



FEDERAL RESERVE BANK *of* KANSAS CITY

# **Student Loans Overview and Issues**

SHEEO Higher Education Policy Conference

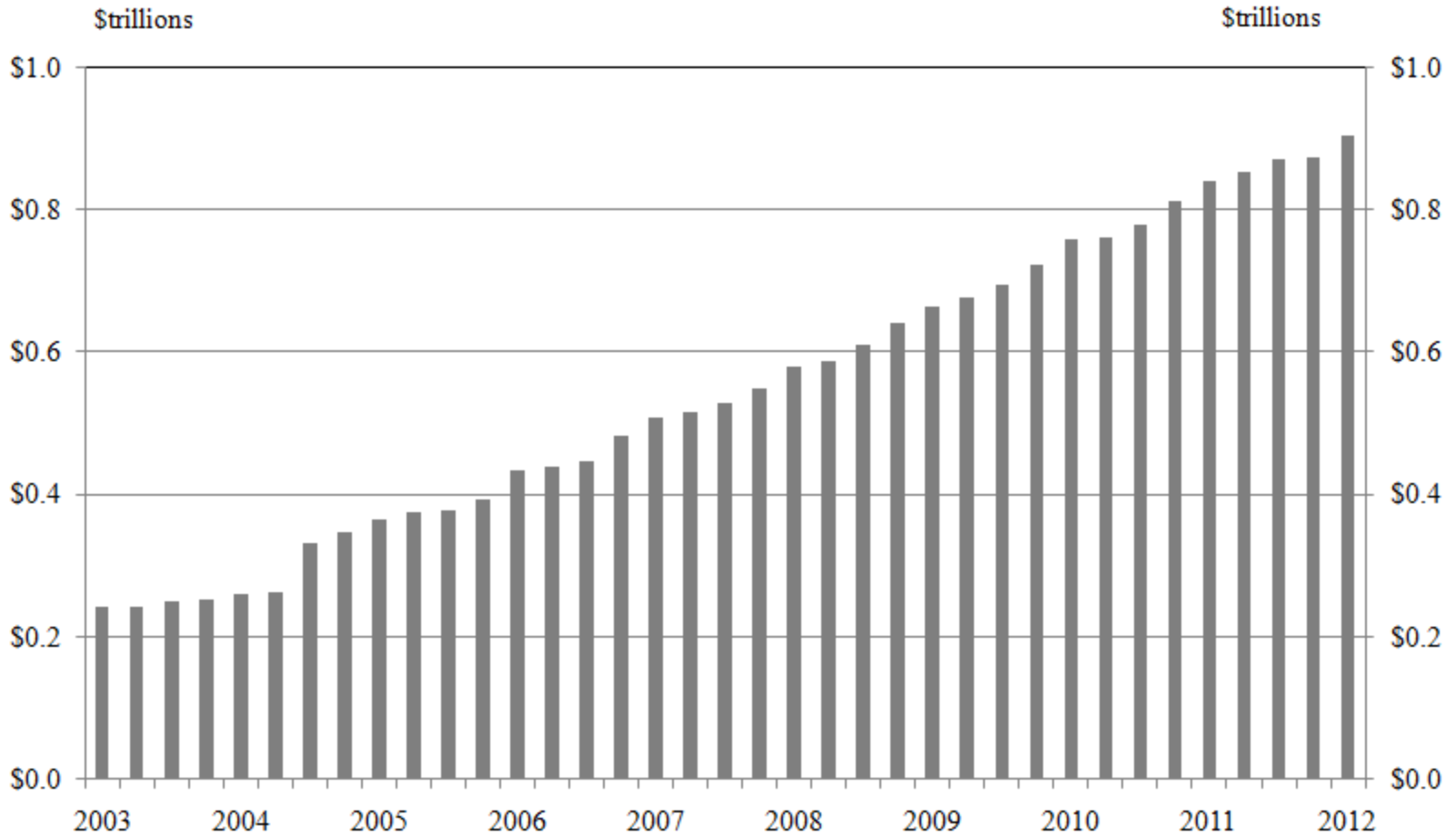
August 9, 2012

Chicago, IL

Kelly D. Edmiston

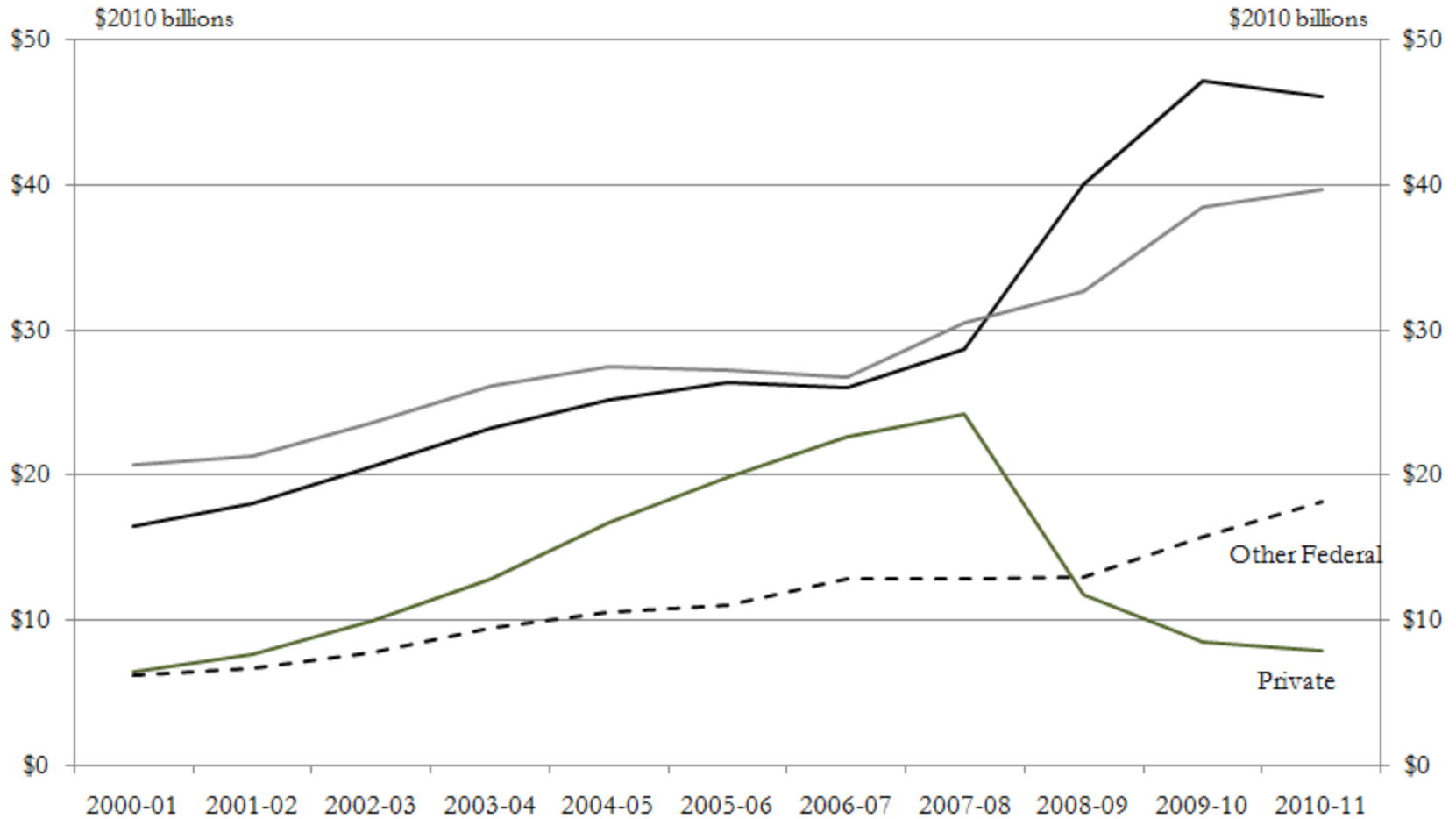
Federal Reserve Bank of Kansas City

# Outstanding Student Loan Debt



Source: Federal Reserve Bank of New York

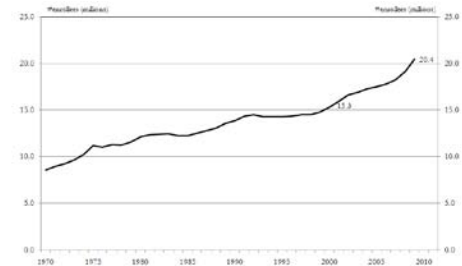
# Growth in Student Loan Lending



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
  - Modest moderate increase in share who borrow
  - Fairly substantial increase in average debt in past year (Equifax data)
- What is the issue?
  - Borrower capacity to repay / burden
  - Fiscal burden



