

# Household Debt and Credit: Student Debt

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# Higher Education and Student Debt

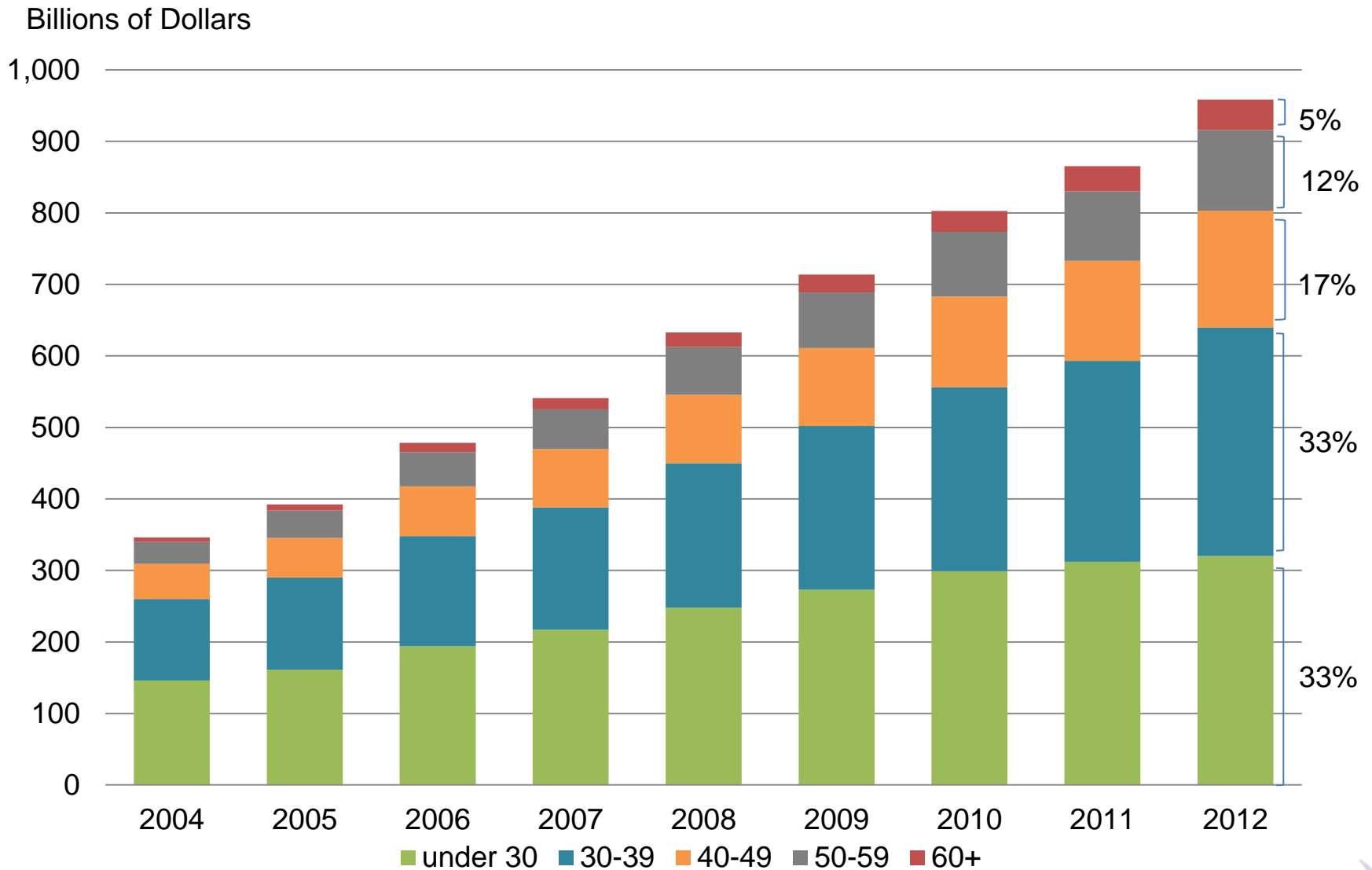
- Higher education is crucial to improving the skill level of American workers, especially in the face of a rising income and employment gap across workers with varying education levels.
- Due to increasing enrollment and the rising cost of higher education, student loans play an increasingly important role in financing higher education.
- However, the rapidly increasing burden of student debt, approaching \$1 trillion now, including both federal and private student loans with very different characteristics.
- We present new analysis on the historical and current situation of student debt and discuss its implication on the borrowers and the economy.



