 15%
- 25% - 30%
- 15% - 20%
- 30% - 35%
- 20% - 25%
- > 35%

Data generated from the Federal Reserve Bank of New York Consumer Credit Panel. Repayment here includes all loans with nonzero minimum payments.
Delinquency Rates for Loans in Repayment (Method 2)

Legend
- < 15%
- 15% - 20%
- 15% - 20%
- 20% - 25%
- 25% - 30%
- 30% - 35%
- > 35%

Data generated from the Federal Reserve Bank of New York Consumer Credit Panel. Repayment here excludes all loans with nondecreasing balances that are not delinquent.
State Variation in Student Loan Debt and Performance (Debt)

• Rising cost of tuition and fees
  – $22,826 public 4-year ($8,893 tuition)
  – $44,750 private

• Family financial resources
  – Significant link between family financial resources and decision to attend college
  – 529, Coverdell (not fully utilized; insufficient for many families)

• Educational attainment – better performance of students; likely higher financial resources

• Demographics: risk score and indebtedness; age; cultural background (willingness to borrow)
State Variation in Student Loan Debt and Performance (Debt)

• Health of the economy
  – Laid off workers go back to school
  – Graduating students find it difficult to secure a job
  – Parents find it harder to save

• Interest on student loans

• Other forms of federal and state aid (scholarships and grants)
State Variation in Student Loan Debt and Performance (Performance)

• Most factors influencing debt accumulation

• College completion
  – Single variable with greatest significance

• For-profit institutions
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