



FEDERAL RESERVE BANK *of* KANSAS CITY

Student Loan Issues

Economics and Personal Finance Boot Camp
Professional Development Teacher Workshop Agenda
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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, the Federal Reserve Bank of Dallas, or the Federal Reserve System.

Background

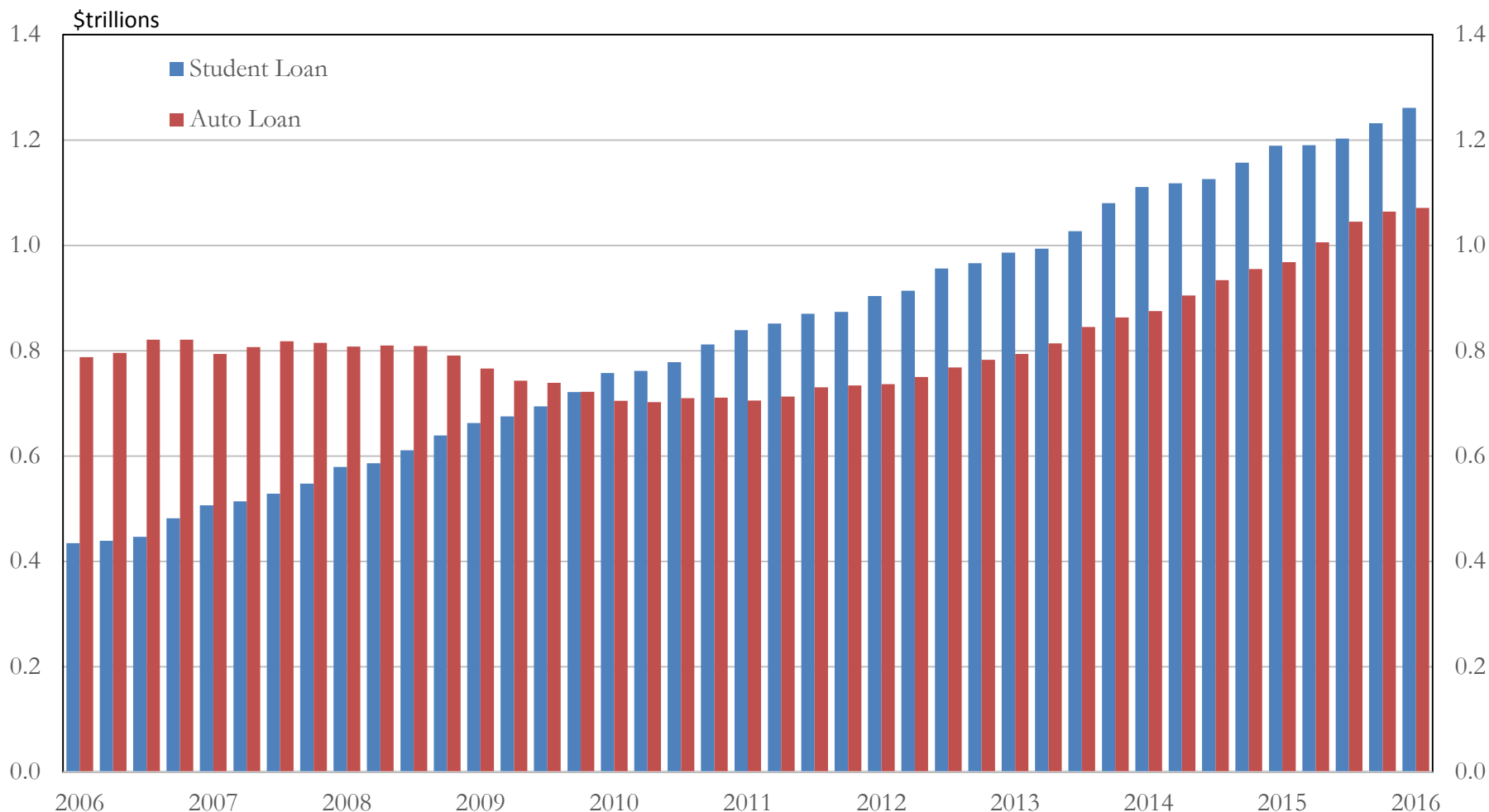
- Wenhua Di and Kelly D. Edmiston, 2015, “State Variation in Student Loan Debt and Performance,” *Suffolk University Law Review*, 48(3), 661-688.
- Kelly D. Edmiston (with Lara Brooks and Steven Shepelwich), 2012, “Student Loans: Overview and Issues,” *Federal Reserve Bank of Kansas City Research Working Paper 12-05*, (Revised April 2013). Accessible at <https://www.kansascityfed.org/~media/files/publicat/reswkpap/pdf/rwp%2012-05.pdf>.

The Composition of Student Financial Aid

Source	Share (%)	Source	Share (%)
Federal Loans	41.0	Private & Employer Grants	5.9
Federal Grants	19.0	State Grants	3.9
Institutional Grants	18.0	Non-Federal Loans	3.6
Education Tax Savings	8.2	Federal Work Study	0.4