# Part 1: Growth of Student Loans

# Total student loan balances by age group

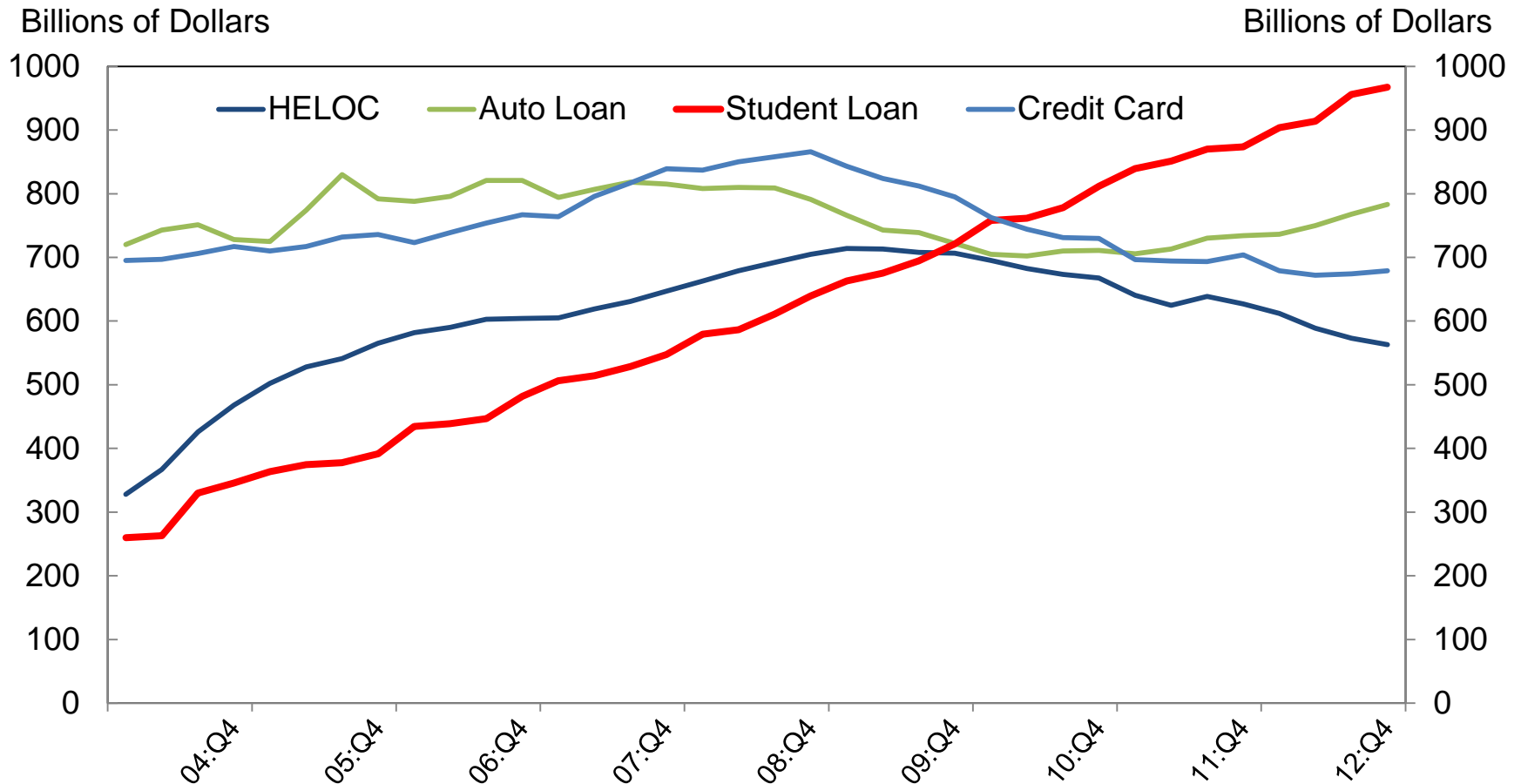
## increasing across all age groups



Source: FRBNY Consumer Credit Panel / Equifax



# Non-mortgage balances

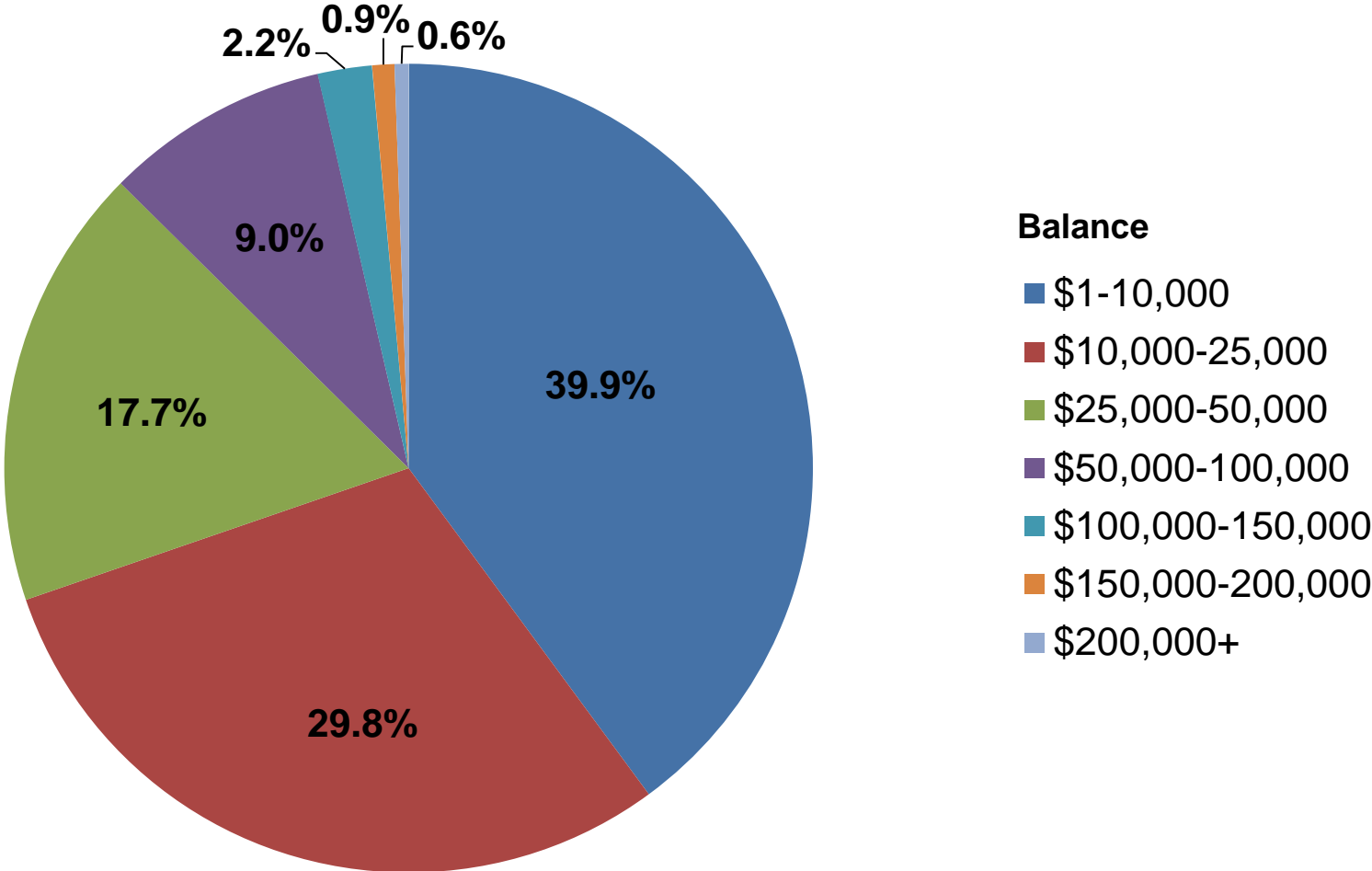


Source: FRBNY Consumer Credit Panel / Equifax

Student debt is the only kind of household debt that continued to rise through the Great Recession and has now the second largest balance after mortgage debt.



