



FEDERAL RESERVE BANK *of* KANSAS CITY

Student Loans What's the Real Story?

Lunch & Learn

Federal Reserve Bank of Kansas City

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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.

Background for the Presentation

- “Fiscal Impact of Student Loan Relief Programs” (with Wenhua Di), 2017, *Annals of the American Academy of Political and Social Science*, 671, 224-248 [Also *Federal Reserve Bank of Kansas City Research Working Paper 17-02*; *Federal Reserve Bank of Dallas Research Department Working Paper 1609*]
- “State Variation of Student Loan Debt and Performance, (with Wenhua Di), 2015, *Suffolk Law Review*, 48(3), 661-688.
- “Student Loans: Overview and Issues,” *Federal Reserve Bank of Kansas City Community Development Research Working Paper 12-0.5* (updated April, 2013)
- *Tenth District Consumer Credit Report*, June 2, 2017 (special topic: delinquency rates for student loans in repayment)
- *Tenth District Consumer Credit Report*, First Quarter, 2015 (special topic: a dynamic look at student loan debt and delinquencies)



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Community Research

Our research focuses on challenging issues affecting economic prospects in low- and moderate- income communities and brings together community stakeholders to explore prospective solutions.



Recent Data

- [LMI Economic Conditions](#)
- [Consumer Credit Reports](#)
- [Regional Economy](#)

Recent Research

Tenth District Consumer Credit Report

By Kelly D. Edmiston and Daniel Perez

Tenth District consumer debt continues steady trend upwards.

Student Loan Relief Programs: Implications for Borrowers and the Federal Government

By Kelly D. Edmiston and Wenhua Di

RESEARCH WORKING PAPER | Student loan relief plans can help struggling borrowers stay current on their debt and benefit from substantial debt write-offs in as little as 10 years, but these plans can impose a significant fiscal burden on taxpayers.

Residential Rent Affordability across U.S. Metropolitan Areas

By Kelly D. Edmiston

ECONOMIC REVIEW | Kelly D. Edmiston examines recent trends in rent affordability for both low- and middle-income households and across metropolitan areas.

Tenth District LMI Economic Conditions

Map Your Community



Map Your Community is a web-based mapping tool that allows users to create current and historical spatial economic and demographic conditions.

[View our regional profiles ▶](#)

Data and Analysis

Tenth District LMI Economic Conditions

Get a snapshot of low- and moderate-income (LMI) economic conditions in the Federal Reserve Tenth District. (The [Tenth District LMI Survey](#) and [LMI Labor Force Report](#) were consolidated into LMI Economic Conditions in August 2015.)

Consumer Credit Reports

Get a snapshot of consumer credit conditions in the Tenth District.

National Consumer Credit Maps

The New York Fed uses its expertise and knowledge to provide detailed data on U.S. credit conditions.

Research Publications

Meet Our Economist

Kelly Edmiston

Our senior economist conducts research on issues involving regional economic growth, economic development and community development.

MAIN STREET VIEWS | *Policy insights from the Kansas City Fed*

Main Street Views > Tenth District Consumer Credit Report

Tenth District Consumer Credit Report

Topics: Credit



Kelly D. Edmiston, Senior Economist and Daniel Perez

JUNE 02, 2017 | *Debt continues to trend upwards in the District and in the United States.*

Average consumer debt for the Tenth District, defined for this report as all outstanding debt other than first mortgages and presented as a four-quarter moving average, rose from \$16.902 in

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About Main Street Views

Main Street Views is a range of economic programs and reports including the Economic Policy and Macroeconomic Payments in the seven state Federal Reserve Districts.