# Capacity to Repay / Burden

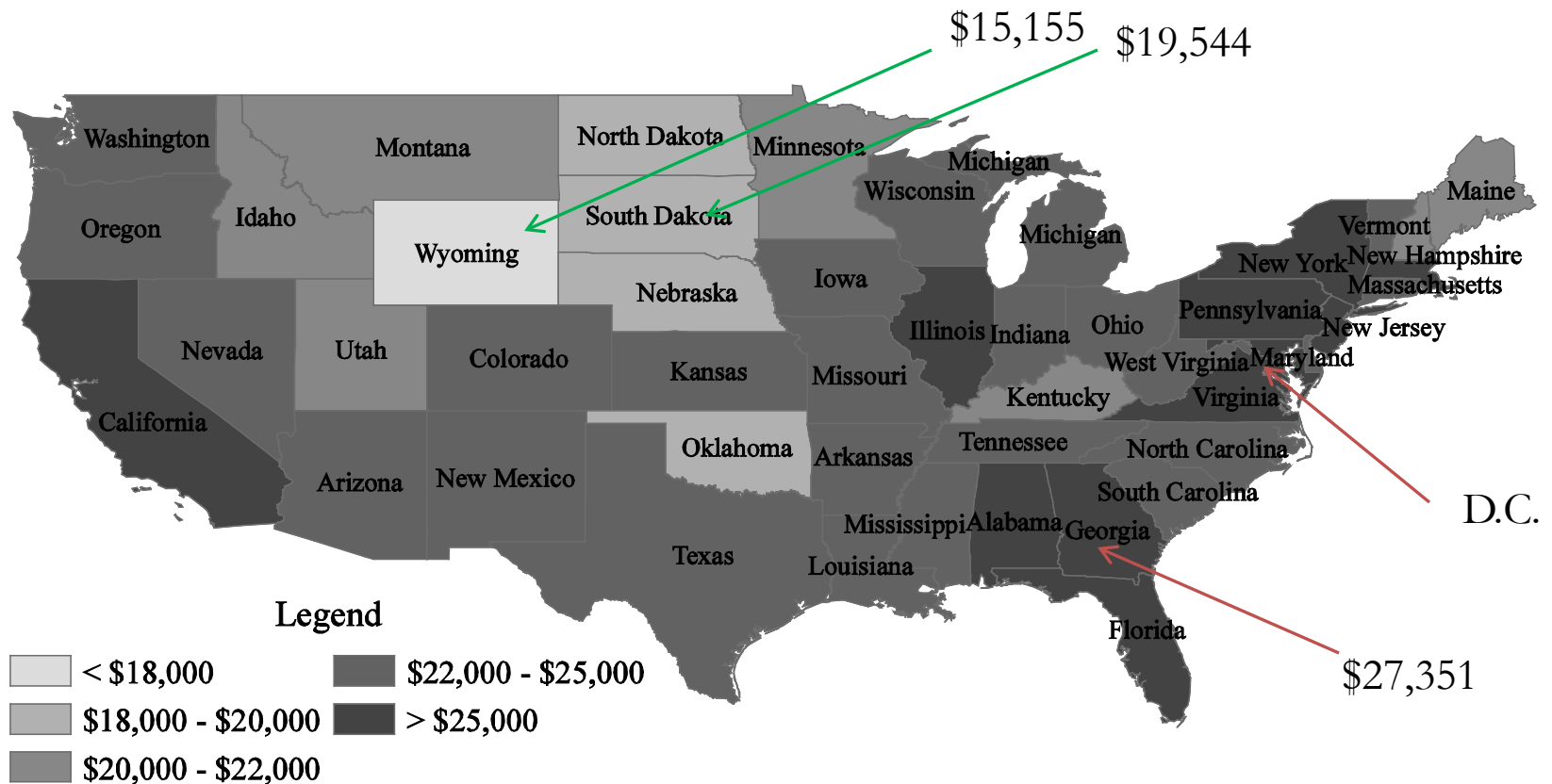
## Individual Student Loan Debt Statistics (First Qtr, 2012)

