



FEDERAL RESERVE BANK *of* KANSAS CITY

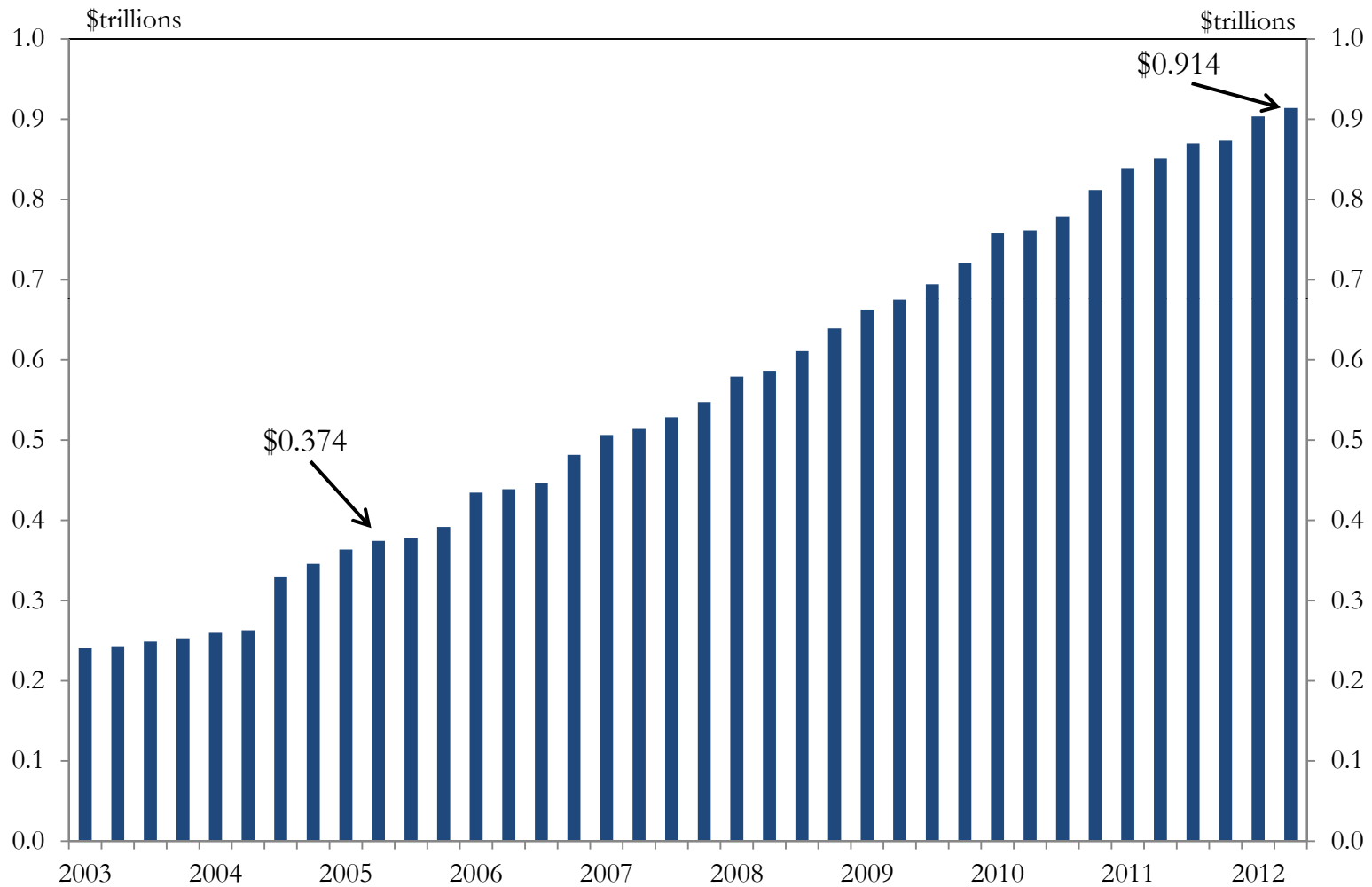
Student Loans Is There a Crisis?