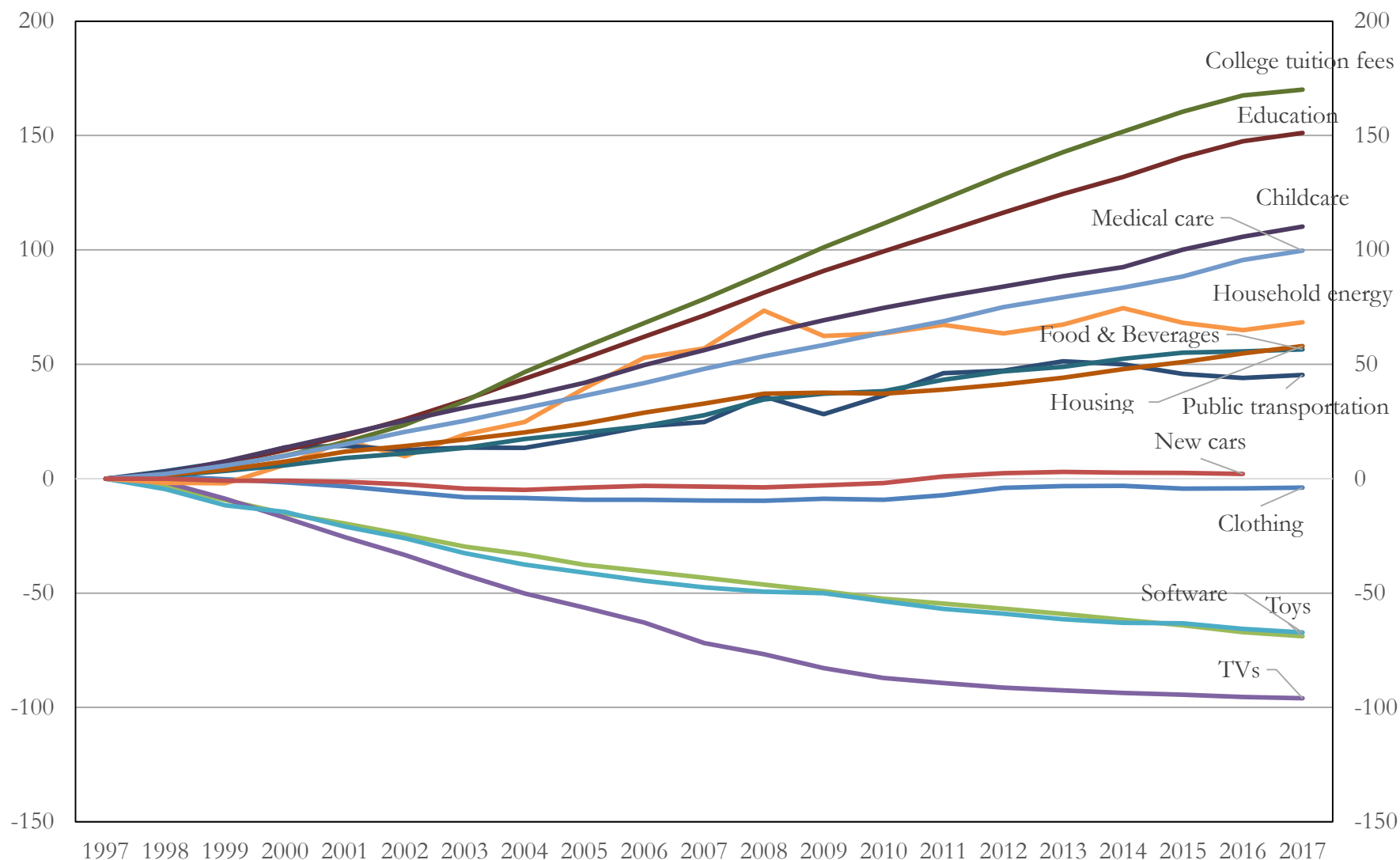
Topics

Agriculture
Credit | Energy
and Data | International
Macroeconomics

Student Loans: What's the Real Story

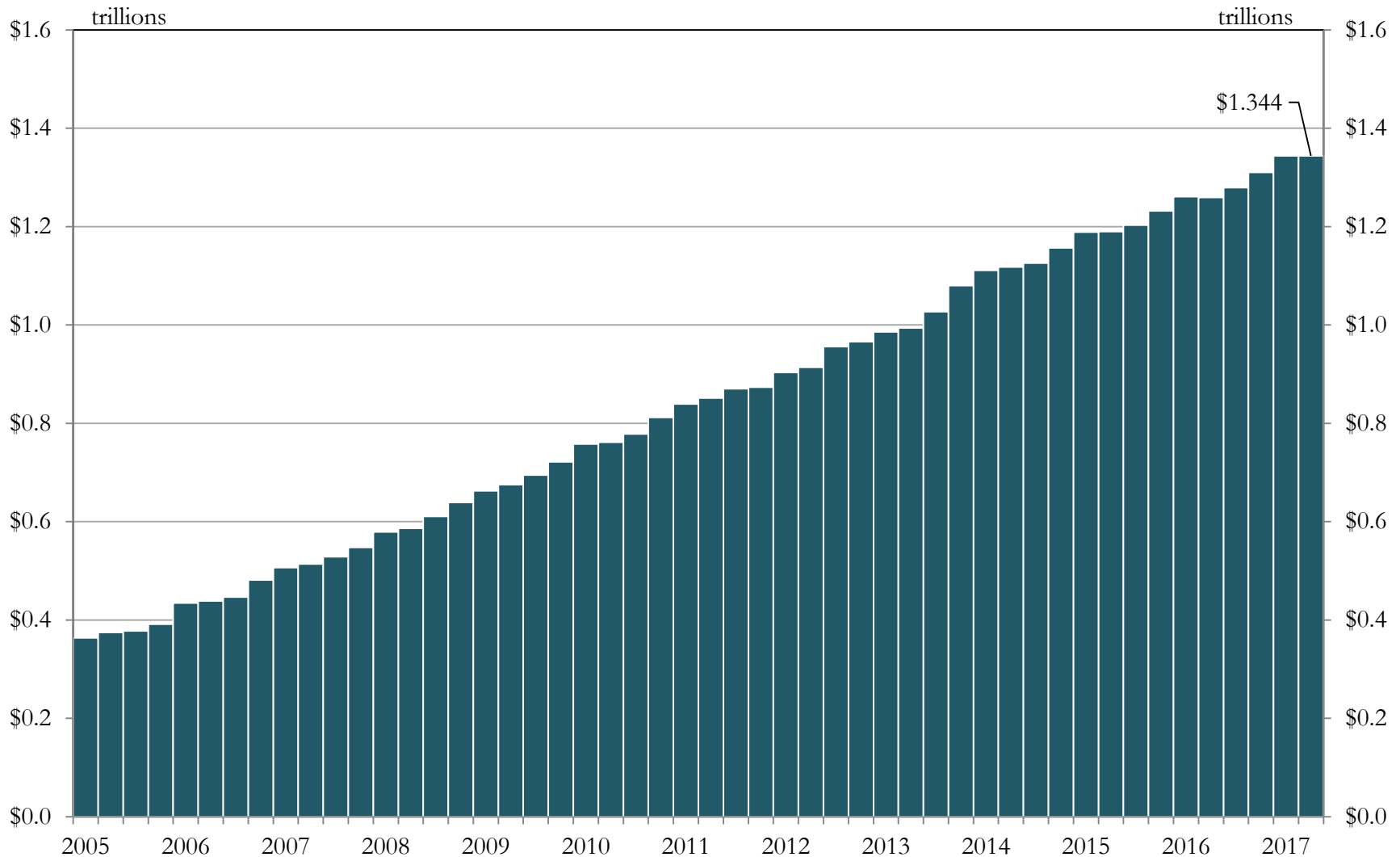
BASIC STATISTICS

Price Changes in Major Spending Categories



