

Does Rising Student Debt Affect the Home Purchases of Young Borrowers?

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The views presented here are those of the author and do not necessarily reflect those of the Federal Reserve Bank of New York, or the Federal Reserve System

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 is now over \$1 trillion, and is attracting special attention from policymakers, the media, and the public.
- We present our analysis on the historical and current situation of student debt and discuss its implications for the borrowers and the economy.



Outline

- Data
- Accounting for aggregate balance growth
- Student loan payment and delinquency
- Student loan and Housing and other debt.



About the Data

- The findings discussed here are based on the FRBNY Consumer Credit Panel (CCP) – a representative sample of consumer credit data that the New York Fed acquired from Equifax.
- FRBNY CCP contains borrower level information on student loan balance, payment status together with other types of household debt such as mortgages, credit cards and auto loans – but no information on federal loans vs. private loans.
- This is a source data for “FRBNY Quarterly report on Household debt and credit” which updates information on student loan borrowers and related household debt.
 - www.newyorkfed.org/householdcredit



Data. The FRBNY Consumer Credit Panel

Panel of loans, individuals and households based on individual credit reports

- **Ability to track individual borrowers over time:** follow individuals with and without student loans (entry and exit), and can link over consolidations, rehabilitations, account transfers due to defaults
- **Ability to link multiple loans for same person at any point in time:** multiple student loan accounts, federal and private loans
- **Ability to link individuals in the same household:** credit/loan situation of all family members – total exposure and distribution within household, Parents plus loans and parents cosigning for their children



Sample Design

Unique sample design generating a longitudinal quarterly panel of individuals and households from 1999-2013.

- Universe: entire US Population with credit files (240 million individuals per quarter, aged 18 and older.)
- Sample selection: random 5% using last 4 digits of SSN + All household members
- Household matching: based on home address
- Representative sample of US individuals and households (about 40 million individuals per quarter)