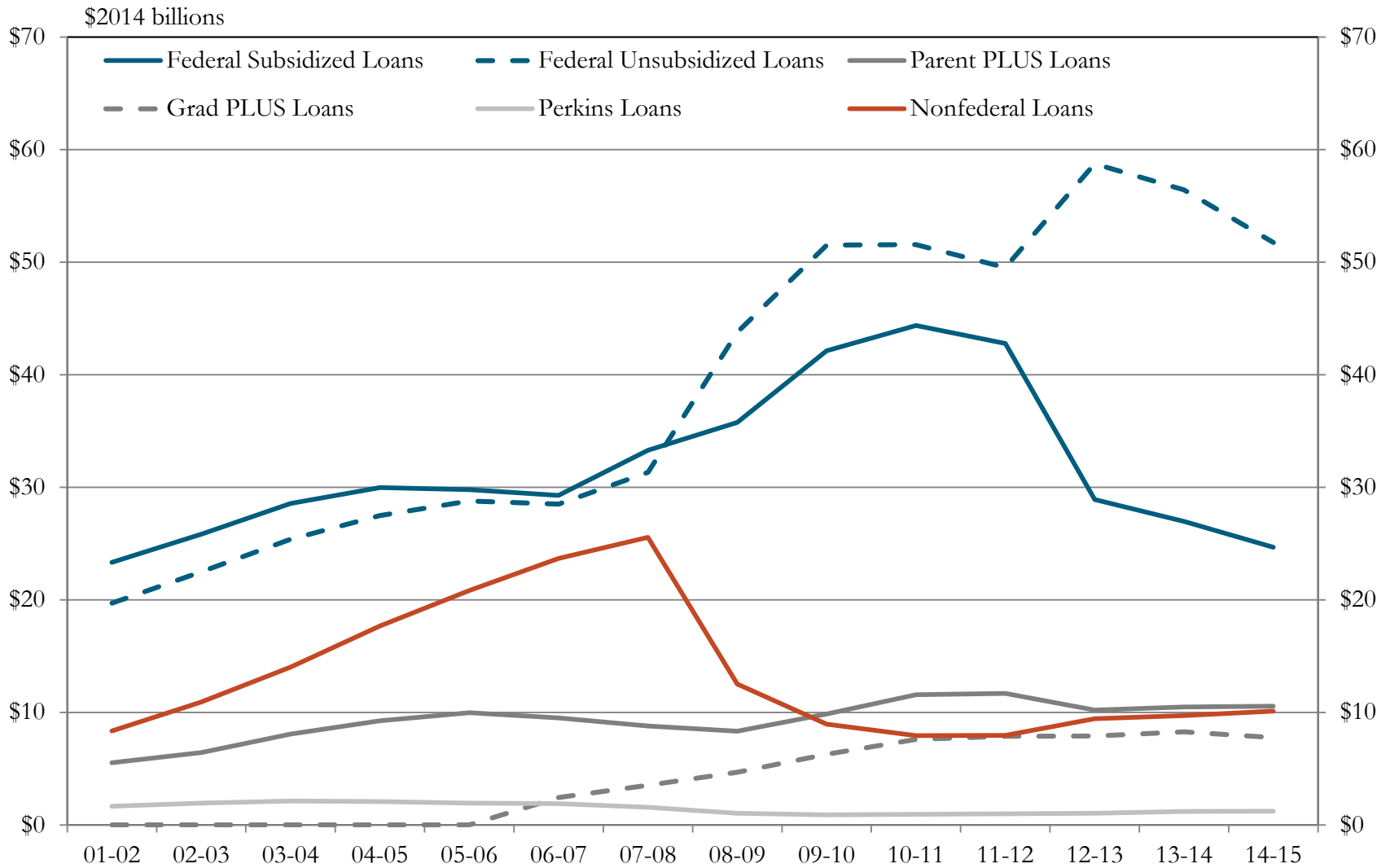
Source: College Board, Trends in Student Aid; Di and Edmiston (2015)

Aggregate outstanding student loan debt was \$1.3 trillion in the first quarter of 2016, up 6.1 percent for the year. Auto debt climbed 10.6 percent.



Source: Federal Reserve Bank of New York, QUARTERLY REPORT ON HOUSEHOLD DEBT AND CREDIT (first quarter), May, 2016