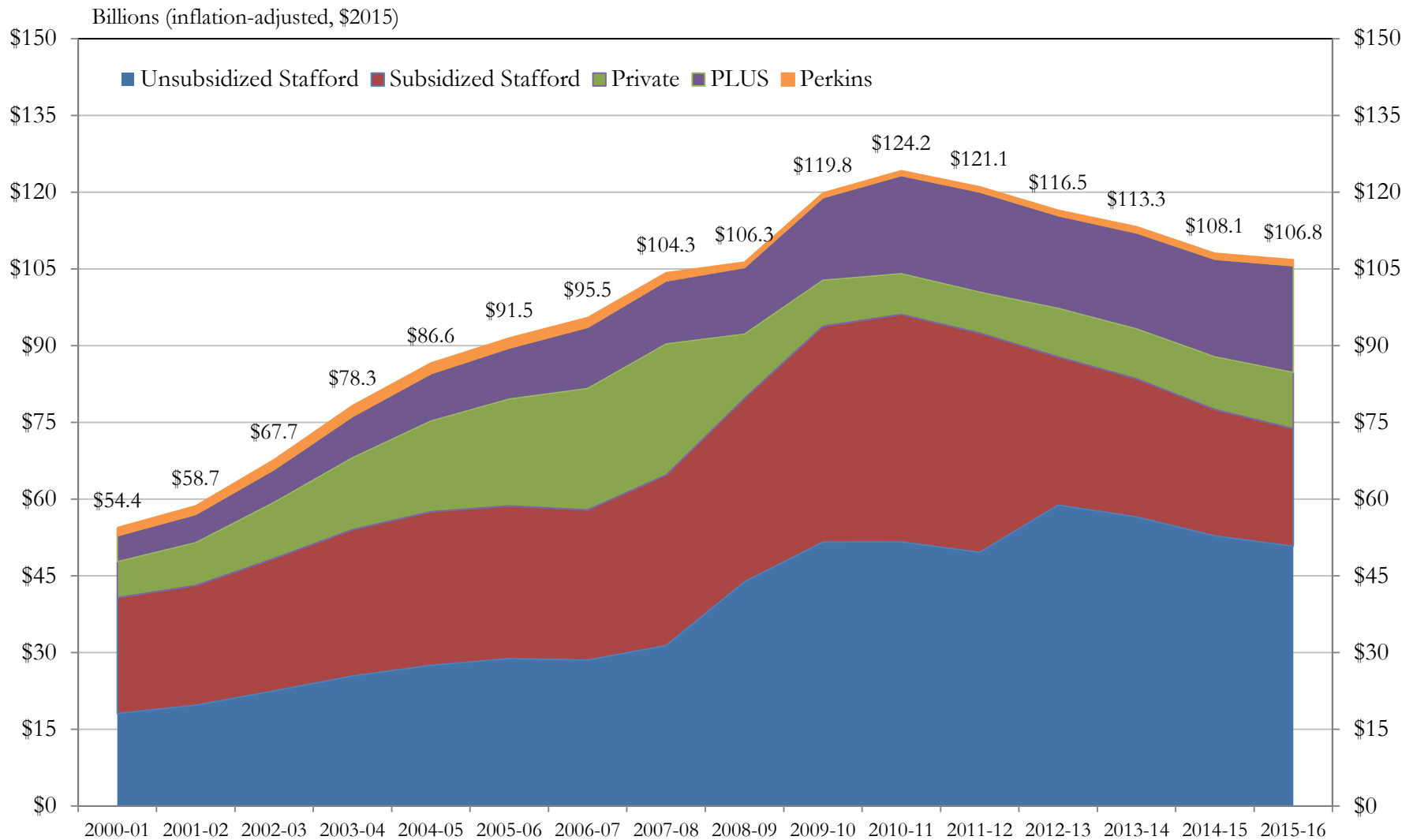
Source: U.S. Bureau of Labor Statistics; Drew Wickens—LinkedIn

Outstanding Student Loan Debt



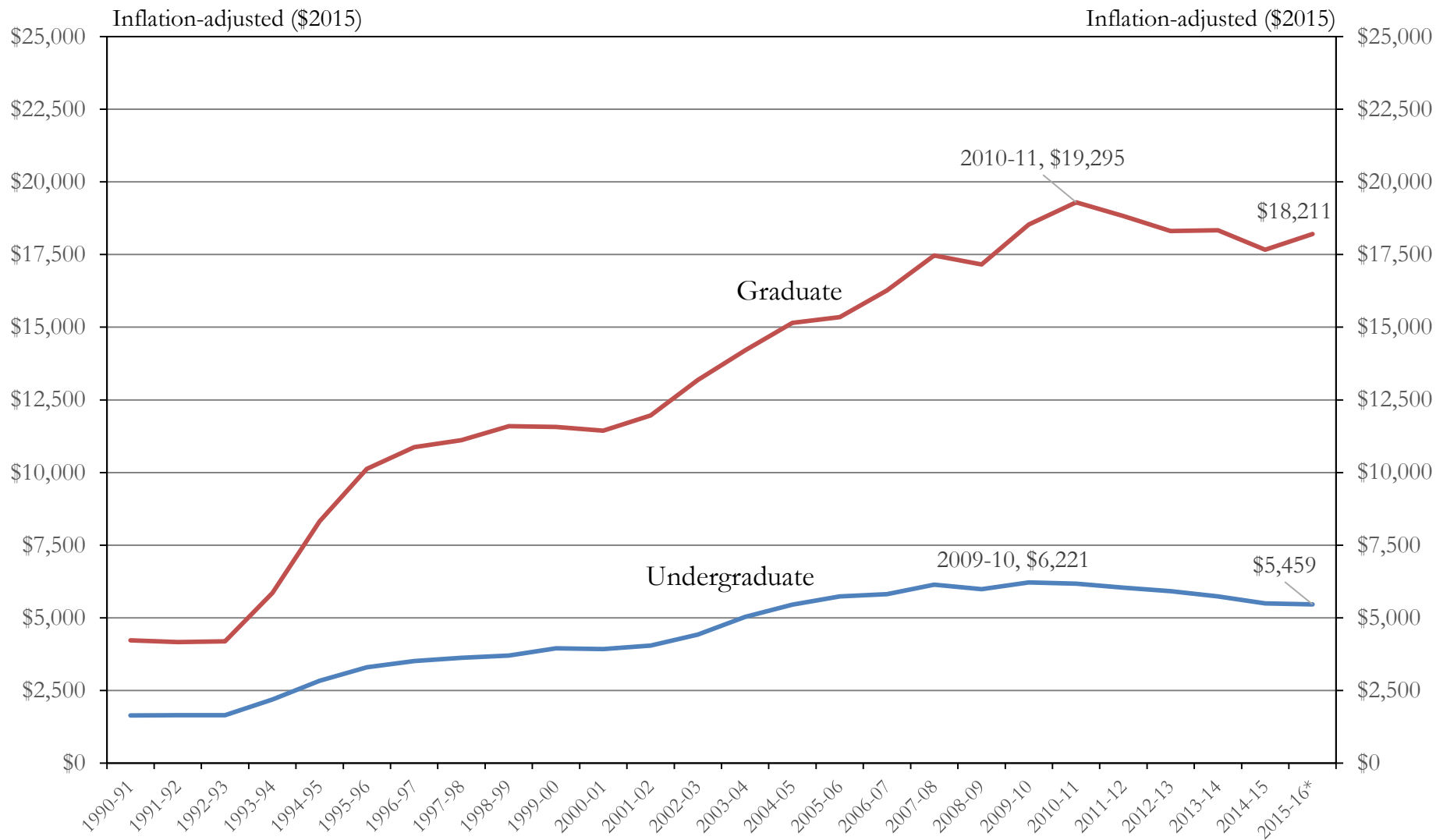
Source: Federal Reserve Bank of New York