# Distribution of student loan balance, 2012:Q4

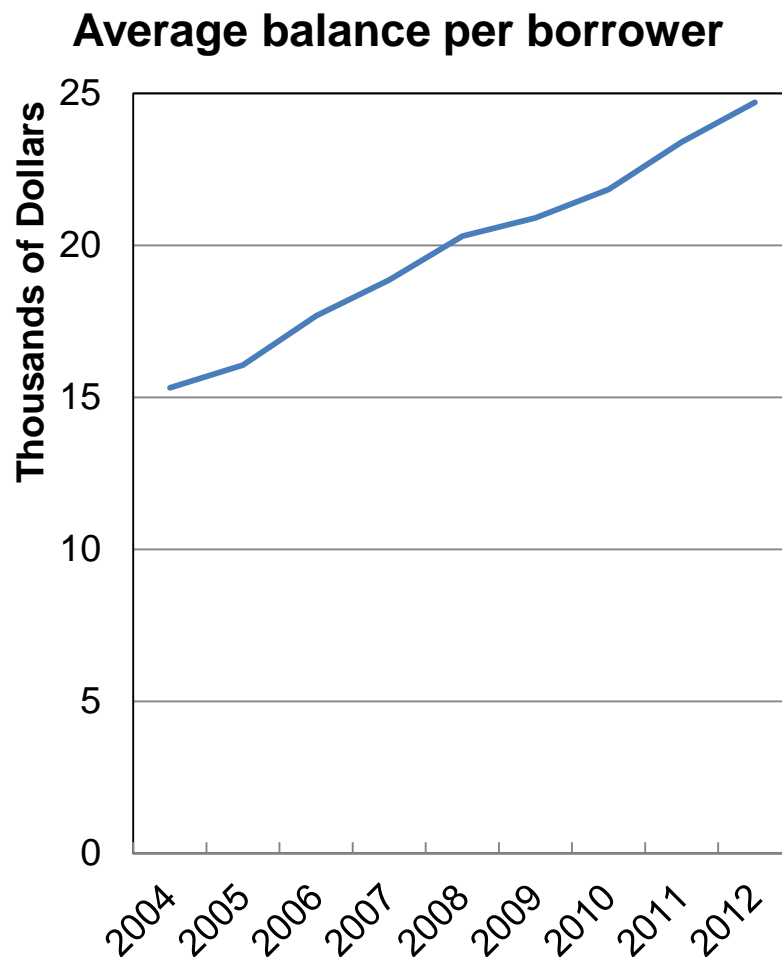
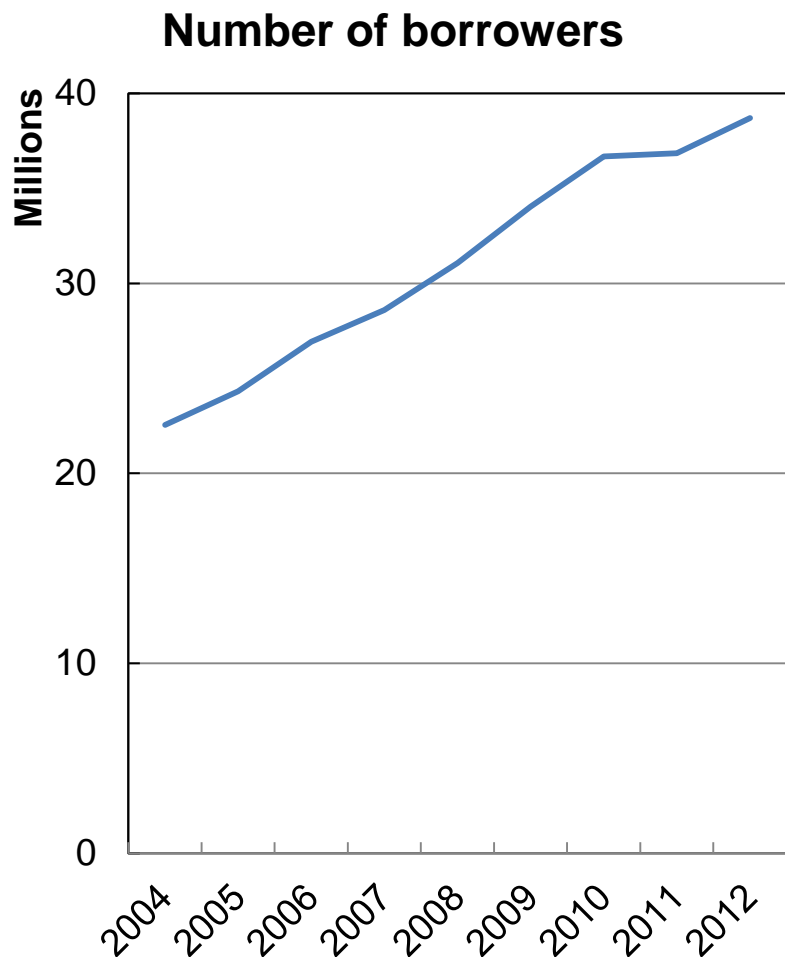


40% of borrowers have balances less than \$10,000  
3.7% of borrowers have balances greater than \$100,000

Source: FRBNY Consumer Credit Panel / Equifax



# Number of borrowers and average balances per person

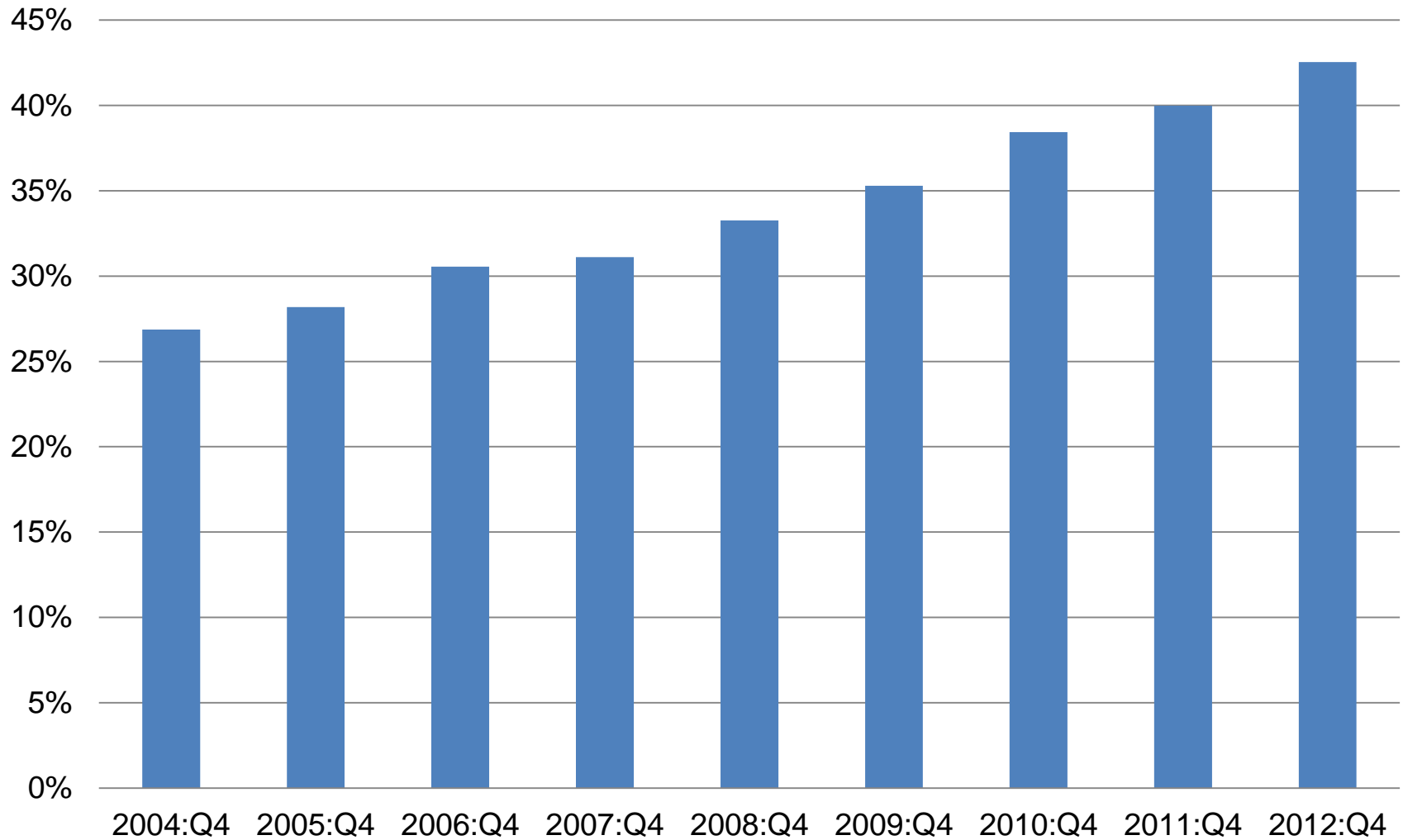


Each increased by 70% between 2004 and 2012 (7% per year)