Annual Inflation-Adjusted Student Lending

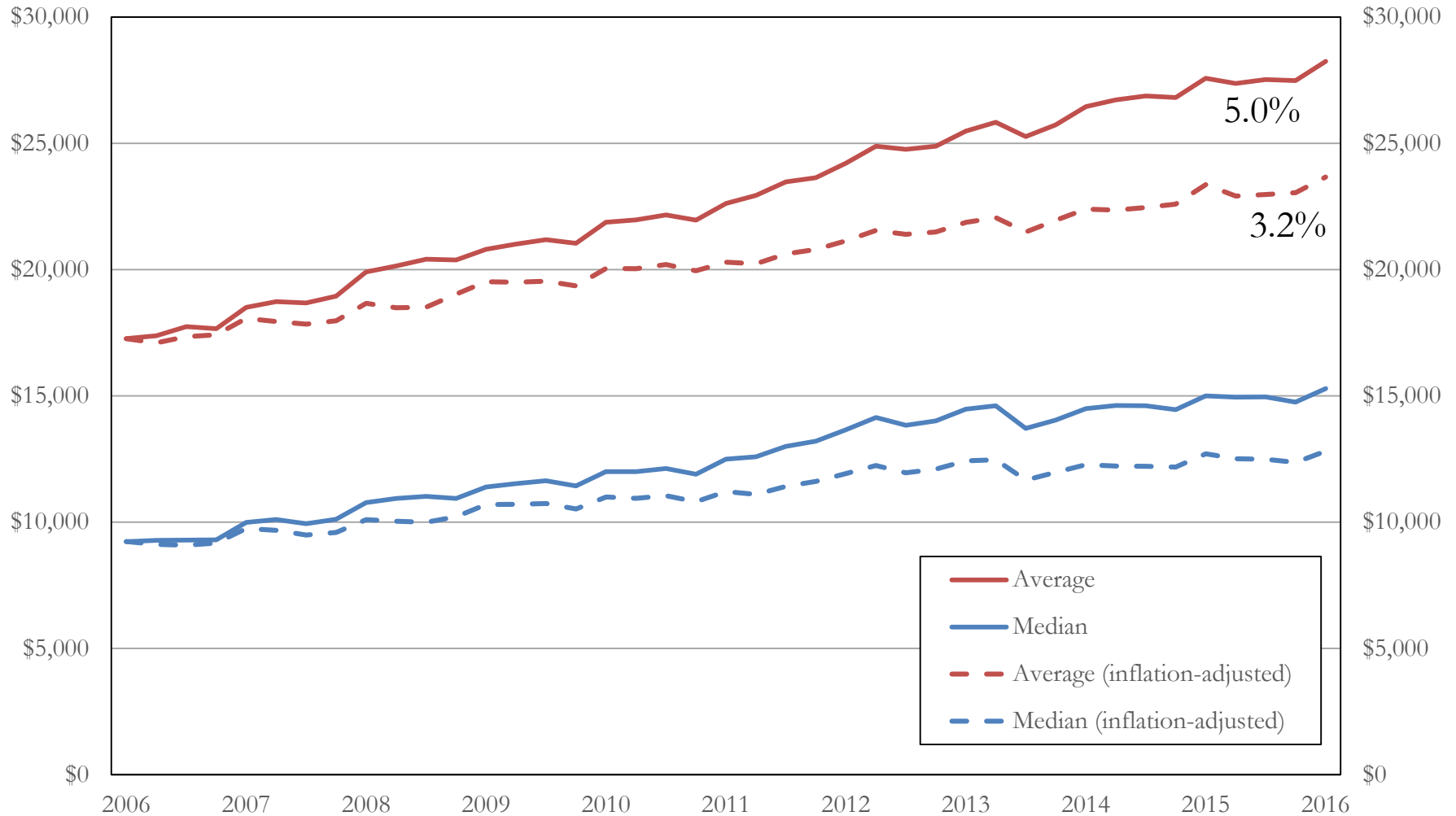


SOURCE: The College Board, *Trends in Student Aid*

What's Behind Rising Student Loan Debt?

- Largely driven by enrollments
- Moderate increase in share who borrow
- Steady increase in average debt but not outside historical norms

Average and Median U.S. Student Loan Debt Balances



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

Borrower-Level Student Loan Statistics

Statistic	Value
Average Balance	\$28,245
Median Balance	\$15,286
First Quartile Balance (25% of balances below)	\$6,372
Third Quartile Balance (25% of balances above)	\$33,941
Share with Balance > \$100,000	3%
Share with Balance > \$200,000	0.5%

Source: Author's calculations using the Federal Reserve Bank of New York Consumer Credit Panel / Equifax

Factors Affecting Student Debt Accumulation

- Rising and varying cost of attendance
 - Average federal loan for graduate students 2.6 x average federal loan for FTE undergraduate
- Family financial resources
 - Family income (recent declines, but reversing; significant geographic variation)
 - Sec. 529, Coverdell
 - not fully utilized; insufficient for large majority of families
 - some states with no residency requirement for 529
 - “materially challenged” households much less likely to participate in 529

Factors Affecting Student Debt Accumulation

- Other forms of aid (e.g., state aid)
- Educational attainment – better performance of students; likely higher financial resources
- Demographics: e.g., age, cultural background/race/ethnicity (willingness to borrow)
- Financial characteristics: credit history (not for federal student loans) and indebtedness

Factors Affecting Student Debt Accumulation

- 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 / finance children's' education
- Interest rate on student loans
- Other forms of federal and state aid (scholarships and grants)

Implications of Student Loan Debt for Borrowers' Lifestyles

- Student loan debt burden is negatively related to the probability of marriage (controls for education level); effect on having children is less clear
- Prior to the recent recession, those with student loan debt had higher rates of home-secured debt at age 30; following the recession student loan borrowers have a moderately lower rate
- Similar story for auto debt as for mortgages, but student loan borrowers only marginally less likely to hold auto debt

SOURCES: Meta Brown and Sydnee Caldwell. 2013. "Young Adult Student Loan Borrowers Retreat from Housing and Auto Markets," Liberty Street Economics (blog), Federal Reserve Bank of New York, New York, April 17, 2013; Dora Gicheva, "In Debt and Alone? Examining the Causal Link between Student Loans and Marriage," working paper, June, 2013, UNC-Greensboro; Philip Anderson, "Postponing the Family? The Relationship between Student Debt and Lifecycle Transitions," working paper, University of Notre Dame, April, 2013.

Implications of Student Loan Debt for Borrowers' Lifestyles

- Delay formation of new businesses
- Save less for retirement or other major purchases or precautionary savings

SOURCES: Brent W. Ambrose, Larry Cordell, and Shuwei Ma, “The Impact of Student Loan Debt on Small Business Formation” working paper, June, 2015; American Student Assistance, “Life Delayed: The Impact of Student Debt on the Daily Lives of Young Americans”

Repayment Plans and Forbearance and Forgiveness Options

Forbearance

Discretionary Forbearance

- Hardship Forbearance

Mandatory Forbearance

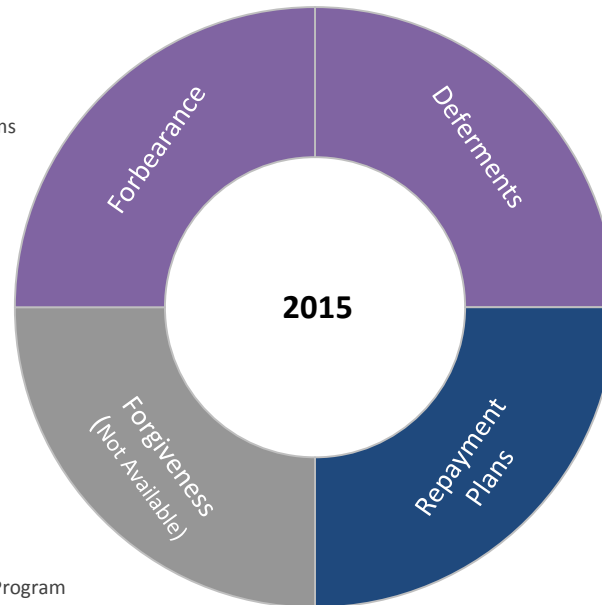
- Medical or Dental Internship Residency
- Department of Defense Student Loan Repayment Programs
- National Service
- Active Military State Duty
- Student Loan Debt Burden
- Teacher Loan Forgiveness

