How bad is it?
The Student Loan Default Crisis in Perspective

May 5, 2013
How bad is it?

New Car or Debtor’s Prison?
How bad is it?

Knowledge Survey

1) Most of the US population holds a student loan.
2) Among student loan holders, 40% owe less than $10,000.
3) Among student loan holders, student loan debt has increased faster than other forms of debt (e.g., mortgages, credit cards) in the past 7 years.
4) Young (under 35) bachelor’s degree holders, with relatively low incomes and little wealth hold most of the student loan debt.
5) Young (under 35), bachelor's degree holders, with relatively high incomes and little wealth pay a significantly greater proportion of their household income to repay student loans today than they did almost 20 years ago,
How bad is it?

Knowledge Survey

6) Under 40% of student loan holders in the 2005 cohort of college entrants were in successful repayment in 2011.

7) Most student loan holders do not default on their loans.

8) Earning a credential has no effect on likelihood of repayment outcomes (such as delinquency or default).

9) Women borrow more in student loans than men.

10) College is still worth it in terms of economic payoffs.
How bad is it?

Debt
How bad is it?

Non-mortgage Debt Balances

Source: FRBNY Consumer Credit Panel/Equifax
http://www.newyorkfed.org/householdcredit/
How bad is it?

Total Debt Balance

Source: FRBNY Consumer Credit Panel/Equifax
http://www.newyorkfed.org/householdcredit/
# How bad is it?

## Comparison of Average Consumer Debt

<table>
<thead>
<tr>
<th>Debt</th>
<th>2005</th>
<th>2012</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Student loan</td>
<td>$17,233</td>
<td>$27,253</td>
<td>58%</td>
</tr>
<tr>
<td>Credit card</td>
<td>$5,815</td>
<td>$5,101</td>
<td>-12%</td>
</tr>
<tr>
<td>Mortgage</td>
<td>$44,864</td>
<td>$49,545</td>
<td>10%</td>
</tr>
<tr>
<td>Auto</td>
<td>$5,828</td>
<td>$5,729</td>
<td>-2%</td>
</tr>
<tr>
<td>All other</td>
<td>$5,841</td>
<td>$4,629</td>
<td>-21%</td>
</tr>
</tbody>
</table>

Note: Among US consumers with at least one open student loan
How bad is it?

Proportion of Population with Student Loans

Source: "Is growing student loan debt impacting credit risk?" FICO Insights, (65). January 2013
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Distribution of Student Loan Borrowing, Q4 2012

Source: FRBNY Consumer Credit Panel/Equifax
http://www.newyorkfed.org/householdcredit/
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Median Debt

Source: Pew Research Center tabulations of Survey of Consumer Finances data
How bad is it?

Share Having Debt

Source: Pew Research Center tabulations of Survey of Consumer Finances data
How bad is it?

Student Loan Debt as Share of all Household Debt

Source: Pew Research Center tabulations of Survey of Consumer Finances data
How bad is it?

Ratio of Student Loan Debt to Household Income

Source: Pew Research Center tabulations of Survey of Consumer Finances data
How bad is it?

Repayment Outcomes
## Repayment Outcomes

<table>
<thead>
<tr>
<th>Payment Outcome</th>
<th>%</th>
<th>Category %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Repayment without event</td>
<td>37</td>
<td>37</td>
</tr>
<tr>
<td>Deferment only (in-school enrollment)</td>
<td>7</td>
<td>23</td>
</tr>
<tr>
<td>Deferment only (economic hardship)</td>
<td>4</td>
<td></td>
</tr>
<tr>
<td>Forbearance only</td>
<td>6</td>
<td></td>
</tr>
<tr>
<td>Forbearance and deferment</td>
<td>6</td>
<td></td>
</tr>
<tr>
<td>Delinquency only</td>
<td>5</td>
<td>26</td>
</tr>
<tr>
<td>Delinquency and deferment</td>
<td>5</td>
<td></td>
</tr>
<tr>
<td>Delinquency and forbearance</td>
<td>8</td>
<td></td>
</tr>
<tr>
<td>Delinquency with deferment/forbearance</td>
<td>8</td>
<td></td>
</tr>
<tr>
<td>Default</td>
<td>15</td>
<td>15</td>
</tr>
</tbody>
</table>

Source: Institute for Higher Education Policy, "Delinquency: The Untold Story of Student Loan Borrowing" (March 2011)
## How bad is it?