# Student borrowing increasingly prevalent

## Share of 25 year olds with student debt



Source: FRBNY Consumer Credit Panel / Equifax





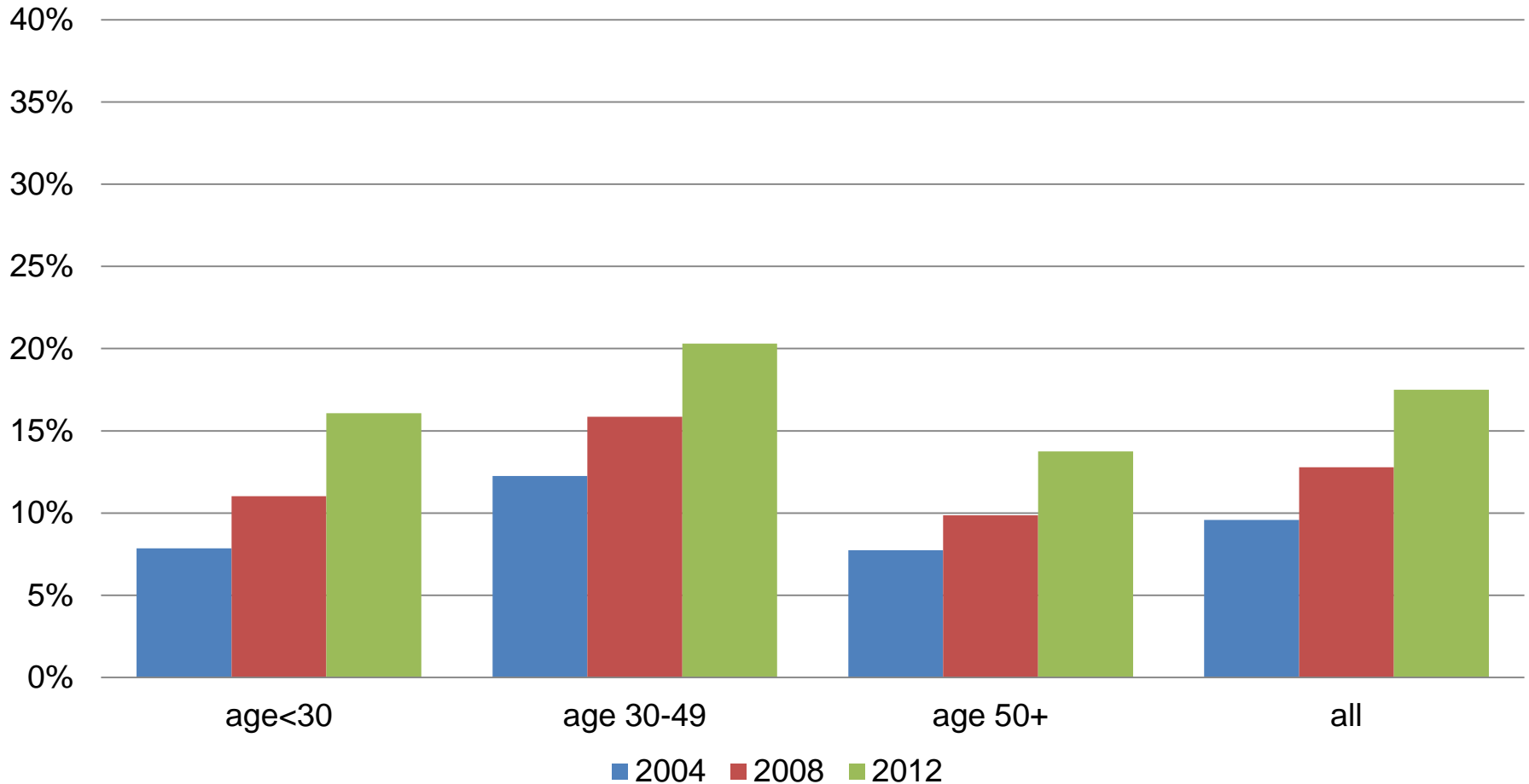
# Summary 1: Growth of Student Debt

- Student Debt almost tripled between 2004 and 2012 and stands at \$966B as of 2012:Q4
  - 70% Increase in the number of borrowers
  - 70% increase average balance per person
- Reasons for the growth in borrowers and per-person debt:
  - More people attend college and graduate school
  - Parents take out student loans for their children
  - Students stay longer in college and more often attend graduate school
  - Lower repayment rates as borrowers delay payments through deferments and forbearances
  - Discharging student debt is very difficult and the balance stays with the borrower