Mandatory Administrative Forbearance

- Local or National Emergency
- Military Mobilization
- Designated Disaster Area
- Repayment Accommodation
- Death
- Teacher Loan Forgiveness

Forgiveness

- Teacher Loan Forgiveness
- Loan Forgiveness for Service in Areas of National Need
- Civil Legal Assistance Attorney Student Loan Repayment Program
- Income Contingent Repayment Plan Forgiveness
- Income Based Repayment Plan Forgiveness
- Pay As You Earn Repayment Plan Forgiveness
- Income Based 2014 Repayment Plan Forgiveness
- Public Service Loan Forgiveness



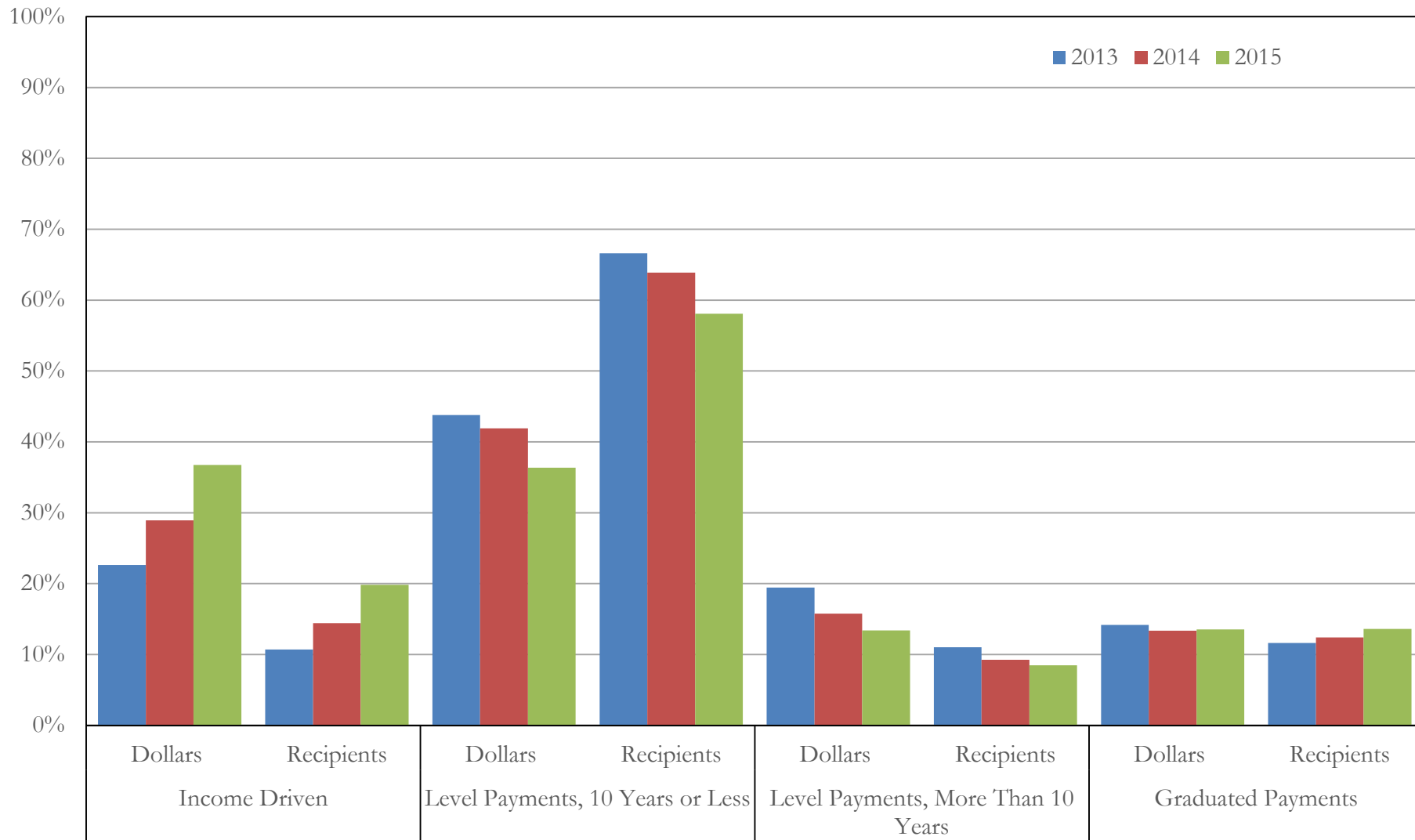
Deferment

- School (1)
- School Full-Time (2)
- School Half-Time (2)
- Post Enrollment (1)
- Graduate Fellowship (3)
- Unemployment Deferment – 2 years (2)
- Unemployment Deferment – 3 years (1)
- Economic Hardship (1)
- Rehabilitation Training Program (3)
- Military Service (3)
- Post-Active Duty Student (3)
- Teacher Shortage(2)
- Internship/Residency Training (2)
- Temporary Total Disability (2)
- Armed Forces or Public Health Services (2)
- National Oceanic and Atmospheric Administration Corps (2)
- Peace Corps, ACTION Program, and Tax-Exempt Organization Volunteer (2)
- Parental Leave (2)
- Mother Entering/Re-entering Work Force (2)