Main Features of FRBNY CCP

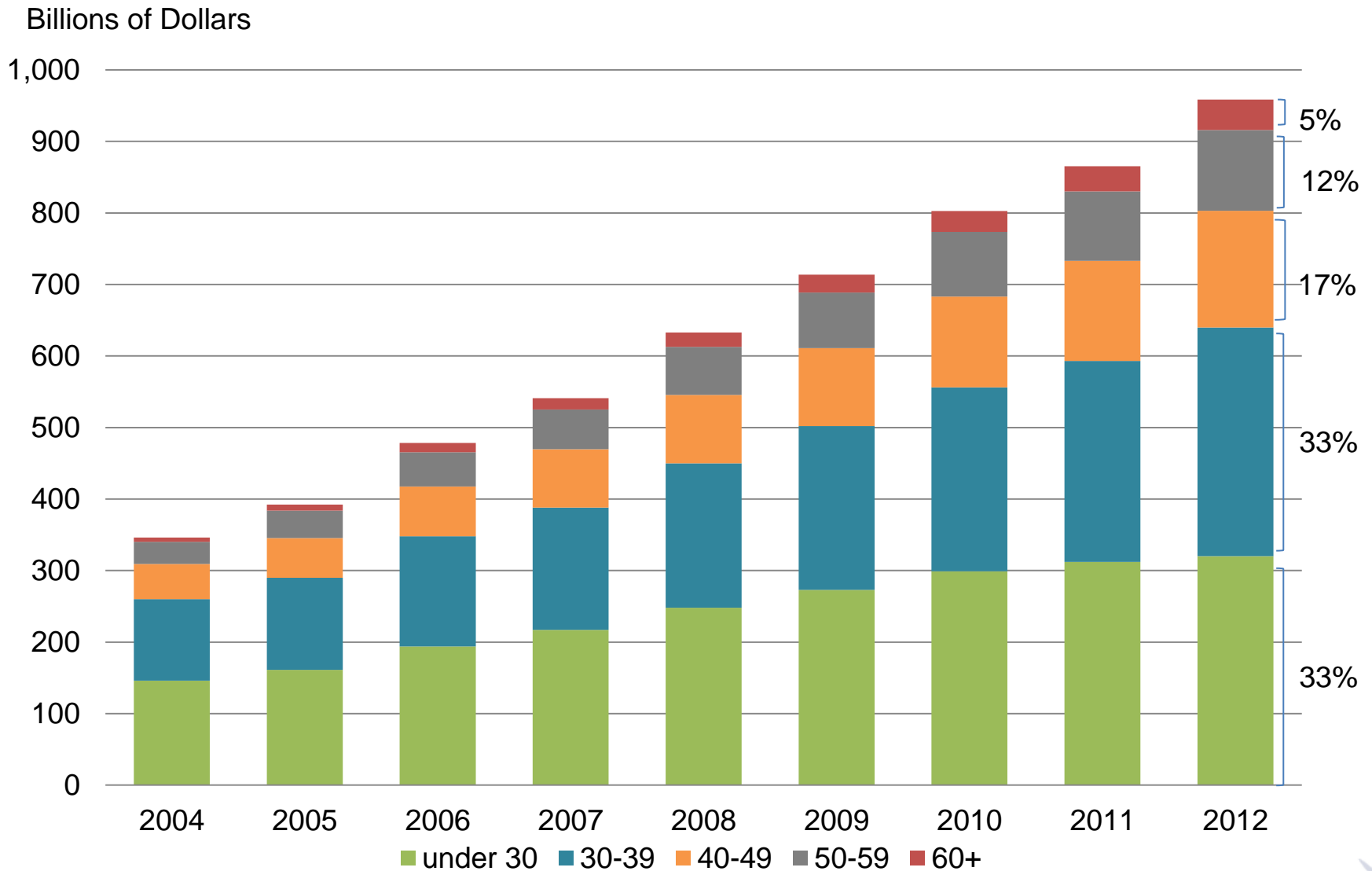
- Longitudinal information on all individual student loans and mortgages
 - Individual account variables: opening date, origination amount, current balance, origination balance, delinquency status, individual/joint account, term/monthly payment, narrative codes detailing credit events such as default
- Borrower level information on auto loans, credit cards
 - Consumer-level auto loan, credit card data: Total Balance/Number of accounts by Delinquency Status, origination amount and credit limit
- Public record information
 - Public record information on bankruptcies, collections, tax liens
- Individual characteristics
 - Borrower characteristics: birth year, geographic location (state, zipcode, census block)