Inflation-Adjusted Annual Student Loan Lending



Source: The College Board, *Trends in Student Aid*

Average Loan Amount (Total) per FTE

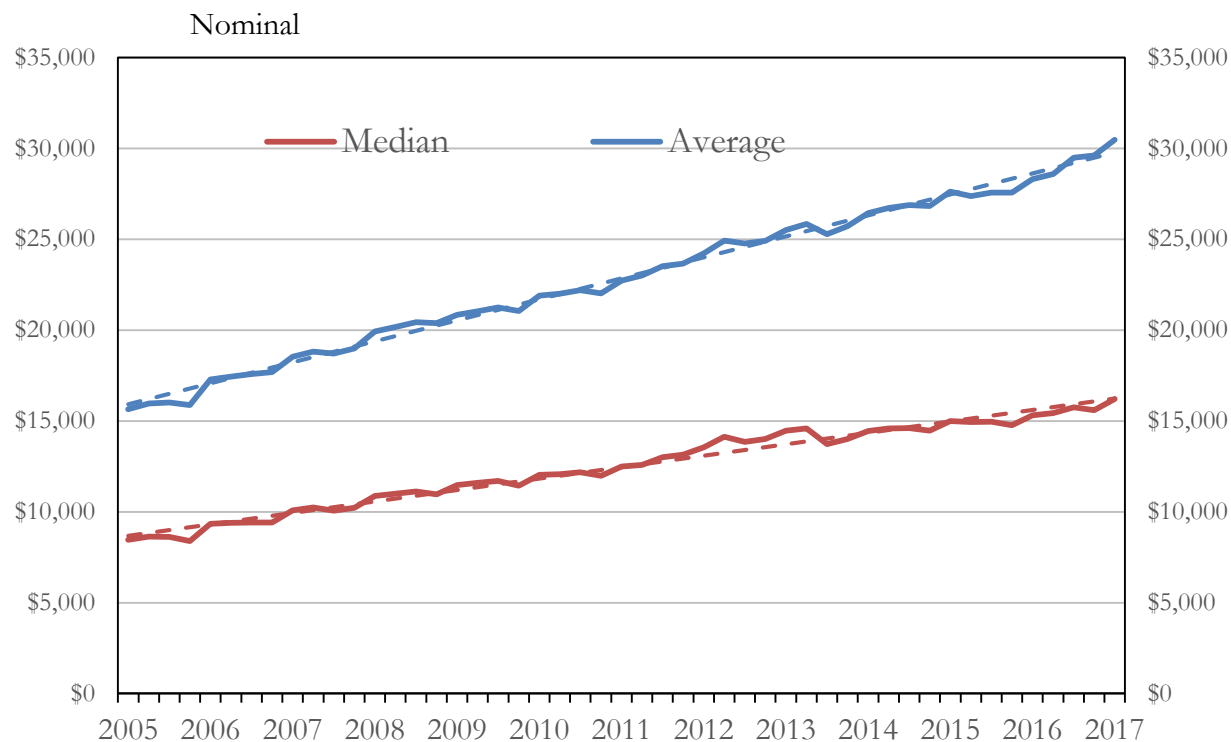


Source: The College Board, *Trends in Student Aid*

Capacity to Repay / Burden

Individual Student Loan Debt Statistics (First Qtr, 2012)

- Median \$16,214
- Average \$30,471
 - 25% under \$6,597
 - 25% over \$36,479
 - > 3% with debt over \$100,000
 - 0.5% over \$200,000



Sources: Speaker's calculations using data from the Federal Reserve Bank of New York Consumer Credit Panel/Equifax; Federal Reserve Bank of New York

Jason Delisle and Alexander Holt, 2015

(FOCUS GROUPS IN SEVERAL CITIES)