Economic Education Advisory Council
of the Federal Reserve Bank of Kansas City
September 27, 2012

Kelly D. Edmiston
Federal Reserve Bank of Kansas City

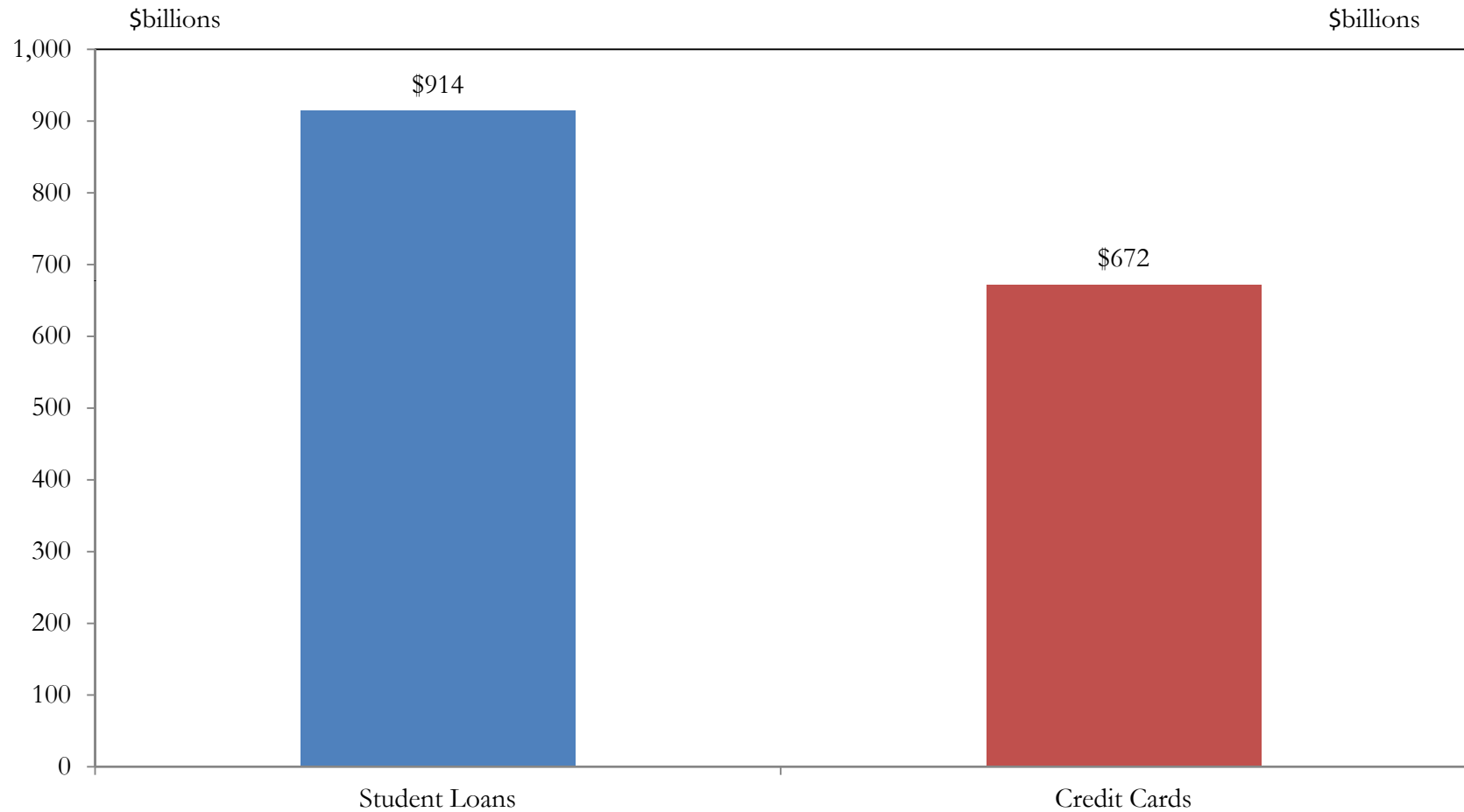
Access to full report at <http://www.kansascityfed.org/research/community>