Part 1: Growth of Student Loans

Total student loan balances by age group

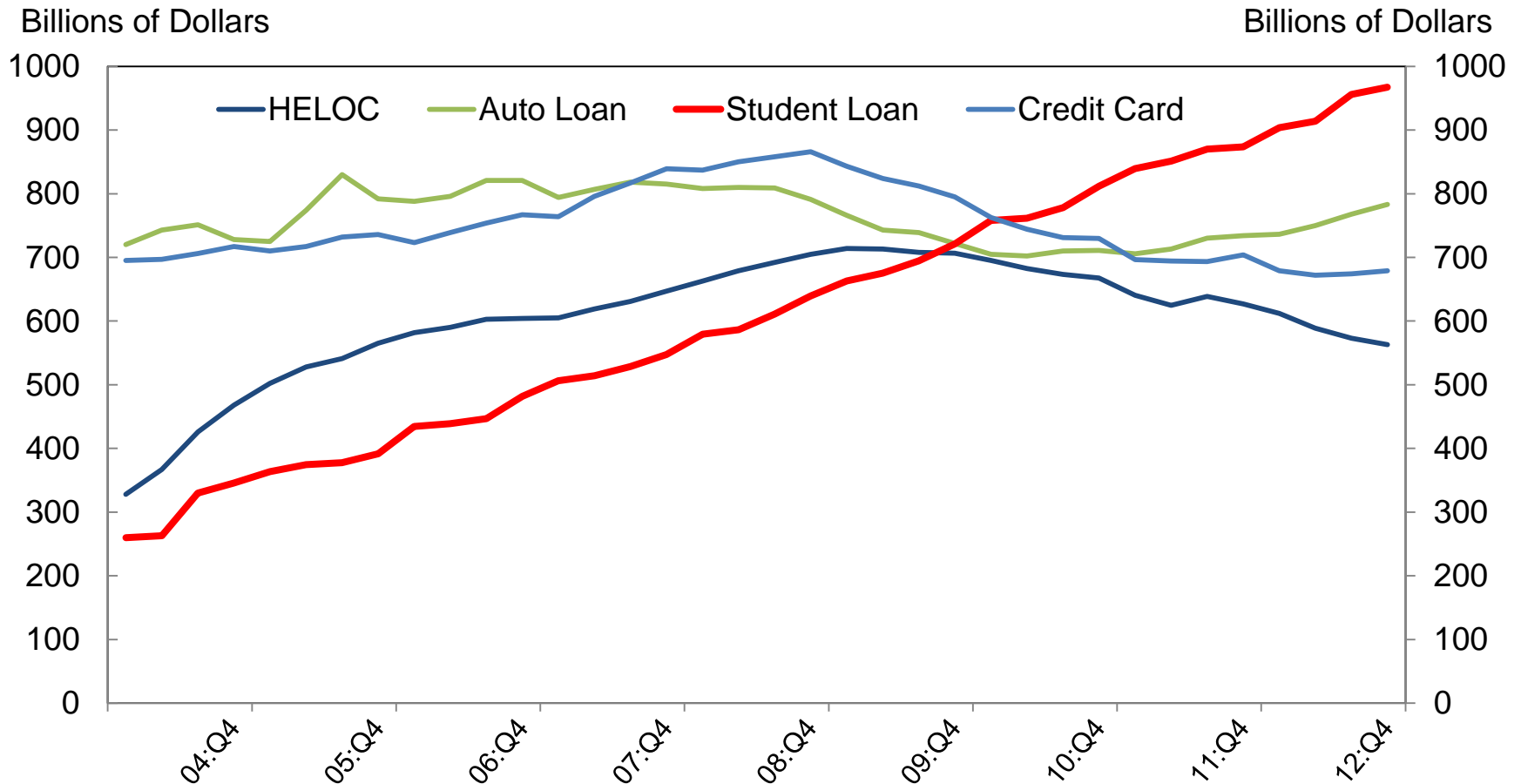
increasing across all age groups



Source: FRBNY Consumer Credit Panel / Equifax