FRS STUDENT LOAN FORUM—OCTOBER 2015

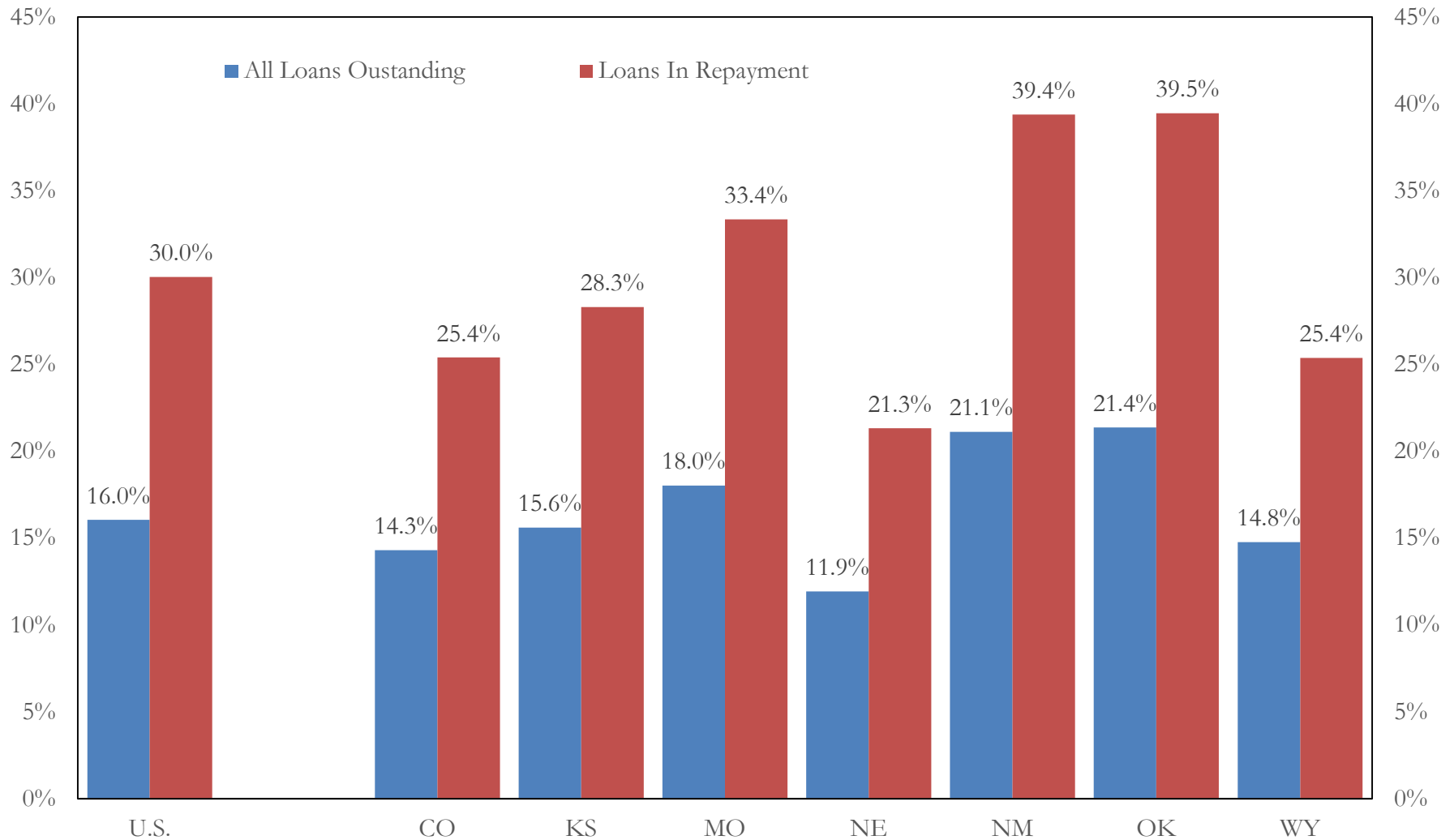
LOW-PRIORITY PAYMENTS

**The mortgage is important, the car loans are important,
this is important, the school loans are not important.—**

Boston



Student Loan Delinquency



Sources: Speaker's calculations using data from the Federal Reserve Bank of New York Consumer Credit Panel/Equifax