### Proportion of Consumers 90 days late on payment

<table>
<thead>
<tr>
<th>Credit Obligation</th>
<th>October 2005-2007</th>
<th>October 2010-2012</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Auto finance</td>
<td>6.6</td>
<td>7.6</td>
<td>15.2%</td>
</tr>
<tr>
<td>Bankcard</td>
<td>14.4</td>
<td>4.2</td>
<td>-70.8%</td>
</tr>
<tr>
<td>Mortgage</td>
<td>5.3</td>
<td>11.7</td>
<td>120.8%</td>
</tr>
<tr>
<td>Student loan</td>
<td>17.0</td>
<td>25.1</td>
<td>47.6%</td>
</tr>
</tbody>
</table>

Note: Among US consumers with at least one open student loan
Source: “Is growing student loan debt impacting credit risk?” FICO Insights, (65).
### How bad is it?

### Repayment Outcome by Credential Status

<table>
<thead>
<tr>
<th>Payment Outcome</th>
<th>No credential</th>
<th>Credential</th>
<th>All borrowers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Timely repayment</td>
<td>26</td>
<td>48</td>
<td>35</td>
</tr>
<tr>
<td>Deferment/forbearance without delinquency</td>
<td>15</td>
<td>14</td>
<td>15</td>
</tr>
<tr>
<td>Delinquency without default</td>
<td>33</td>
<td>22</td>
<td>28</td>
</tr>
<tr>
<td>Default</td>
<td>26</td>
<td>16</td>
<td>21</td>
</tr>
</tbody>
</table>

## How bad is it?

### Repayment Outcomes by Institution Type

<table>
<thead>
<tr>
<th>Payment Outcome</th>
<th>Public 4yr</th>
<th>Private 4yr</th>
<th>Public 2yr</th>
<th>Proprietary 2yr</th>
<th>Proprietary 4yr</th>
</tr>
</thead>
<tbody>
<tr>
<td>Timely repayment</td>
<td>45</td>
<td>53</td>
<td>24</td>
<td>32</td>
<td>35</td>
</tr>
<tr>
<td>Deferment/forbearance, but not delinquent</td>
<td>21</td>
<td>20</td>
<td>16</td>
<td>5</td>
<td>12</td>
</tr>
<tr>
<td>Delinquent, but not defaulted</td>
<td>24</td>
<td>20</td>
<td>36</td>
<td>27</td>
<td>29</td>
</tr>
<tr>
<td>Default</td>
<td>10</td>
<td>8</td>
<td>24</td>
<td>36</td>
<td>24</td>
</tr>
</tbody>
</table>
How bad is it?

We lack information on other differences

• Race/ethnicity
  • Students of color likely to borrow more, are less likely to graduate, and face higher unemployment rates than white peers (Source: Center for American Progress)
  • About 27% of African American had debt of $30,500 or higher compared to 16% of white peers in 2010 (Source: College Board Policy & Advocacy Center)

• Gender: American Association of University Women report in 2009 found
  • Women and men tend to borrow the same amount
  • Men tend to earn more than women
  • In 2009 47% of women were paying 8% of their salary to repay student debt compared to 39% of men
  • 20% of women were paying 15% of their salary to repay student debt compared to 15% of men
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Three Points to Consider
How bad is it?