Outstanding Student Loan Debt



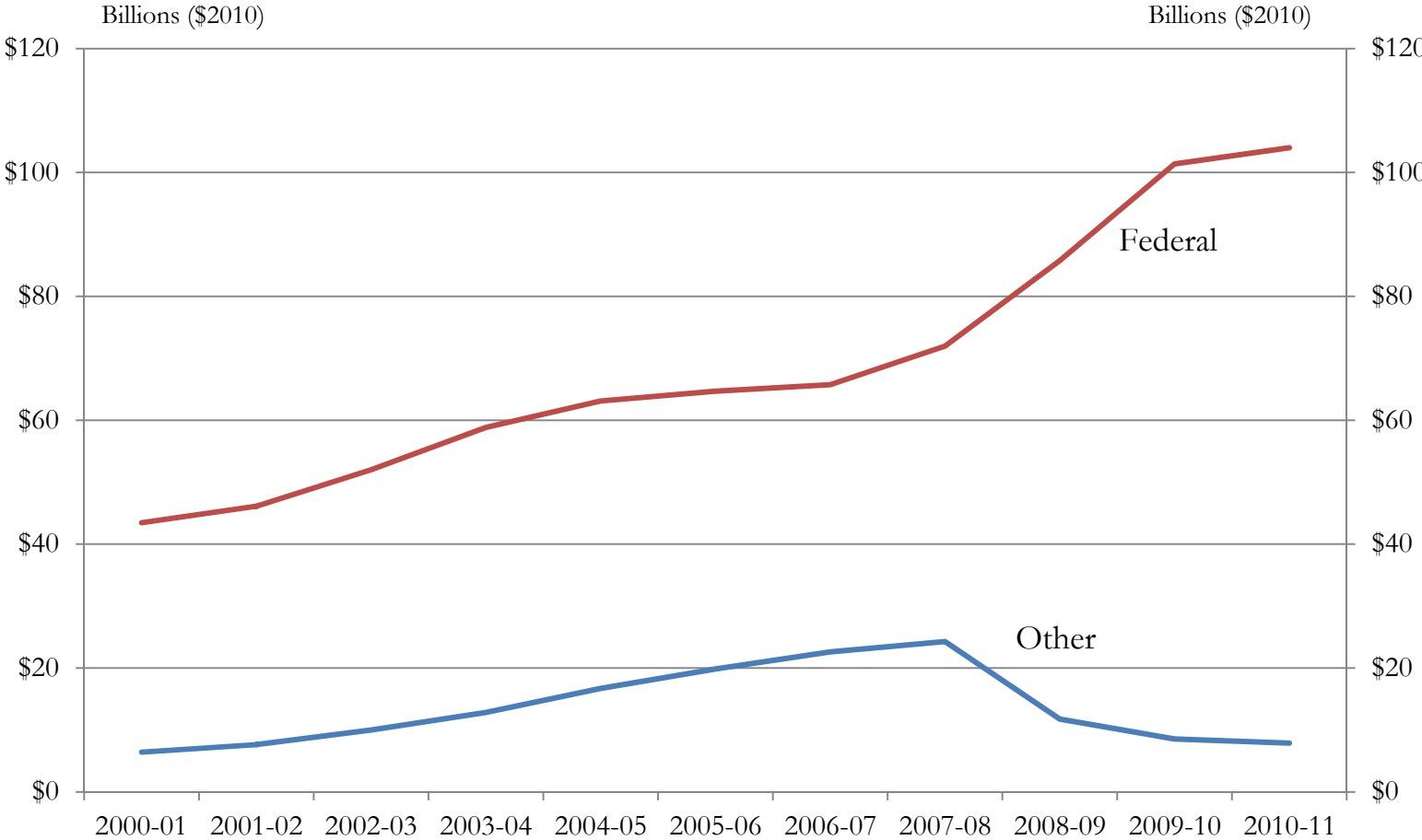
Source: Federal Reserve Bank of New York

Outstanding Debt (July, 2012)



Source: Federal Reserve Bank of New York, Quarterly Report on Household Debt and Credit, August, 2012.