Repayment Plans

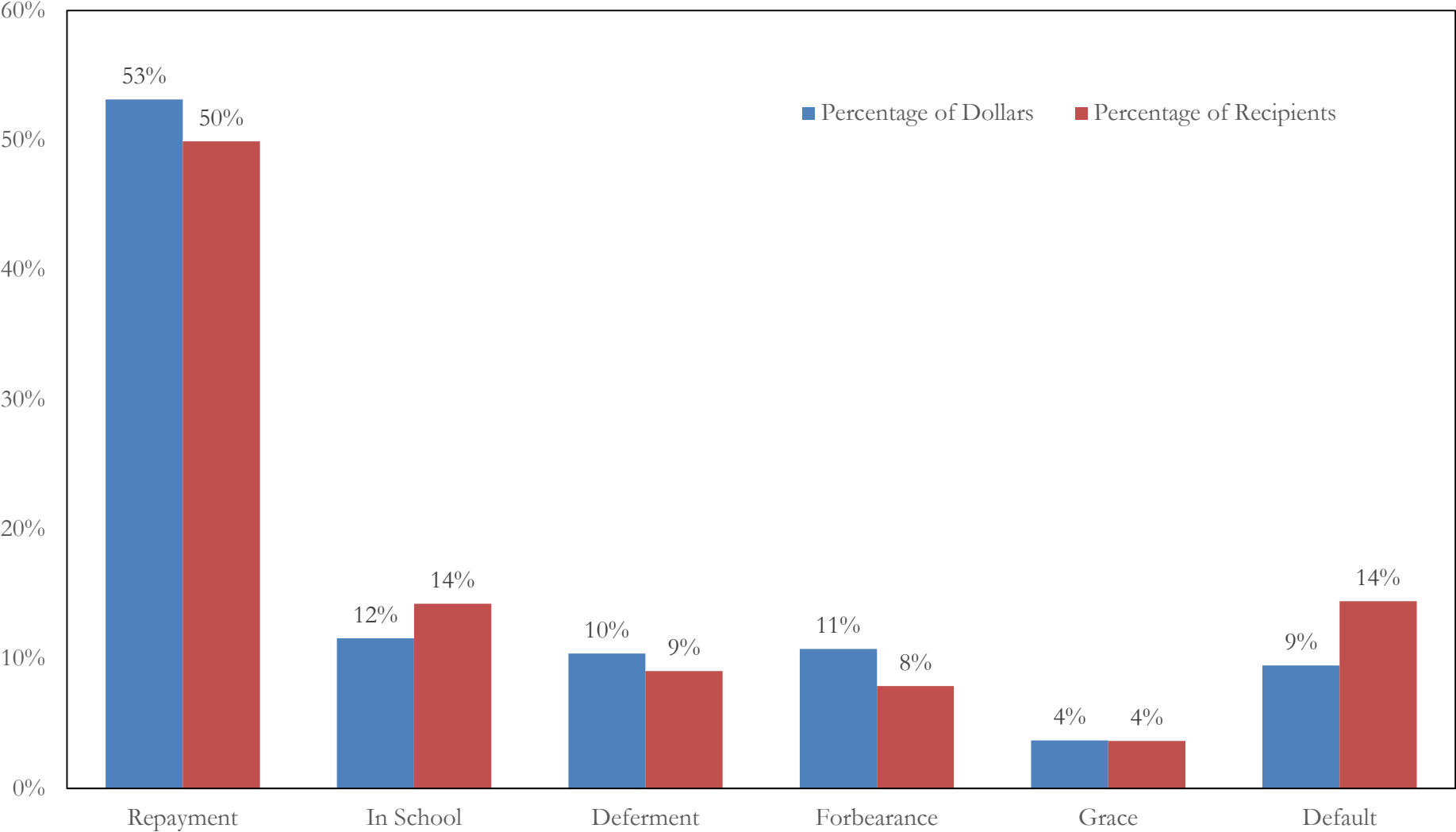
- DL Standard Pre-HERA
- FFELP/DL Standard Post-HERA (4)
- DL Graduated Pre-HERA
- FFELP/DL Graduated Post –HERA (4)
- DL Extended Pre-HERA
- FFELP/DL Extended Post-HERA (4)
- Income-Sensitive
- Income-Contingent Ver. 1& Ver. 2 (5)
- Income-Contingent Ver. 3
- Forced Income-Contingent
- Income-Based
- Pay As You Earn
- Income-Based 2014
- Alternative (6)