% of Total Aid in Grants & Loans

Source: College Board "Trends in Student Aid" (2012), Table 4
## Shifts in Funding Higher Education

### How bad is it?

<table>
<thead>
<tr>
<th></th>
<th>2007-2008</th>
<th>2012-2013</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>State appropriations for higher education</td>
<td>$87,172,406,161</td>
<td>$70,361,814,675.0</td>
<td>-19%</td>
</tr>
<tr>
<td>FTE enrollment at public college &amp; universities</td>
<td>10,271,685</td>
<td>11,471,488</td>
<td>12%</td>
</tr>
<tr>
<td>State appropriations per FTE student</td>
<td>8,487</td>
<td>6,134</td>
<td>-28%</td>
</tr>
</tbody>
</table>

Sources: Center on Budget Policy & Priorities, “Recent deep state higher education cuts may harm students and the economy for years to come” (March 19, 2013) [http://www.cbpp.org/cms/?fa=view&id=3927](http://www.cbpp.org/cms/?fa=view&id=3927);
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Tuition revenue as % of total educational revenue, FY 1987-FY 2012

Source: Center on Budget Policy & Priorities, “Recent deep state higher education cuts may harm students and the economy for years to come” (March 19, 2013)
http://www.cbpp.org/cms/?fa=view&id=3927
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Employment by Highest Education

http://cew.georgetown.edu/collegeadvantage/
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The ‘crisis’ crisis in higher education

Burnbaum & Shushok studied claims of crisis swirling around higher education a decade ago

• Looked at periodicals from 1970-1994
• Concerns about college finances occurred every year & accounted for 27% of claims of crisis
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Knowledge Survey Answers

1) Most of the US population has a student loan.
   False: Less than 20% had a student loan

2) Among student loan holders, 40% owe less than $10,000.
   True: All together, about 70% of loan holders owe less than $25,000.

3) Among student loan holders, student loan debt has increased faster than other forms of debt in the past 7 years.
   True: Student loan debt has increased about 58% since 2005, compared to 105 for mortgage debt and decreased in credit card, auto, and other forms of debt.

4) Young (under 35), bachelor’s degree holders, with relatively low incomes and little wealth hold most of the student loan debt.
   False: Young (under 35), bachelor’s degree holders with relatively **HIGH** incomes and little wealth hold most of the student loan debt.
How bad is it?

Knowledge Survey Answers

5) Young (under 35), bachelor's degree holders, with relatively high incomes and little wealth pay a significantly greater proportion of their household income to repay student loans today than they did almost 20 years ago,
   True

6) Under 40% of student loan holders in the 2005 cohort of college entrants were in repayment without event in 2011.
   True: 37% of student loan holders were in repayment without event.

7) Most student loan holders do not default on their loans.
   True: Only 15% of the 2005 cohort of students were in default.
8) Earning a credential has no effect on likelihood of repayment outcomes (such as delinquency or default).

   False: Students who completed a credential were more likely to be in timely repayment than students who did not earn a credential.

9) Women borrow more in student loans than men.

   False: Women and men borrow about the same, but women tend to earn less and therefore must devote more of their salary to repayment of student loans.

10) College is still worth it in terms of economic payoffs.

   True
Contact Information

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Appended Slides
How bad is it?

Loan Balances, by Age Group

Source: FRBNY Consumer Credit Panel/Equifax
http://www.newyorkfed.org/householdcredit/
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Prevalence of Student Borrowing

Source: FRBNY Consumer Credit Panel/Equifax
http://www.newyorkfed.org/householdcredit/
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Distribution of Aggregate Student Loan Debt Outstanding

- **Age**
  - Younger than 35
  - 35 and older
  - 55-64
  - 45-54
  - 35-44

- **Education**
  - Less than HS diploma
  - HS graduate
  - Some college
  - College graduate

- **Wealth**
  - Wealthiest 10%
  - 75%-89.9%
  - Third fourth
  - Second fourth
  - Lowest fourth

- **Income**
  - Richest 10%
  - 80%-89.9%
  - Fourth fifth
  - Middle fifth
  - Second fifth
  - Lowest fifth

Source: Pew Research Center tabulations of Survey of Consumer Finances data
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% Borrowers 90+ Days Delinquent

Share of all student loan borrowers...

- 2004
- 2008
- 2012

...and only borrowers in repayment

Source: FRBNY Consumer Credit Panel/Equifax
http://www.newyorkfed.org/householdcredit/