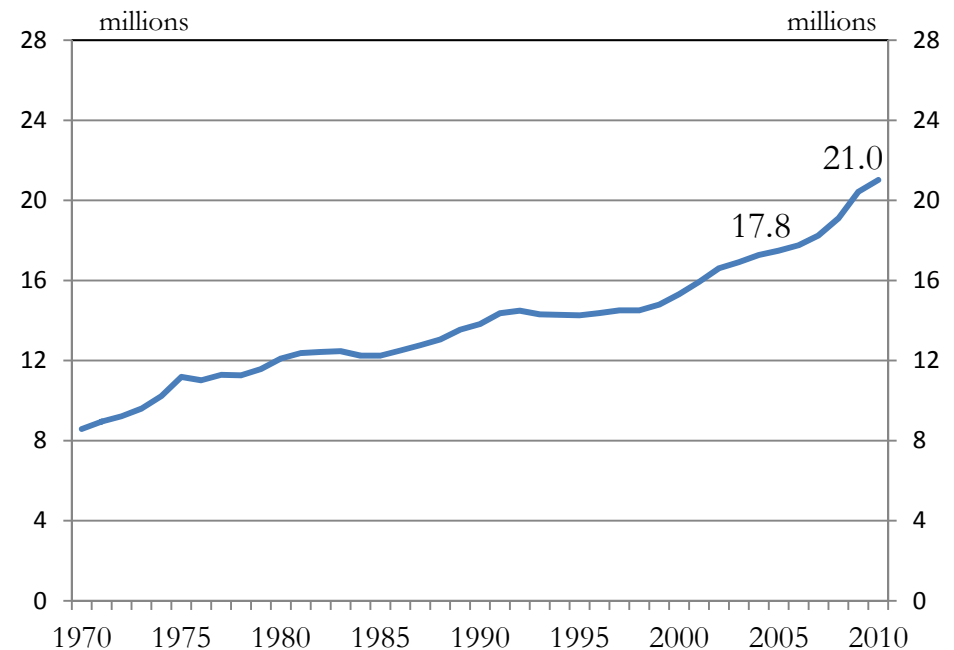
Growth in Student Loan Lending



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
 - Modest moderate increase in share who borrow
 - Fairly substantial increase in average debt in past year however (Equifax)
- What are the issues?
 - Borrower capacity to repay and burden
 - Fiscal burden



