Household Debt and Credit: Student Debt
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Donghoon Lee

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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
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.

Source: FRBNY Consumer Credit Panel / Equifax
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

Number of borrowers

Average balance per borrower

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

Source: FRBNY Consumer Credit Panel / Equifax
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
6.7 million borrowers, or 17%, are 90+ days delinquent. 30-49 year olds have higher delinquency rates.

Source: FRBNY Consumer Credit Panel / Equifax
About 44% of borrowers are not yet in repayment due to deferments and forbearances.

Source: FRBNY Consumer Credit Panel / Equifax
Delinquency rates higher among borrowers in repayment

Source: FRBNY Consumer Credit Panel / Equifax
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

Source: FRBNY Consumer Credit Panel / Equifax
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
Delinquent student loan borrowers are very likely to be delinquent on other debt as well.

Source: FRBNY Consumer Credit Panel / Equifax
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
Why borrow for education?

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

Source: FRBNY Consumer Credit Panel / Equifax
Distribution of Student Debt balance, 4Q:2005

Distribution of Student Debt balance, 4Q:2012

Source: FRBNY Consumer Credit Panel / Equifax