## Part 2: Student Debt Delinquency

# Share of borrowers 90+ days delinquent

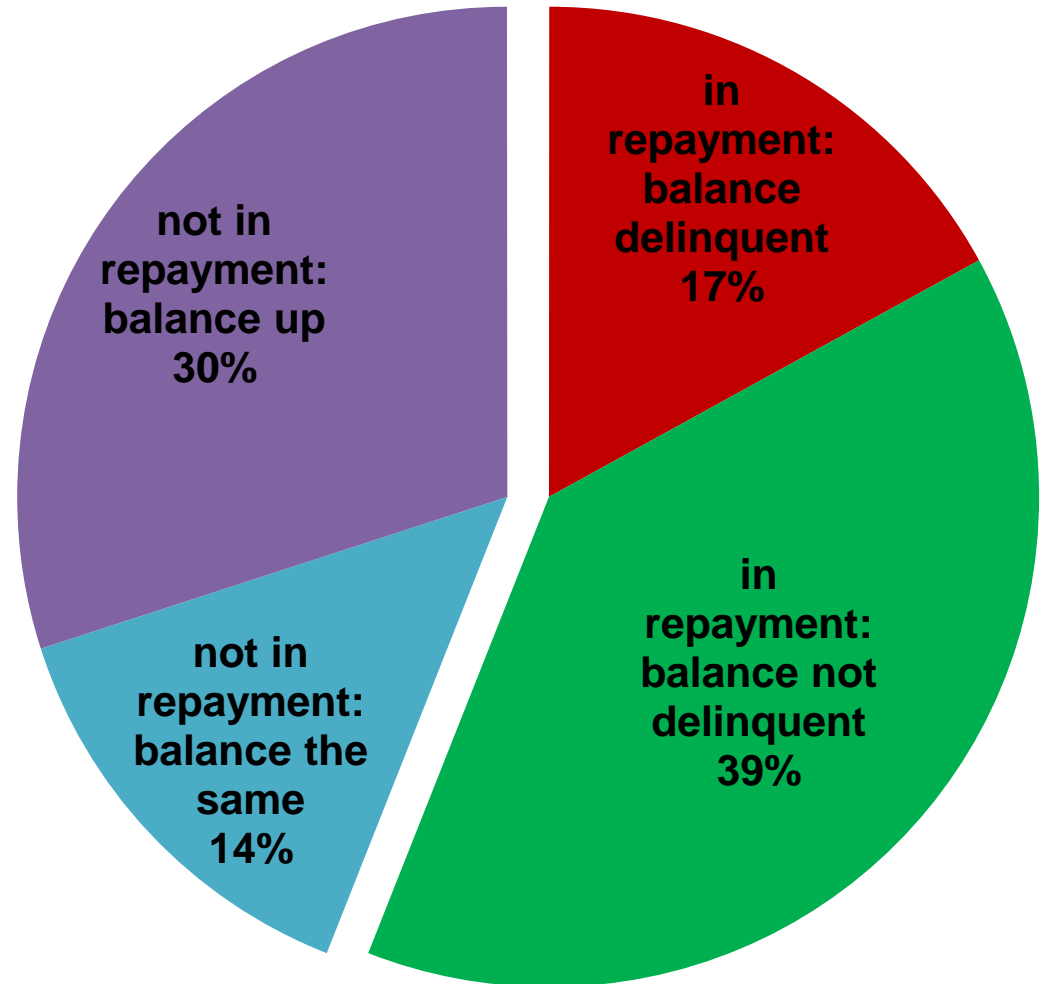


Source: FRBNY Consumer Credit Panel / Equifax

6.7 million borrowers, or 17%, are 90+ days delinquent.  
30-49 year olds have higher delinquency rates.

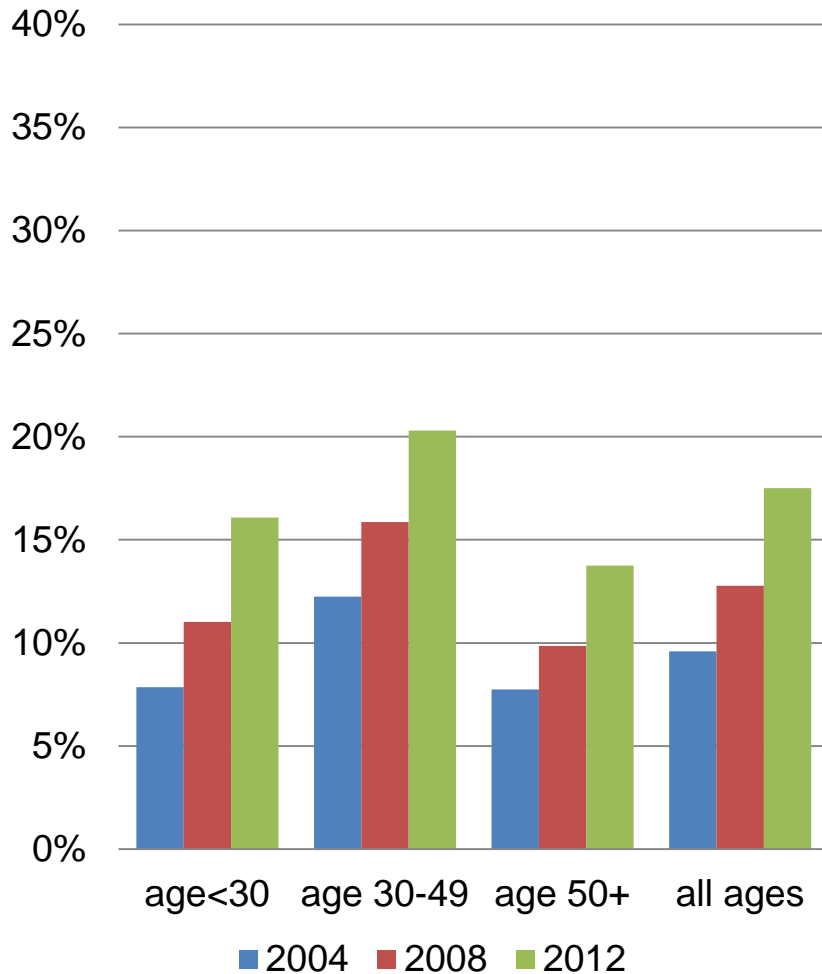
# Borrower repayment status, 2012:Q4

About 44% of borrowers are not yet in repayment due to deferments and forbearances.