Capacity to Repay / Burden

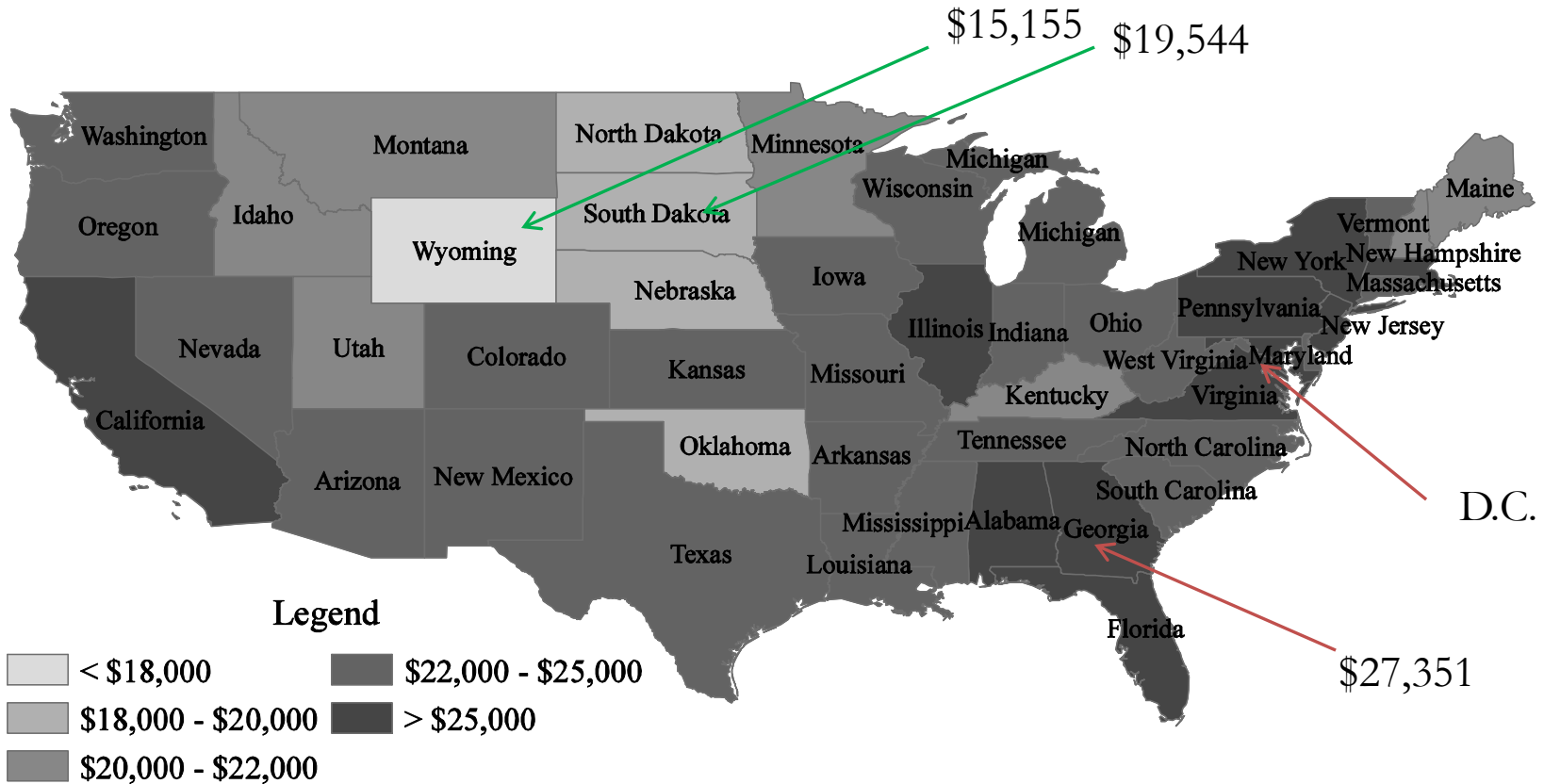
Individual Student Loan Debt Statistics (First Qtr, 2012)

- 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
- Average mortgage debt (all) \$52,000
- 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

Individual Student Loan Debt Statistics



Source: Authors' calculations using data from the Federal Reserve Bank of NY Consumer Credit Panel