Repayment Plans of Outstanding Student Loans



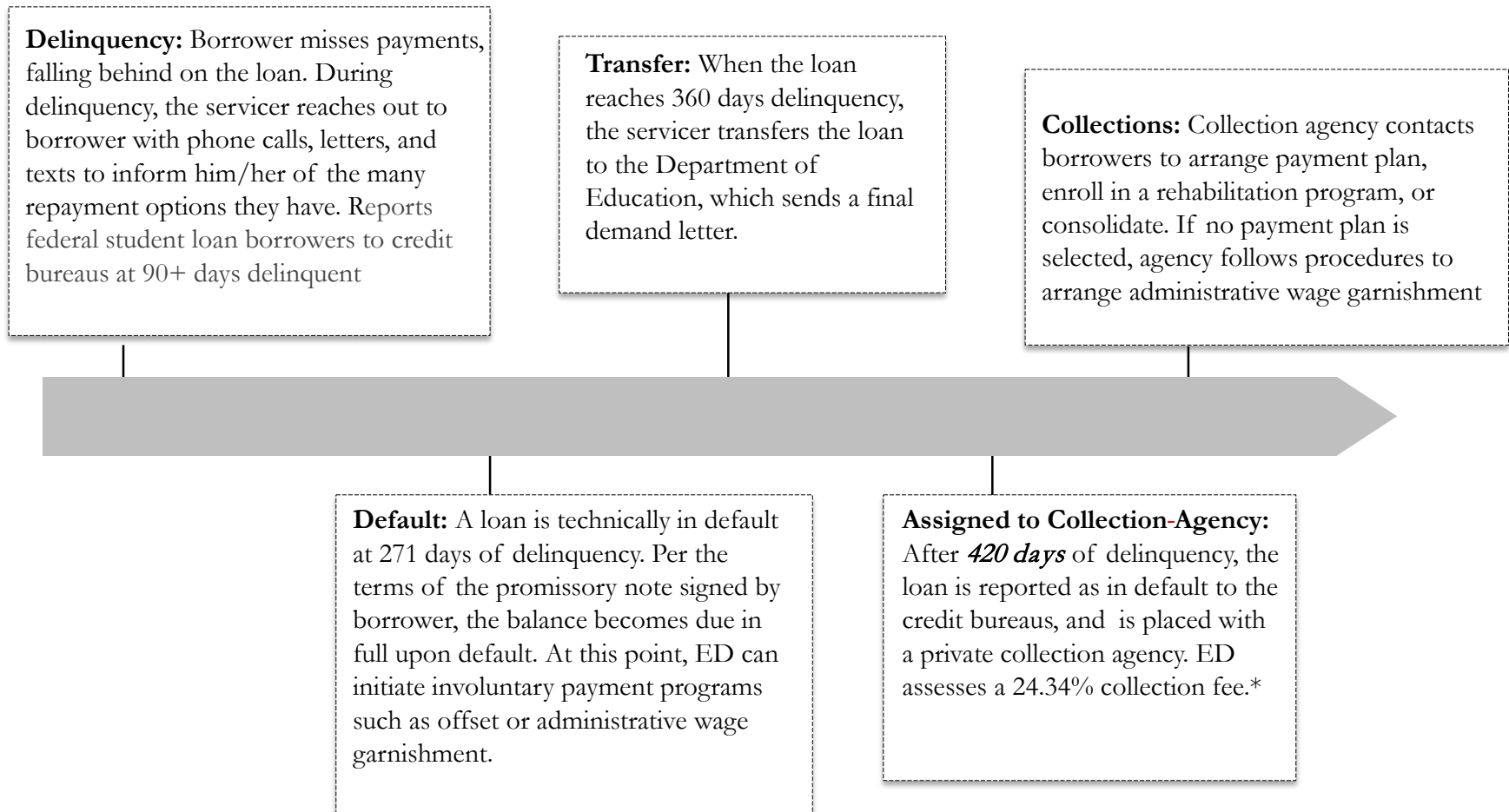
SOURCE: U.S. Department of Education, Federal Student Aid Data Center, Federal Student Loan Portfolio.

Repayment Status of Outstanding Student Loans



SOURCE: U.S. Department of Education, Federal Student Aid Data Center, Federal Student Loan Portfolio.