- 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

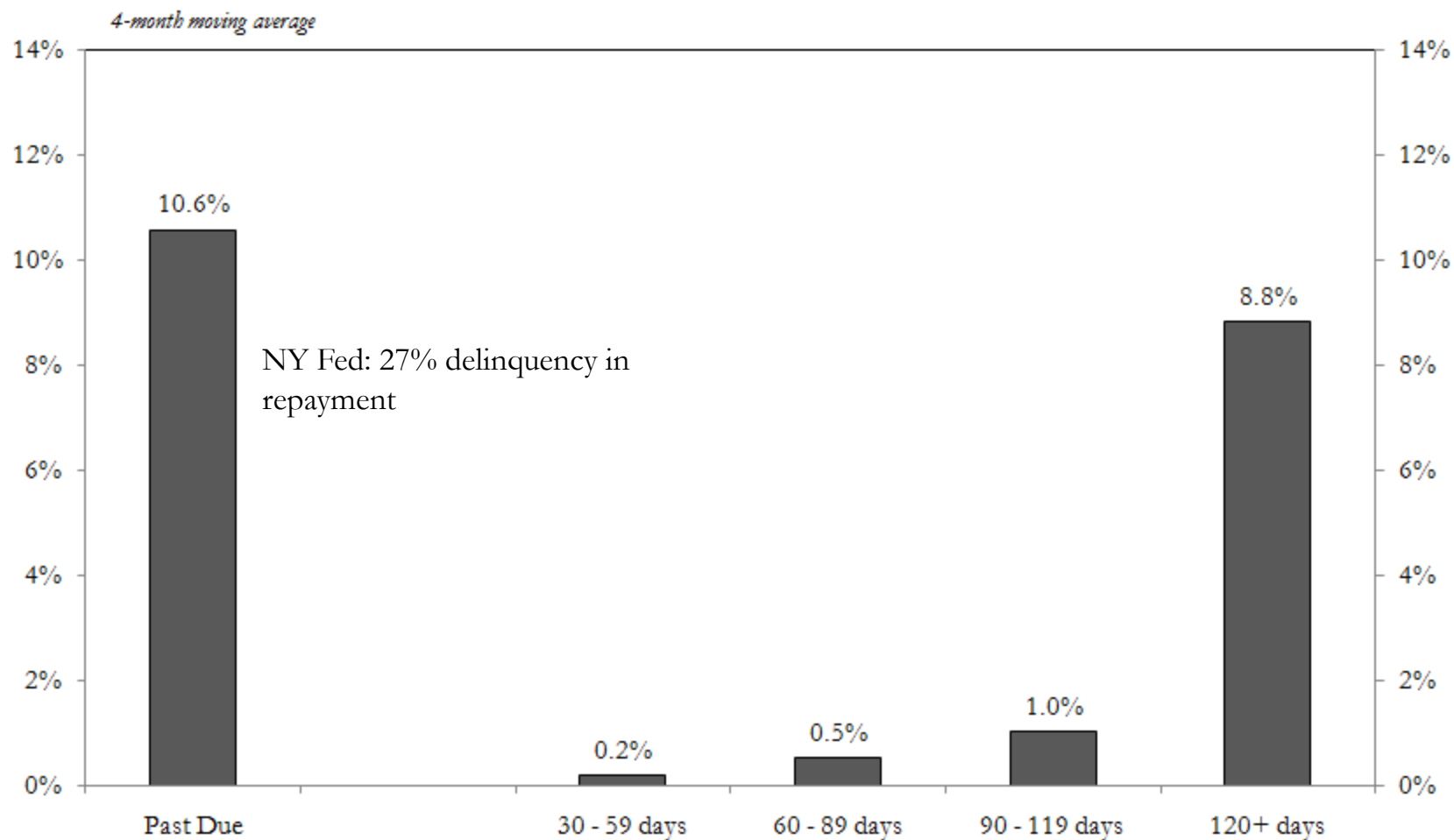
Credit Item	Student Loan Borrowers				Non-Student Loan Borrowers			
	Average	Median	First Quartile	Third Quartile	Average	Median	First Quartile	Third Quartile
Student Loan Debt	\$24,218	\$13,662	\$5,977	\$29,155	n/a	n/a	n/a	n/a
Total Debt	82,994	24,576	6,608	106,027	\$66,227	\$3,522	\$0	\$68,440
Consumer 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