Capacity to Repay / Burden

Credit Profile of Student Loan Borrowers

Profile of Student Loan Borrower Credit Conditions, First Quarter, 2012

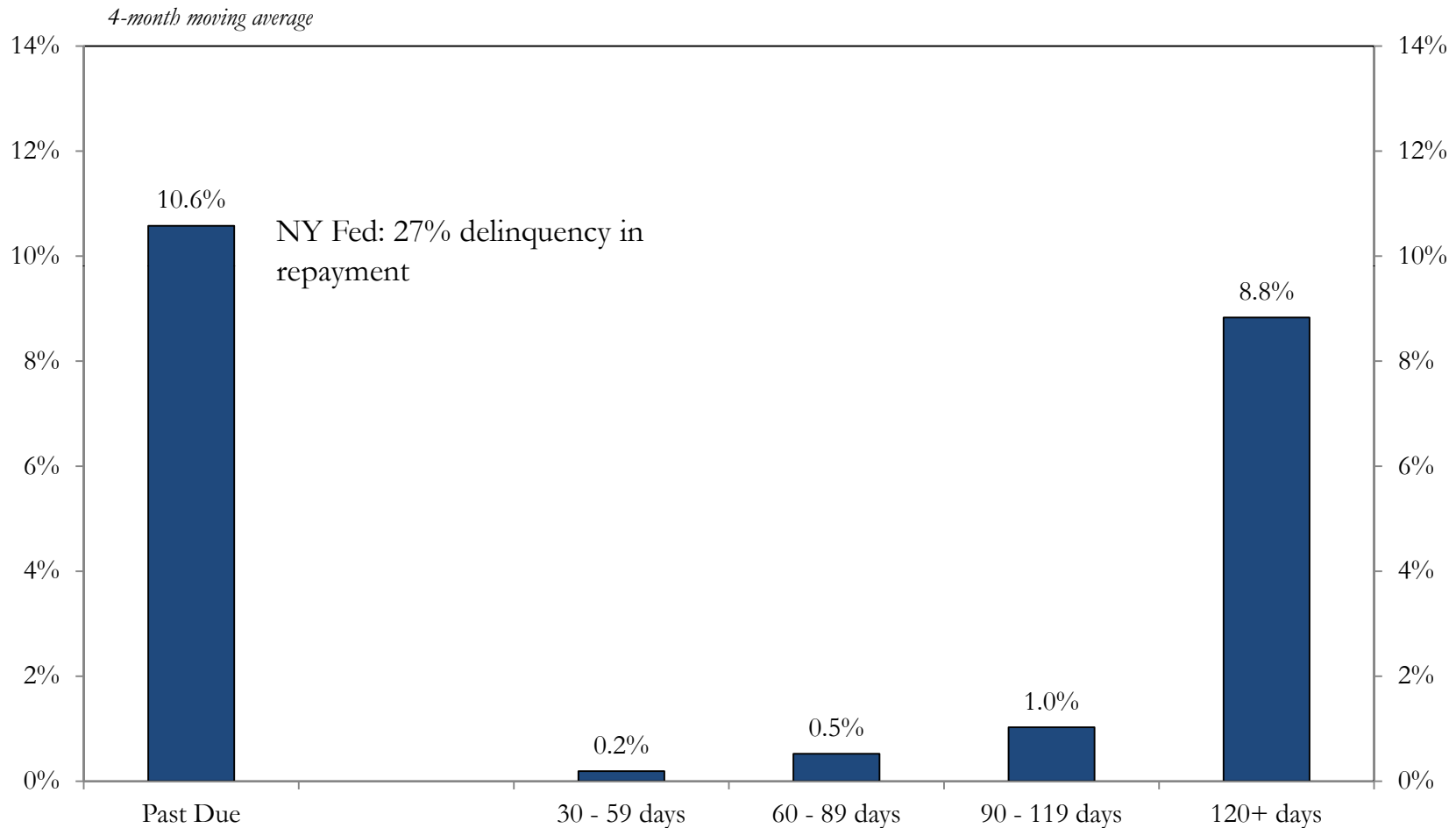
Credit Item	Student Loan Borrowers				Non-Student Loan Borrowers			
	Average	Median	First Quartile	Third Quartile	Average	Median	First Quartile	Third Quartile
Student Loan Debt	\$24,218	\$13,662	\$5,977	\$29,155	n/a	n/a	n/a	n/a
Total Debt	82,994	24,576	6,608	106,027	\$66,227	\$3,522	\$0	\$68,440
Consumer Debt /*/	31,883	17,999	5,500	41,097	13,084	1,379	0	13,850
Revolving Debt	6,888	644	0	4,470	7,703	283	0	3,349
Credit Score	626				696			

/*/ Total debt less first mortgage.