Non-mortgage balances

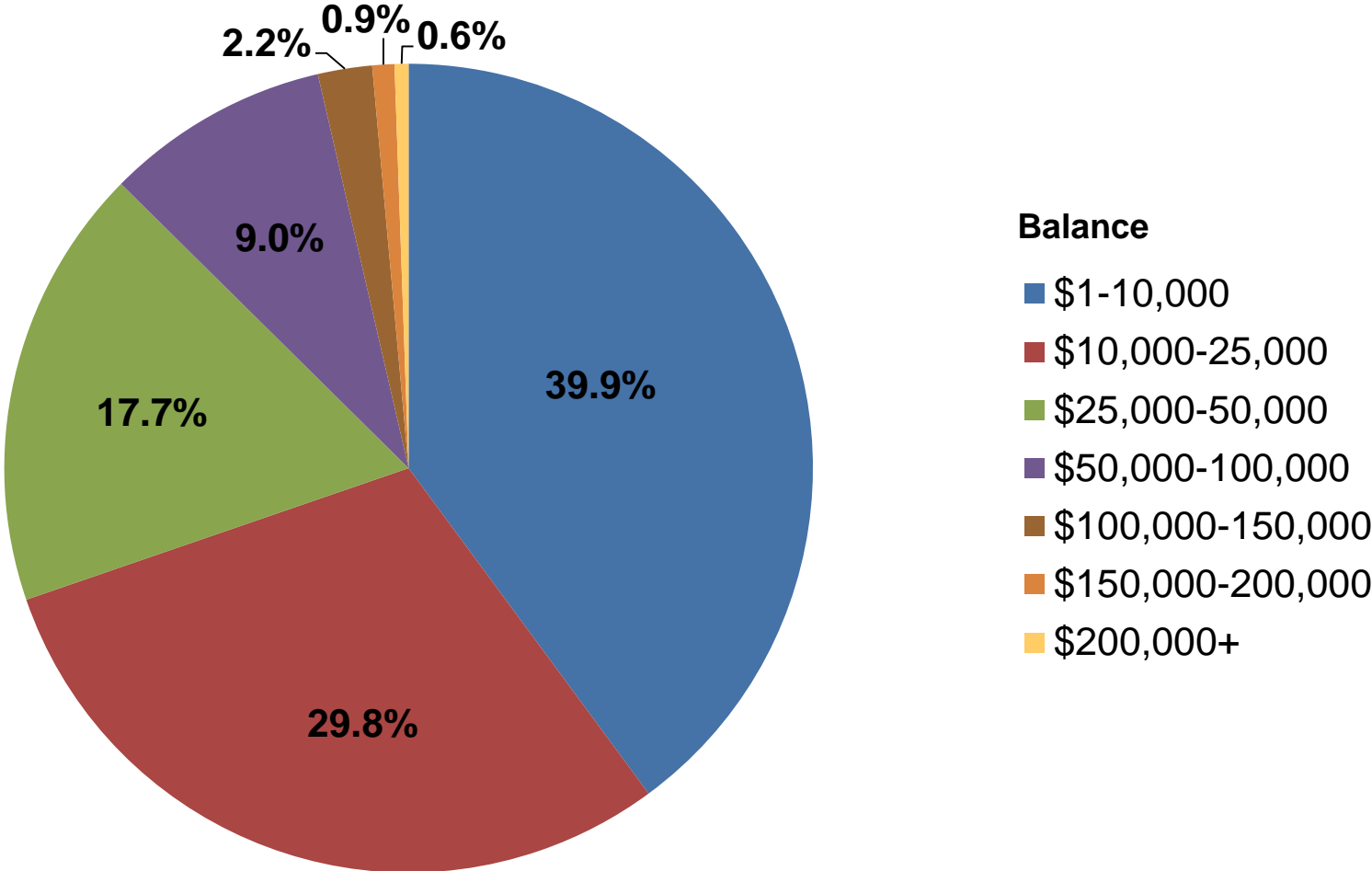


Source: FRBNY Consumer Credit Panel / Equifax

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.