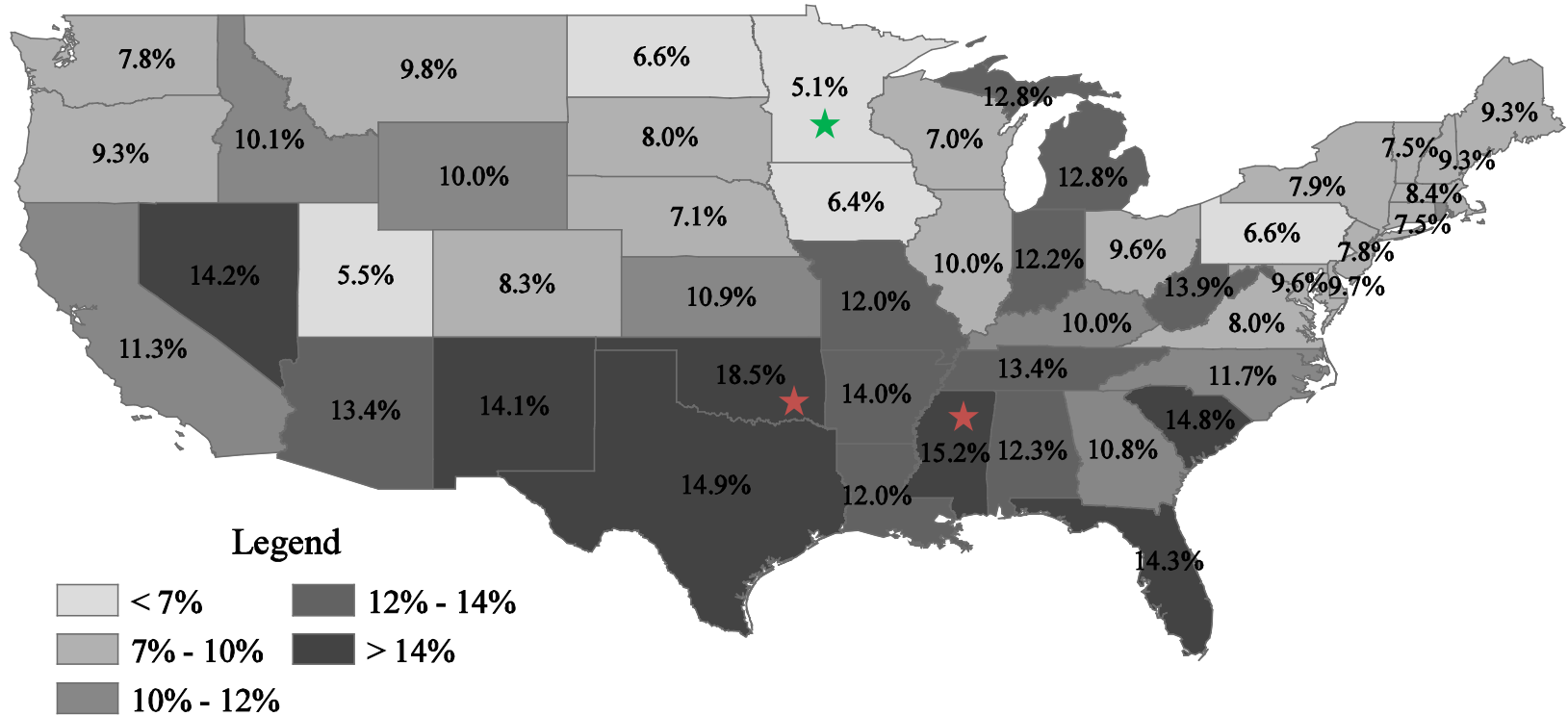
(share of outstanding loans)