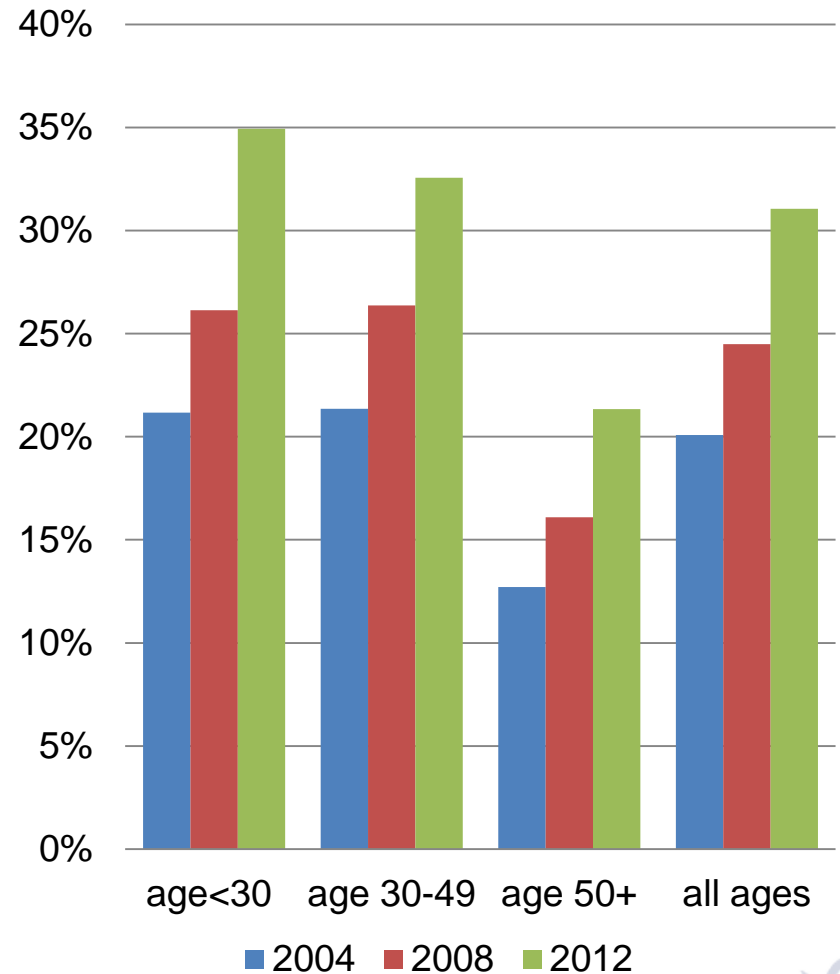


# Delinquency rates higher among borrowers in repayment

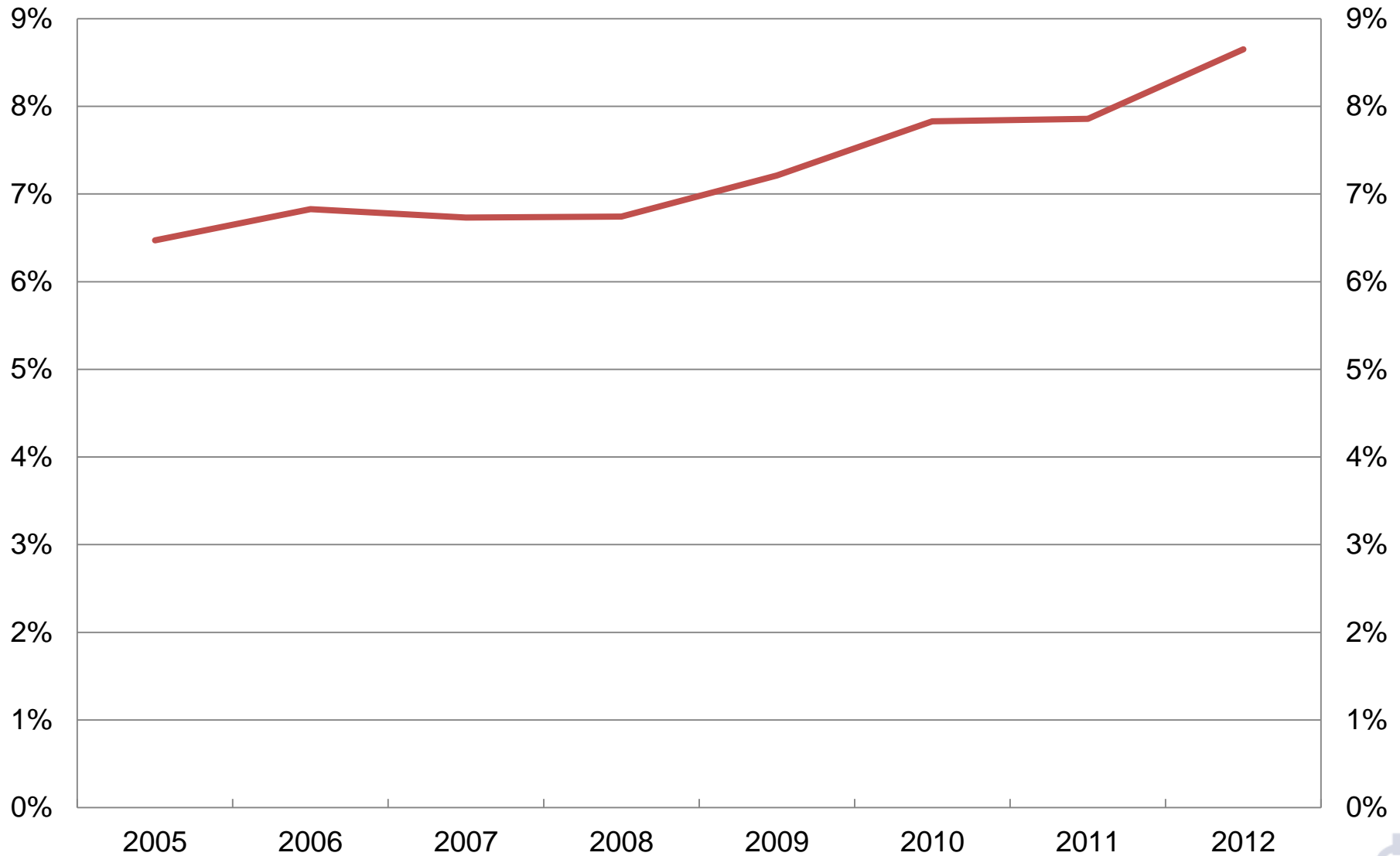
## Share of borrowers 90+ days delinquent



## Share of borrowers in repayment 90+ days delinquent



# Quarterly transition rate of borrowers in repayment from current to delinquent



Source: FRBNY Consumer Credit Panel / Equifax

## Summary 2: Student Debt Delinquency

- About 17% of borrowers are past due on their student debt more than 90 days in 2012, a large increase from under 10% in 2004
- 44% of borrowers are not yet in repayment, and excluding those, the effective 90+ delinquency rate rises to more than 30%.
- The transition rate of borrowers in repayment from current to delinquent has been rising since 2008 from around 6% to nearly 9%.



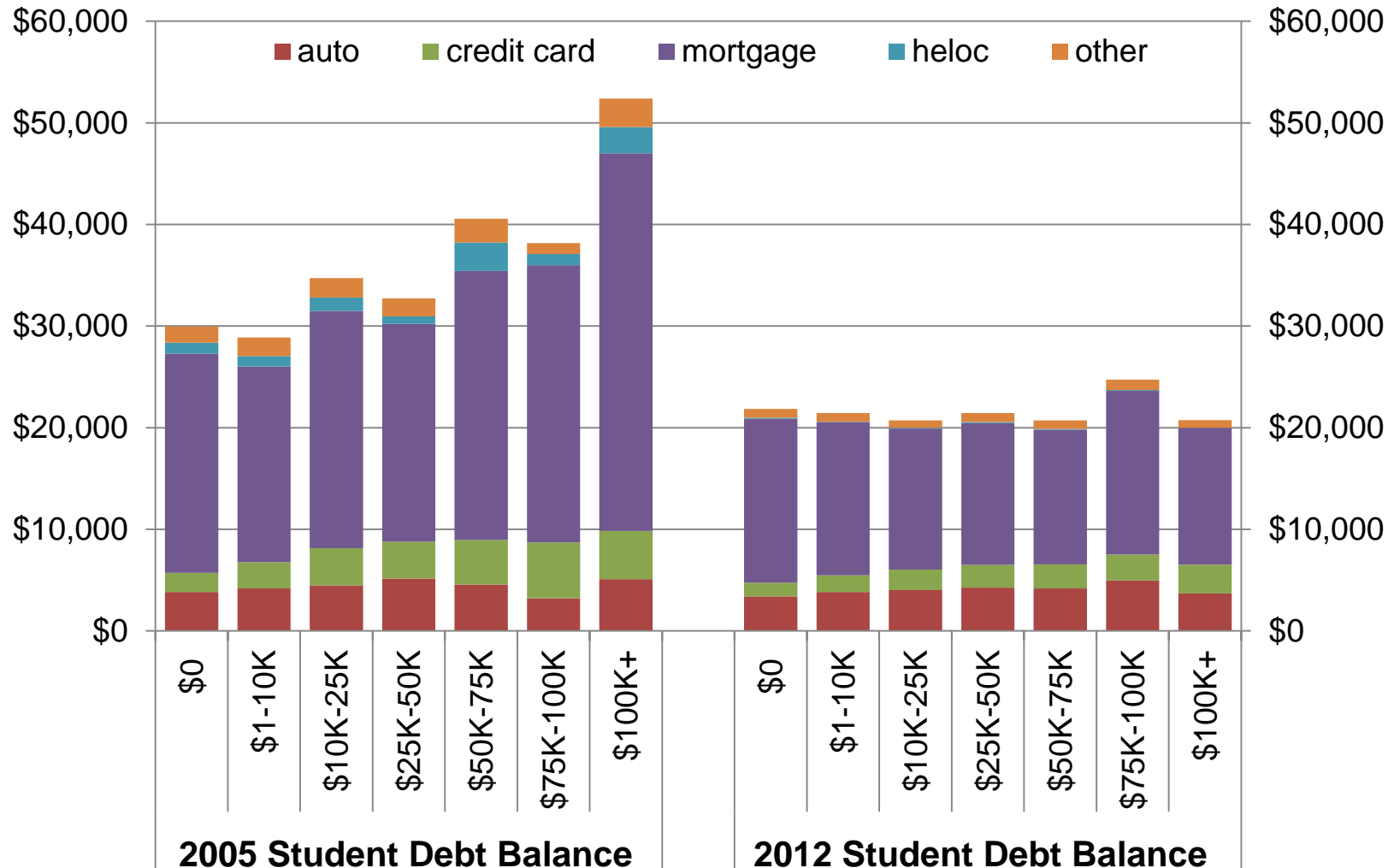
## **Part 3: Student debt and other debts**