Source: Authors' calculations using data from the Federal Reserve Bank of New York Consumer Credit Panel / Equifax

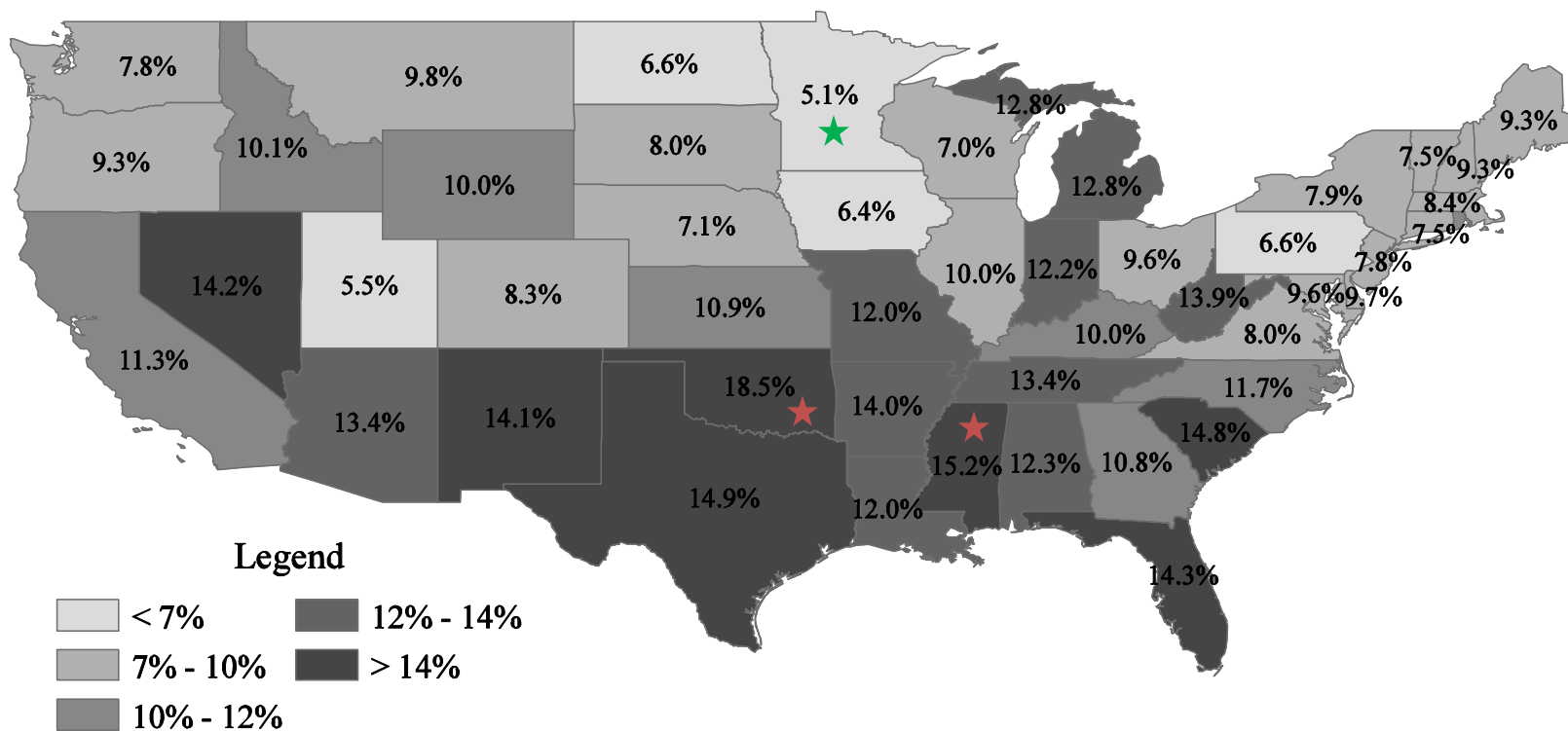
Student Loan Delinquency

(share of outstanding loans)