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

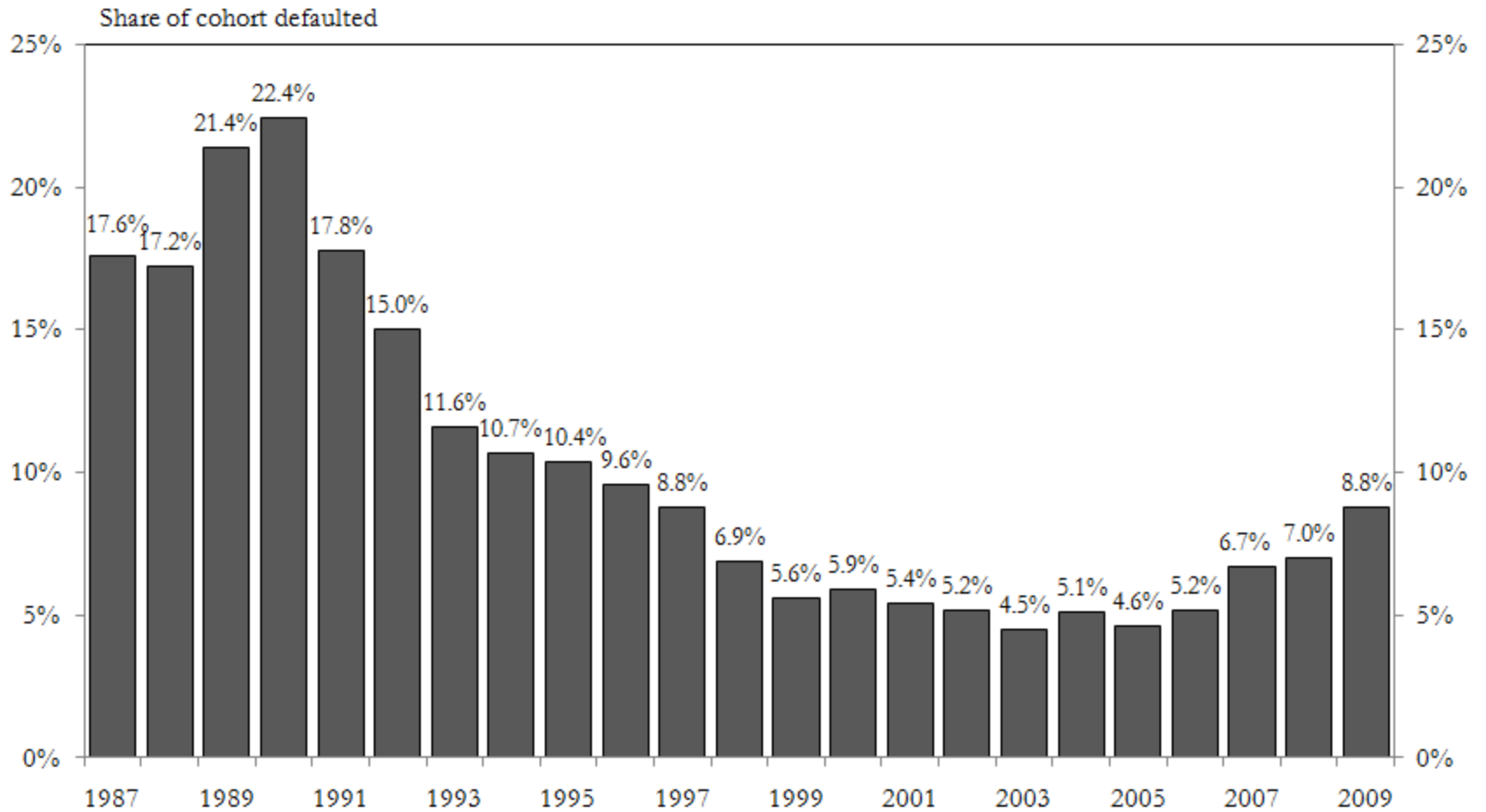


# State Delinquency Rates (past due)



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



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## Contact Information:

Kelly D. Edmiston

Senior Economist

Community Development

1 Memorial Drive

Kansas City, MO 64198

(816) 881-2004

[Kelly.edmiston@kc.frb.org](mailto:Kelly.edmiston@kc.frb.org)