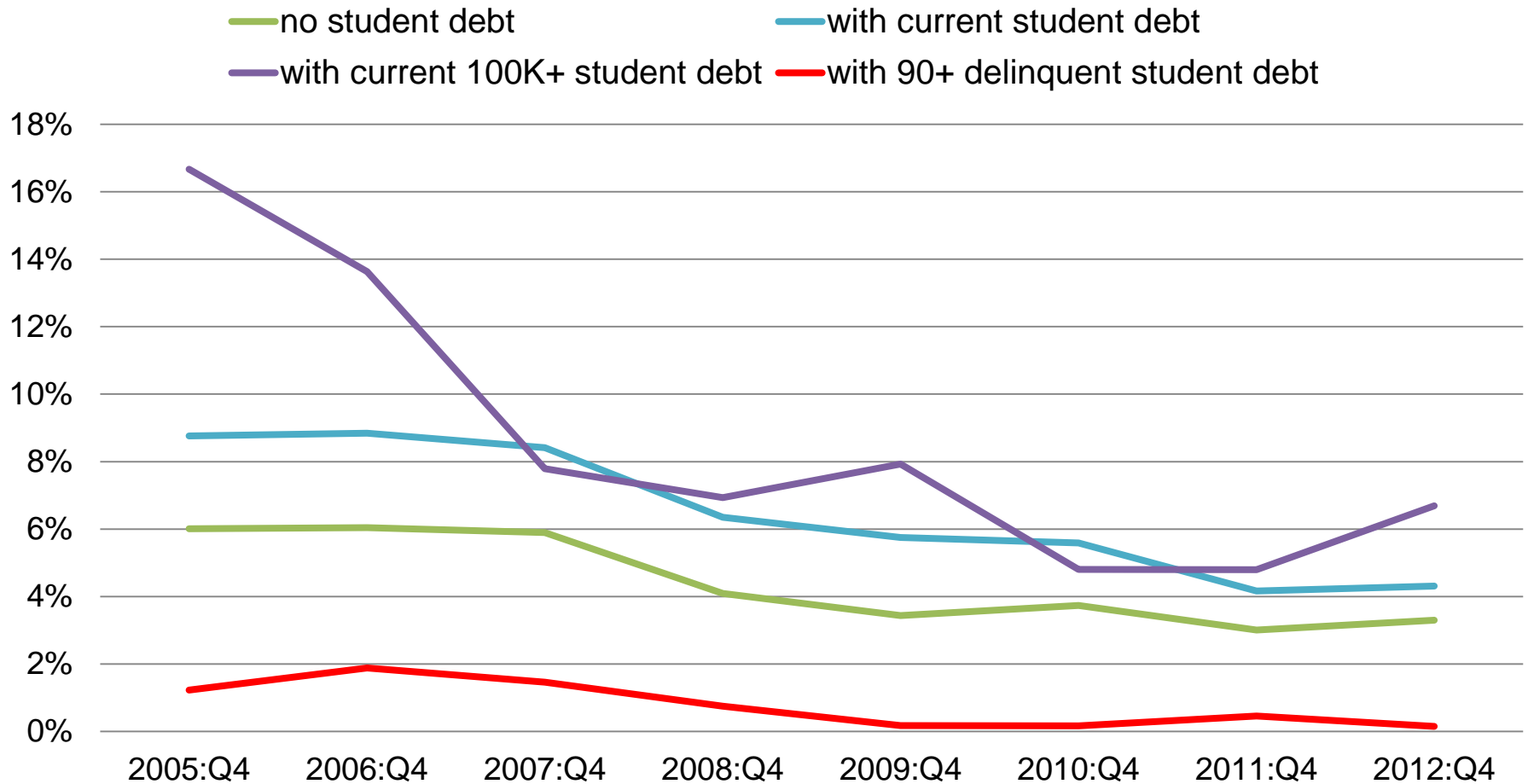
# Non-student debt declined for all borrowers age 25-30

Decline particularly pronounced for borrowers with larger student debt

## Average non-student loan balances, age 25-30



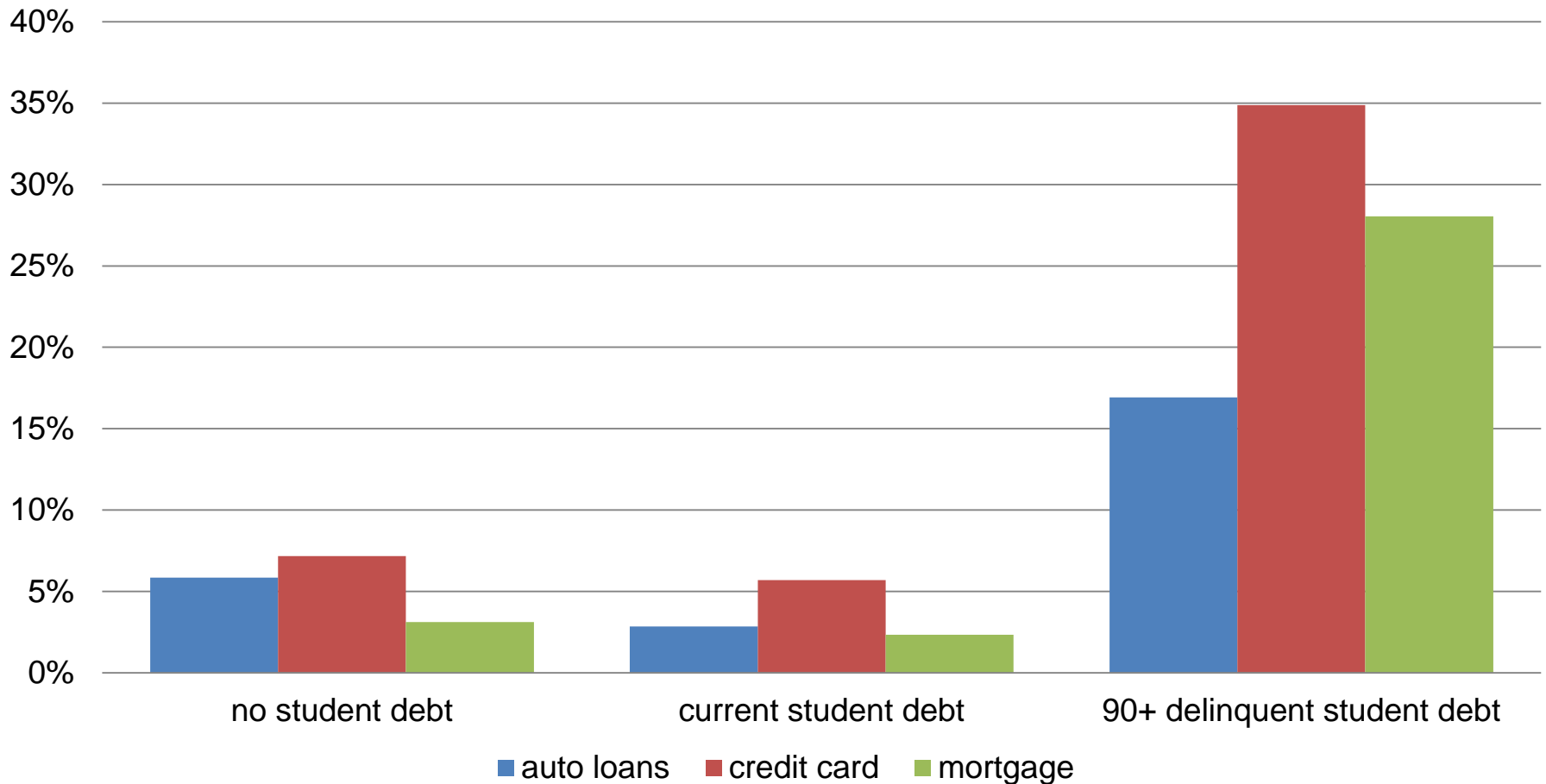
# Share borrowers age 25-30 years old with new mortgage originations