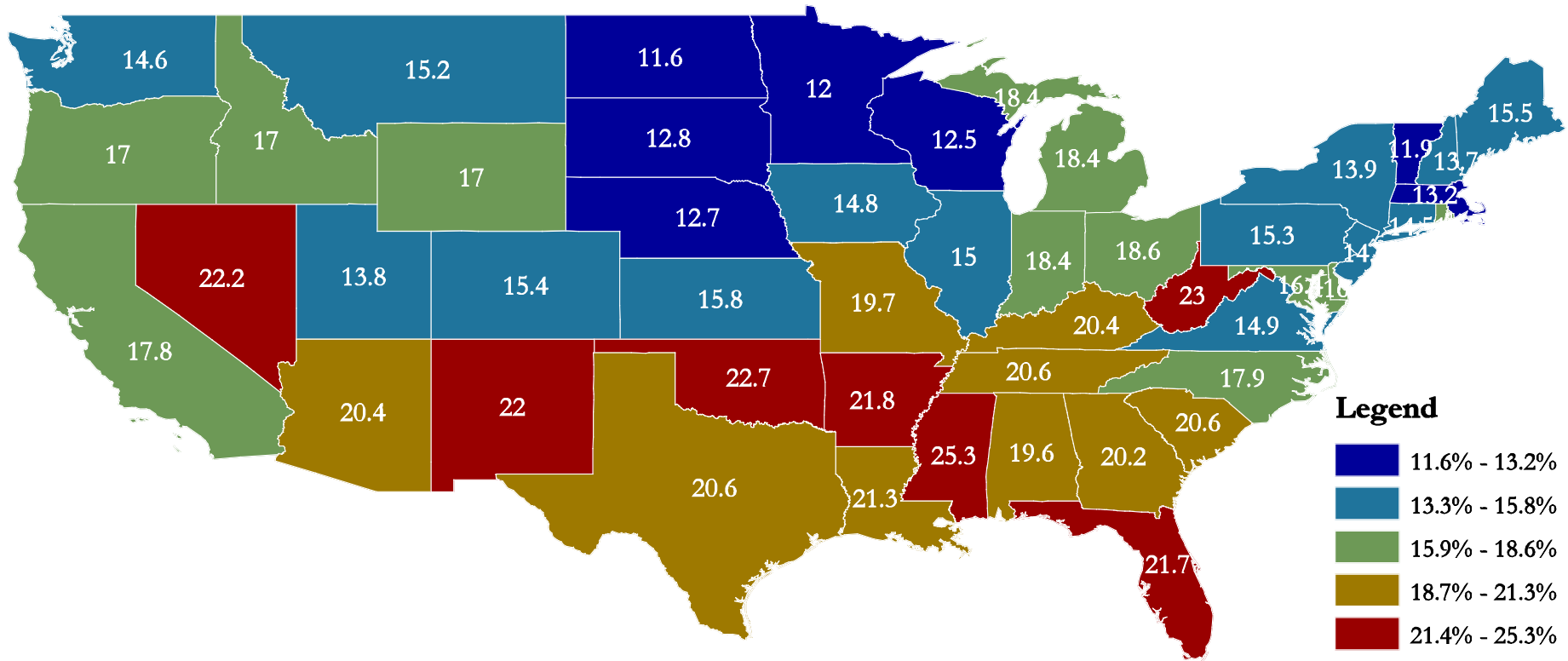
Default & Collection Process



Computation of Student Loan Delinquencies

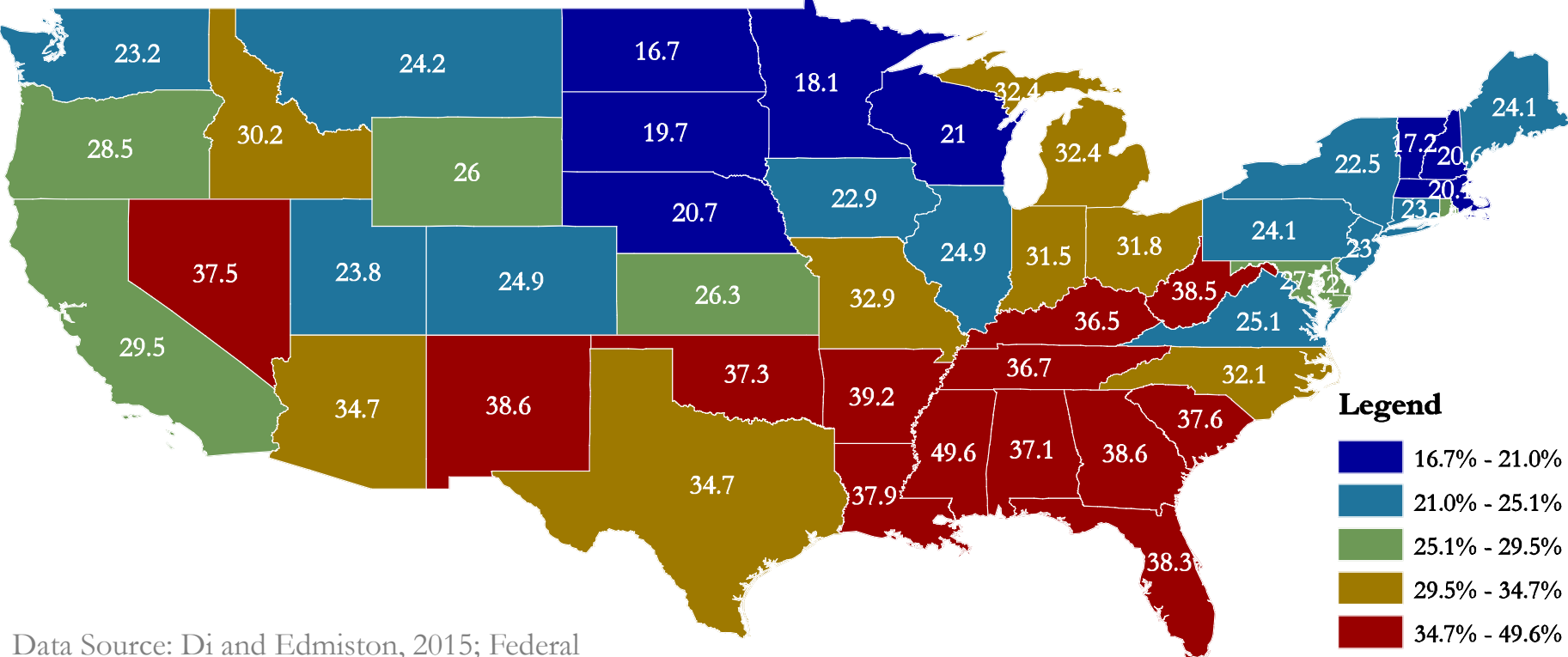
- Share of borrowers delinquent (30 or more days past due)
- Share of borrowers in repayment delinquent
 - eliminate borrowers with debt that is unchanged or increased from previous quarters but are not past due
- Share of student loan balances that are past due
- Share of student loan balances in repayment that are past due

Share of all borrowers with student loan debt that is delinquent for 30 days or more (11.6% ND to 25.3% MS)



SOURCE: Di and Edmiston, 2015; Federal Reserve Bank of New York Consumer Credit Panel / Equifax

Share of all borrowers in repayment with student loan debt that is delinquent for 30 days or more (16.7% ND to 49.6% MS)



Data Source: Di and Edmiston, 2015; Federal Reserve Bank of New York Consumer Credit Panel / Equifax

Overall delinquency/default rates obscure substantial heterogeneity across student loan borrowers

- Defaults are higher when balances are smaller
 - Completion is the major issue
 - Those with the highest balances typically are former graduate/professional students or graduates of elite colleges, who have relatively low delinquency and default rates
- People who have traditionally gone to college are managing their debt and payments – recent increases in delinquencies are largely compositional
 - “Lower quality” students enrolled during the recession
 - Large increases in enrollment at community colleges and for-profit colleges, which typically have the highest delinquency/default rates