Student Loans: What's the Real Story

FISCAL ACCOUNTING AND REPAYMENT PROGRAMS

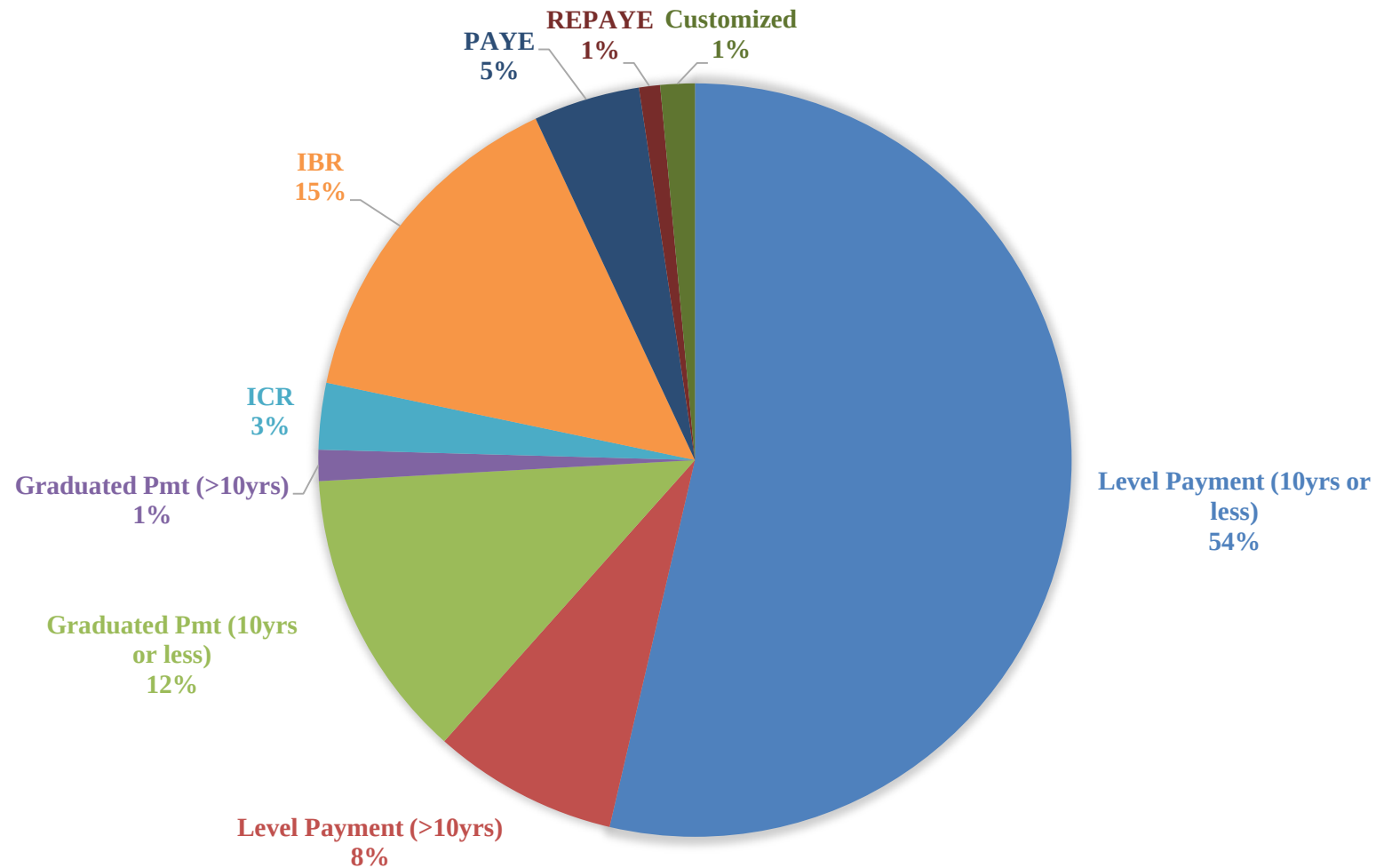
Motivation

- The consequences of being unable (or unwilling) to repay student loans can be severe for debtors and has been shown to have a broader economic impact
- For many families, student loans are the only financial tool to bridge the gap between college costs and funds from family savings and other sources of aid
- In light of these concerns, a number of programs that extend repayment terms, graduate payments, or tie required payments to discretionary income
- Participation in an income-driven plan has been shown to significantly reduce defaults by making payments more manageable, but participation often comes at significant long-term cost to the borrower

Motivation

- The GAO estimates that the majority of borrowers of federal student loans are qualified for a relief program(s)
 - but only a small percentage of eligible borrowers participate in these programs (currently about 25 percent)
 - The take-up rate of these programs depends largely on borrowers' understanding of the programs
- Existing student debt relief programs and proposed relief efforts can provide a safety net for distressed borrowers and possibly diffuse the fear of debt for some borrowers
- The consequences of numerous student debt relief programs for borrowers and the federal budget are not well-understood

ED Loan Portfolio by Repayment Program



Source: National Student Loan Data System (NSLDS) and U.S. Department of Education

Student Loan Repayment Programs

- Deferment and forbearance
- Standard (default) repayment plan – full amortization with level payments over ten years
- Extended repayment plan – full amortization with level payments over a term of up to 25 years
- Graduated repayment – full payment; payments start low and increase every two years at a constant rate; terms up to 30 years
- Income-Driven-Repayment Programs
 - Income-Contingent Repayment (ICR)
 - Income-Based Repayment (IBR)
 - Income-Based Repayment (IBR) for new borrowers
 - Pay-As-You-Earn (PAYE)
 - Revised Pay-As-You-Earn (REPAYE)

Government Accounting for Student Loans

- Accrual-based budgeting
 - NPV (incl disbursements, subsidies, payments)
 - Federal Credit Reform Act (FCRA, 1990) method
 - Federal Government Costs using FCRA
 - FY2011: -\$47.3b
 - FY2014: -\$21.3b (estimated)
 - FY2015: \$12.8b (estimated)
 - FY 2016: -\$14b (proposed) [REPAYE implemented]
 - Updates
 - *vs.* fair-value

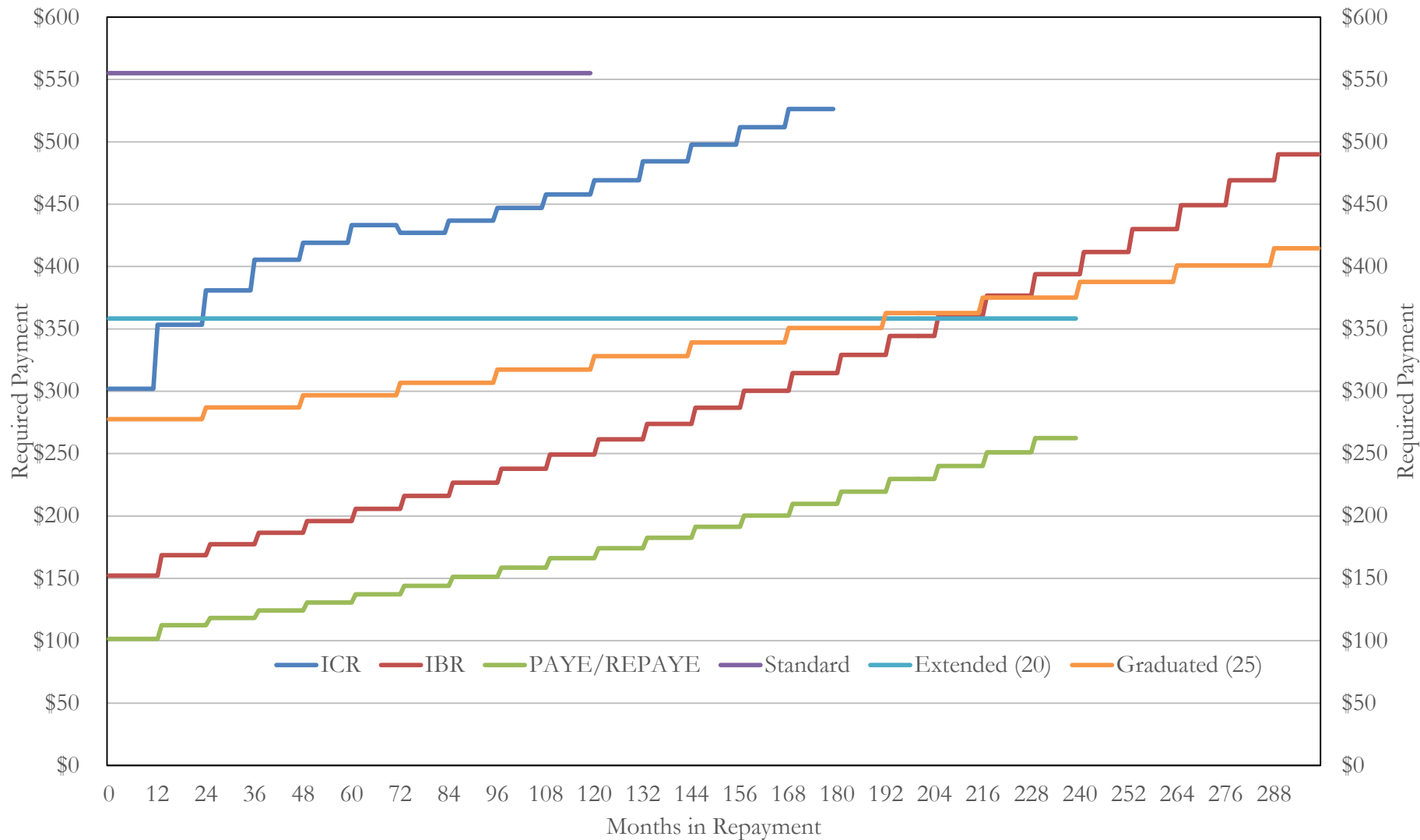
Characteristics of Alternative Income-Driven Repayment Plans for Federal Student Loan Debt