With delinquent student debt, mortgage origination is very difficult. The mortgage origination gap across the size of student debt has declined between 2005 and 2012.

Note: delinquency is as of Q4 of previous year

# Non-student debt 90+ days delinquent, age 25-30, 12:Q4



Delinquent student loan borrowers are very likely to be delinquent on other debt as well.

## Summary 3: Student Debt and Other Debt

- Young borrowers reduced their debt from 2005 to 2012, but the reductions were more pronounced among borrowers with high student loan balances, likely reflecting declines in demand and access to credit.
- High levels of student debt delinquency reduces young borrowers' ability to secure other types of credit.
- Student loan delinquency is also associated with higher delinquency rates on other types of debt.

# Conclusion

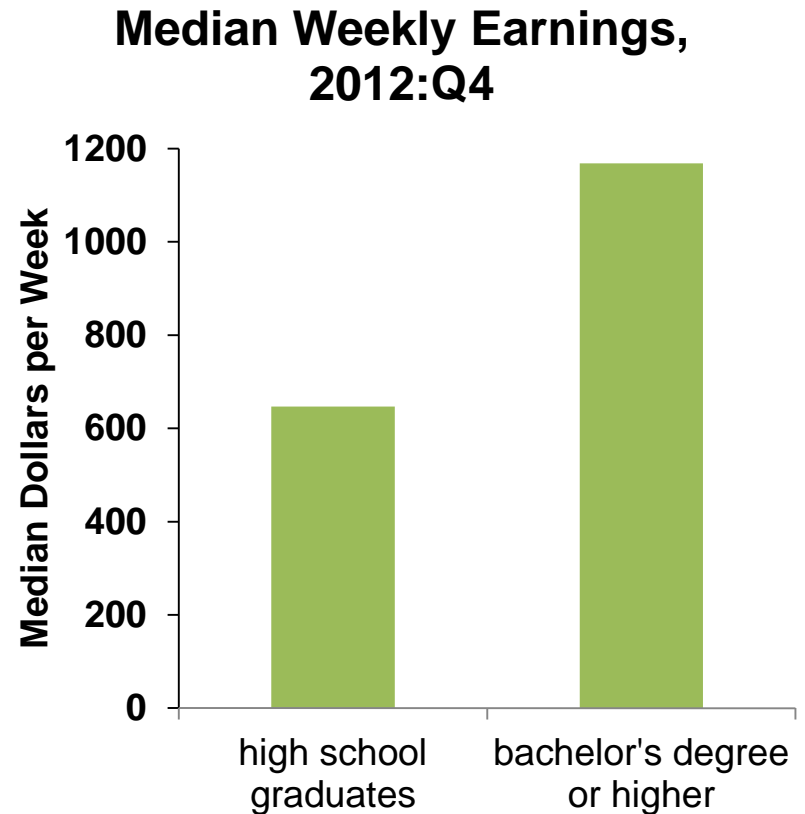
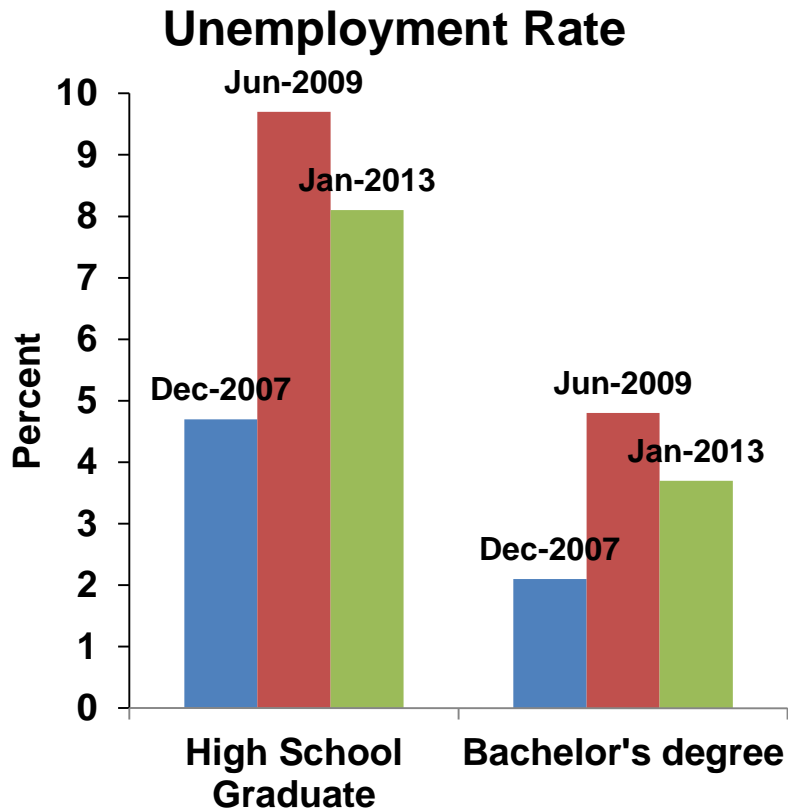
- Higher education is an important investment among young workers for better jobs and higher income, but it is accompanied with a growing student debt burden.
- Total student loan balances almost tripled between 2004 and 2012 due to increasing numbers of borrowers and higher balances per person.
- Nearly one third of the borrowers in repayment are delinquent on student debt.
- The higher burden of student loans and higher delinquencies may affect borrowers' access to other types of credit and the performance of other debt.

# Reference Charts

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# Why borrow for education?

College graduates have lower unemployment rates, fare better during recessions, and enjoy wages roughly double those of high school graduates.



## Distribution of Student Debt balance, 4Q:2005

## Distribution of Student Debt balance, 4Q:2012