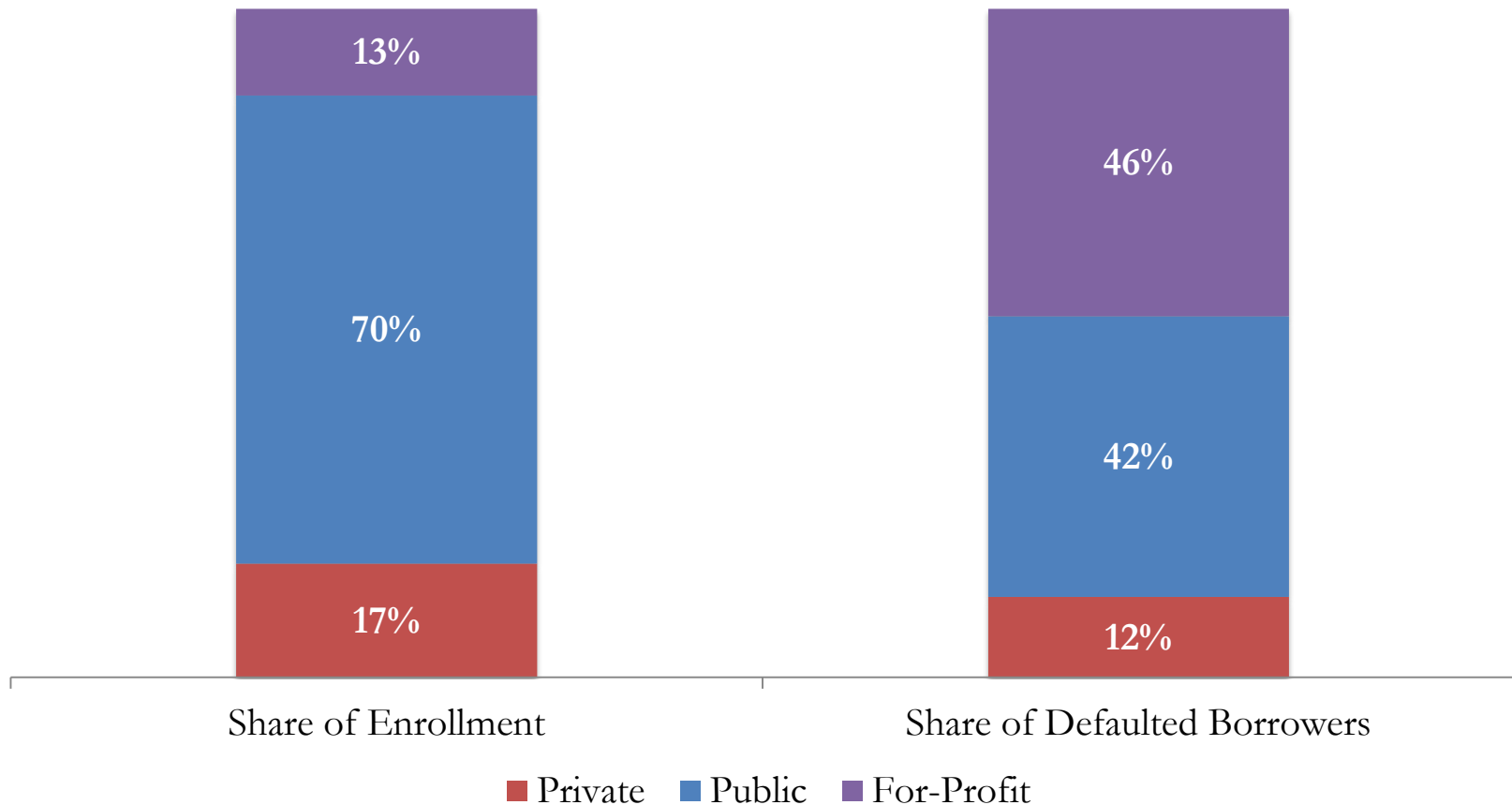
Payment Status by Institution Type and Graduation (within 2 calendar years of entering repayment)

	Public Two- Year	Public Four- Year	Private Nonprofit Four-Year	For-Profit	All
All Borrowers	23%	9%	7%	18%	14%
Borrowers Who Graduated	17%	6%	5%	14%	9%
Borrowers Who Did Not Graduate	29%	18%	15%	28%	24%

SOURCE: U.S. Department of Treasury calculations based on sample data from the National Student Loan Data System.

NOTES: Default rates are based on defaults occurring within two calendar years of the date of entering repayment and do not correspond exactly to official two-year cohort default rates, which are based on defaults before the end of the fiscal year following the year in which the borrower enters repayment.

Borrowers in default disproportionately enrolled in proprietary colleges



SOURCE: Leslie Parrish (Center for Responsible Lending), “College Performance and Outcomes: How Institution Selection Affects Ability to Repay Student Loan Debt,” presented at Higher Education and Student Debt Decision Making, Federal Reserve Board of Governors, Washington, DC, October 13, 2015.

Factors Affecting Student Debt Repayment Performance

- Many of the same factors influencing debt accumulation influence performance
- Recession and Recovery
 - Unemployment and underemployment
 - California study (ever defaulted 23.2% if ever filed for unemployment compensation, 9.7% if not)
 - Slower wage and salary growth, esp. for young
 - Composition of students entering higher education
- Completion
 - Single variable with greatest statistical and economic significance
 - Better prospects for completers (lifetime income, are buying an asset)
 - Especially low for two-year programs and proprietary schools

Factors Affecting Student Loan Repayment Performance

- No credit consideration
- Poor borrower information
- Type of institution (2-yr vs. 4-yr and control of institution) (beyond graduation rates)
- Race and ethnicity also seem to matter (multiple studies)

Laura Greene Knapp and Terry G. Seaks, "An Analysis of the Probability of Default on Federally Guaranteed Student Loans," *The Review of Economics and Statistics*, 74(3), 404-411; Anne Macy and Neil Terry, "The Determinants of Student College Debt," *The Southwestern Economic Review*, 15, 2007.

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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