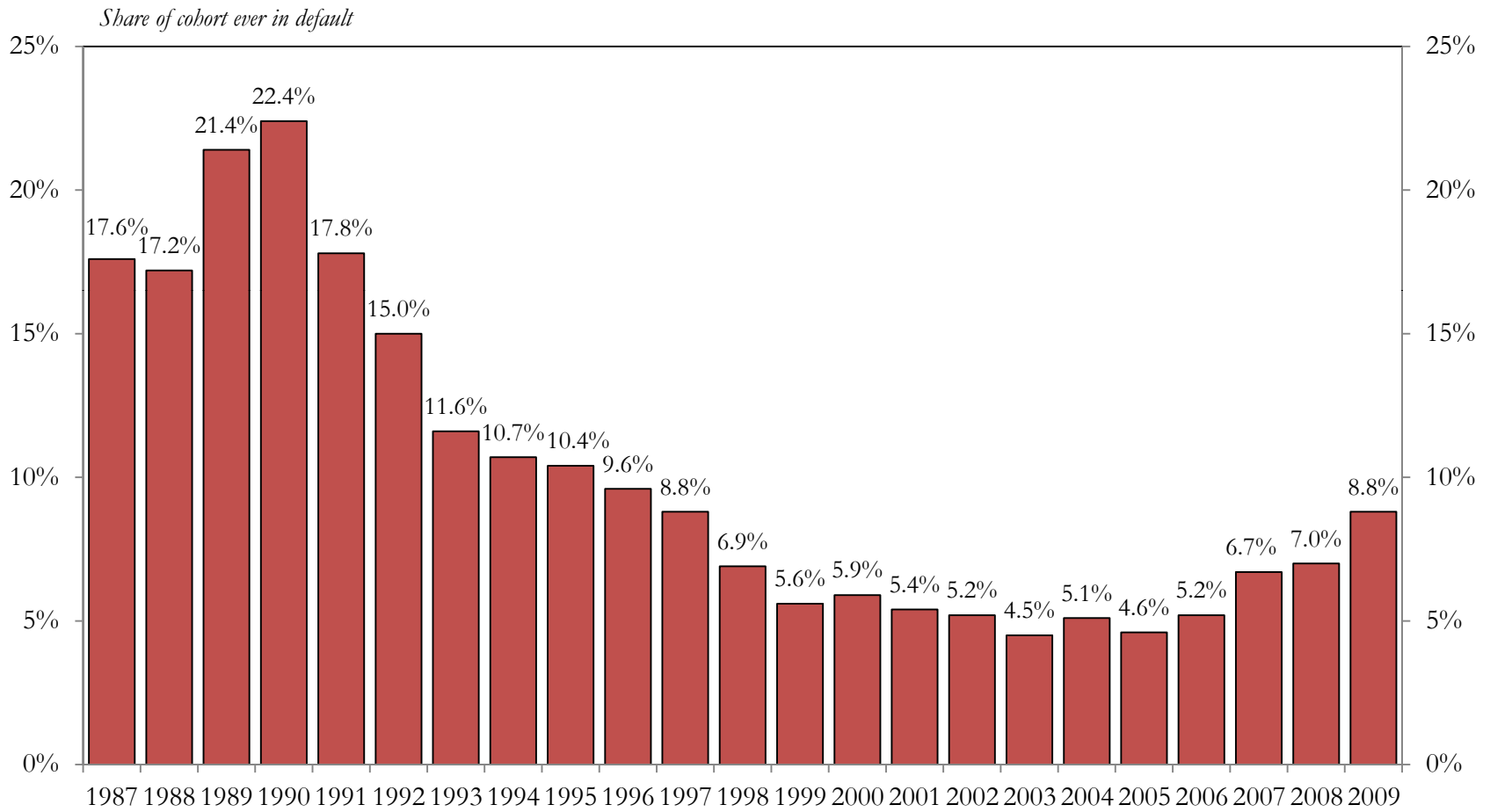
Sources: Authors' calculations using data from the Federal Reserve Bank of New York Consumer Credit Panel

State Delinquency Rates (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

Capacity to Repay / Burden

Issues Driving Delinquency

- Recession and Recovery
 - Younger hit hard
 - Peak unemployment 17.1 percent (Apr 2010)
 - Underemployment
 - Slower wage and salary growth
 - AP: 50% unemployed/underemployed
- Noncompletion
 - Better prospects for completers
 - Especially high for 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



FEDERAL RESERVE BANK *of* KANSAS CITY

Contact Information:

Kelly D. Edmiston
Senior Economist
Community Development

1 Memorial Drive
Kansas City, MO 64198
(816) 881-2004
Kelly.edmiston@kc.frb.org