Program	Income-Based Repayment (old)	Income-Based Repayment (new)	Income-Contingent Repayment	Pay-As-You-Earn	Revised Pay-As-You-Earn
Abbreviation	IBR	IBR (new)	ICR	PAYE	REPAYE
Eligibility	FFEL; DL with no loans after Jul 14 2014	DL with loans after Jul 14 2014 “new borrowers”	DL; Direct Consolidated FFEL and FFELP	DL disbursed on/after Oct 1 2011; Direct Consolidated loans in some cases	DL; Direct Consolidated FFEL and FFELP
Hardship Requirement (PFH)	Yes	Yes	No	Yes	No
Discretionary Income	AGI – 1.5 (Poverty)	AGI – 1.5 (Poverty)	AGI – Poverty	AGI – 1.5 (Poverty)	AGI – 1.5 (Poverty)
Income-Driven Payment (share of discretionary income)	Lesser of 15% or 10-yr level payment	Lesser of 10%; or 10-yr level payment	Lesser of 20% or adjusted payment on 12-yr level payment plan	Lesser of 10% or 10-yr level payment	10%; no limit on payment
Interest Capitalization	If no longer PFH (incl. not recertifying); no maximum	If no longer PFH (incl. not recertifying); no maximum	No limit	If no longer PFH, fail to recertify, or voluntarily leave PAYE; Limit of 10% of original debt amount	If fail to recertify or voluntarily leave REPAYE
Subsidy of Interest (if capitalized)	100% for 3 years if subsidized loan, else none	100% for 3 years if subsidized loan, else none	None	100% for 3 years if subsidized loan, else none	100% for 3 years if subsidized loan, else 50% life of repayment term
Repayment Term	300 payments over at least 25 years	240 payments over at least 20 years	300 payments over at least 25 years	240 payments over at least 20 years	240 payments over at least 20 years; 300 payments over at least 25 years if debt financed graduate or professional education

Sources: National Council of Higher Education Resources, “Income Driven Repayment Comparison Chart; U.S. Department of Education, Office of Federal Student Aid, “Income-Driven Repayment Plans for Federal Student Loans” and “Income-Driven Repayment Plans: Questions and Answers.

Payment Schedules Under Alternative Repayment Programs

(Initial AGI = \$30,000; Initial Student Debt = \$50,000)



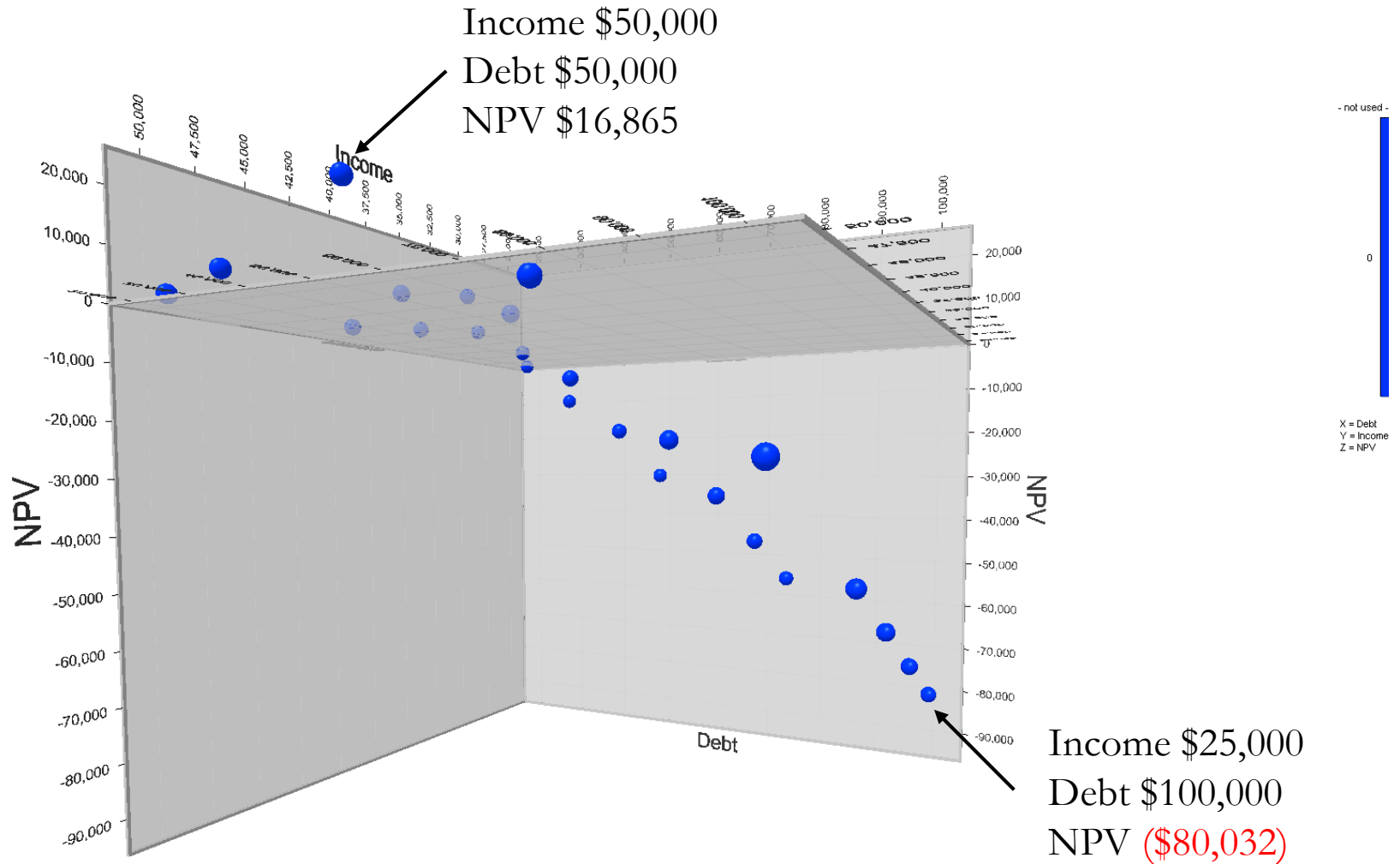
Interest Capitalization (from unpaid interest)

- Always an issue with unsubsidized loans during deferment and forbearance and subsidized loans in forbearance
- For IBR and PAYE, when no longer have a Personal Financial Hardship (PFH) or leave the program
- For REPAYE, accrued “capitalized” interest is added to the balance upon leaving the REPAYE program
- For ICR always, but limited

Borrower Impact, REPAYE

		Payments	Interest PD	Principal PD	Loan Forgiveness	Total Interest	Unpaid Interest	TOTAL FORGIVENESS
Initial AGI	Initial Debt							
\$25,000	\$20,000	\$27,459	\$20,464	\$6,996	\$13,004	\$22,520	\$2,056	\$35,524
\$25,000	\$30,000	\$27,459	\$26,543	\$916	\$29,084	\$35,927	\$9,384	\$38,468
\$25,000	\$50,000	\$27,459	\$27,459	\$0	\$50,000	\$60,000	\$32,541	\$82,541
\$25,000	\$75,000	\$27,459	\$27,459	\$0	\$75,000	\$90,000	\$62,541	\$137,541
\$25,000	\$100,000	\$27,459	\$27,459	\$0	\$100,000	\$120,000	\$92,541	\$192,541
\$30,000	\$20,000	\$35,141	\$15,141	\$20,000	\$0	\$15,141	\$0	\$0
\$30,000	\$30,000	\$41,900	\$31,423	\$10,477	\$19,523	\$33,652	\$2,229	\$21,752
\$30,000	\$50,000	\$41,900	\$41,744	\$156	\$49,844	\$59,995	\$18,251	\$68,095
\$30,000	\$75,000	\$41,900	\$41,900	\$0	\$75,000	\$90,000	\$48,100	\$123,100
\$30,000	\$100,000	\$41,900	\$41,900	\$0	\$100,000	\$120,000	\$78,100	\$178,100
\$35,000	\$20,000	\$29,592	\$9,592	\$20,000	\$0	\$9,592	\$0	\$0
\$35,000	\$30,000	\$55,960	\$25,960	\$30,000	\$0	\$26,049	\$89	\$89
\$35,000	\$50,000	\$56,340	\$51,019	\$5,321	\$44,679	\$59,216	\$8,197	\$52,876
\$35,000	\$75,000	\$56,340	\$56,340	\$0	\$75,000	\$90,000	\$33,660	\$108,660
\$35,000	\$100,000	\$56,340	\$56,340	\$0	\$100,000	\$120,000	\$63,660	\$163,660
\$40,000	\$20,000	\$24,483	\$4,483	\$20,000	\$0	\$4,483	\$0	\$0
\$40,000	\$30,000	\$48,101	\$18,101	\$30,000	\$0	\$18,101	\$0	\$0
\$40,000	\$50,000	\$70,781	\$53,172	\$17,608	\$32,392	\$55,827	\$2,655	\$35,047
\$40,000	\$75,000	\$70,781	\$69,492	\$1,288	\$73,712	\$89,913	\$20,421	\$94,133
\$40,000	\$100,000	\$70,781	\$70,781	\$0	\$100,000	\$120,000	\$49,219	\$149,219
\$50,000	\$20,000	\$24,483	\$4,483	\$20,000	\$0	\$4,483	\$0	\$0
\$50,000	\$30,000	\$41,049	\$11,049	\$30,000	\$0	\$11,049	\$0	\$0
\$50,000	\$50,000	\$88,319	\$38,319	\$50,000	\$0	\$38,319	\$0	\$0
\$50,000	\$75,000	\$99,661	\$80,607	\$19,055	\$55,945	\$85,883	\$5,276	\$61,221
\$50,000	\$100,000	\$99,661	\$96,731	\$2,931	\$97,069	\$119,740	\$23,010	\$120,079

Fiscal Impact (NPV), REPAYE



Note: Author's calculations; Made with *XLSTAT*, 3D-Plot



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