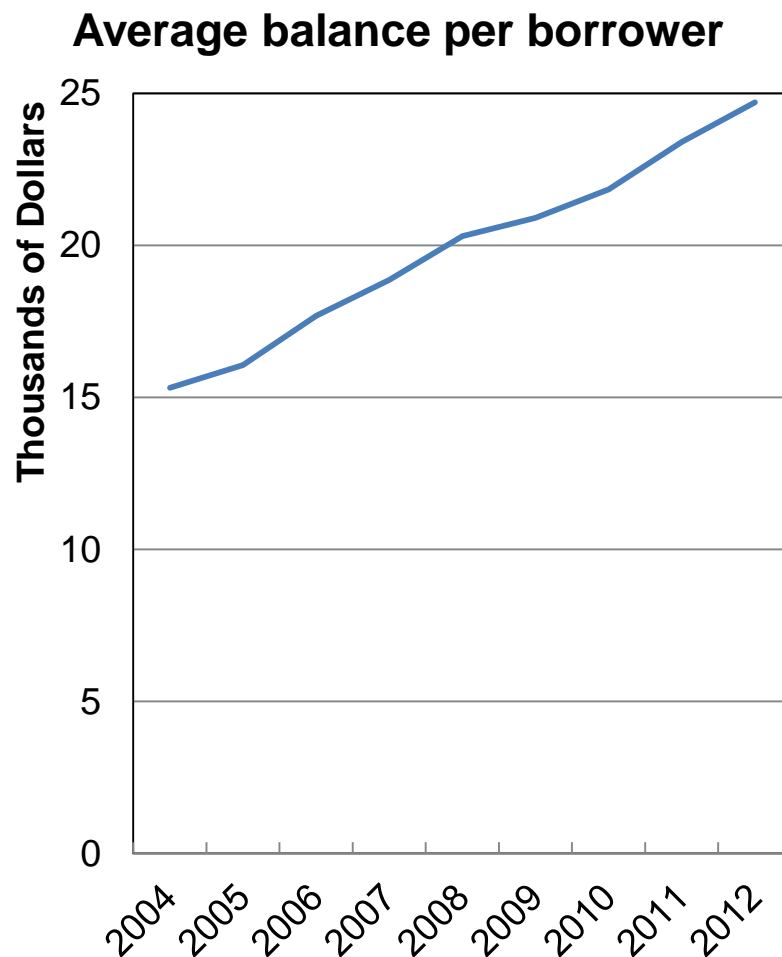
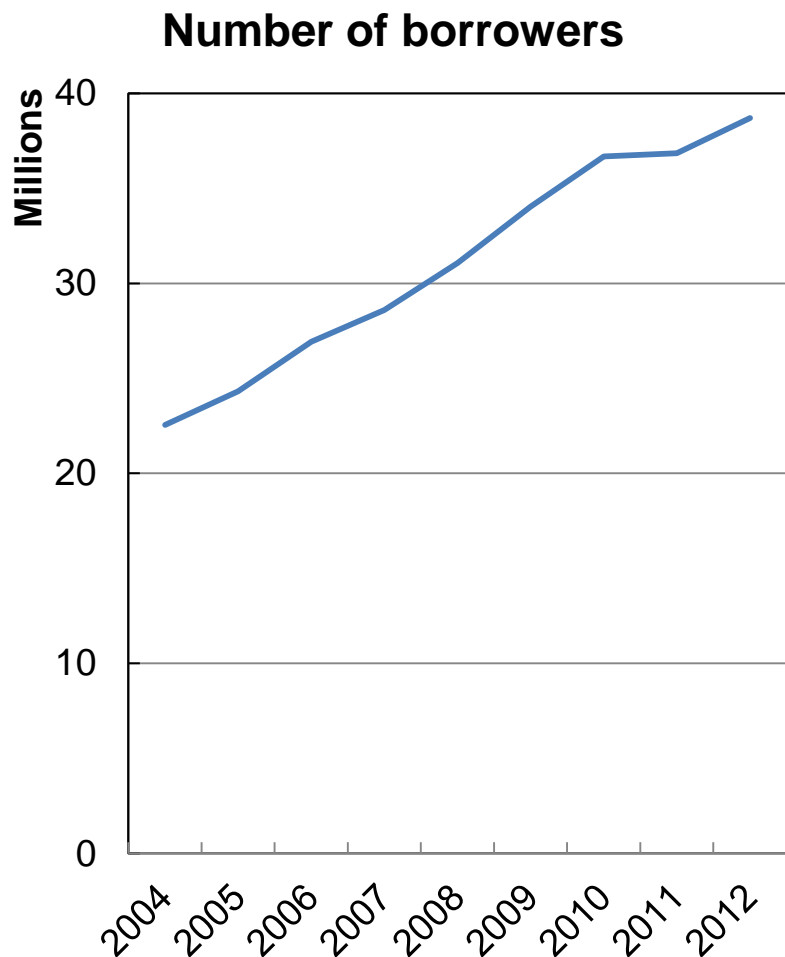
Distribution of student loan balance, 2012:Q4



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

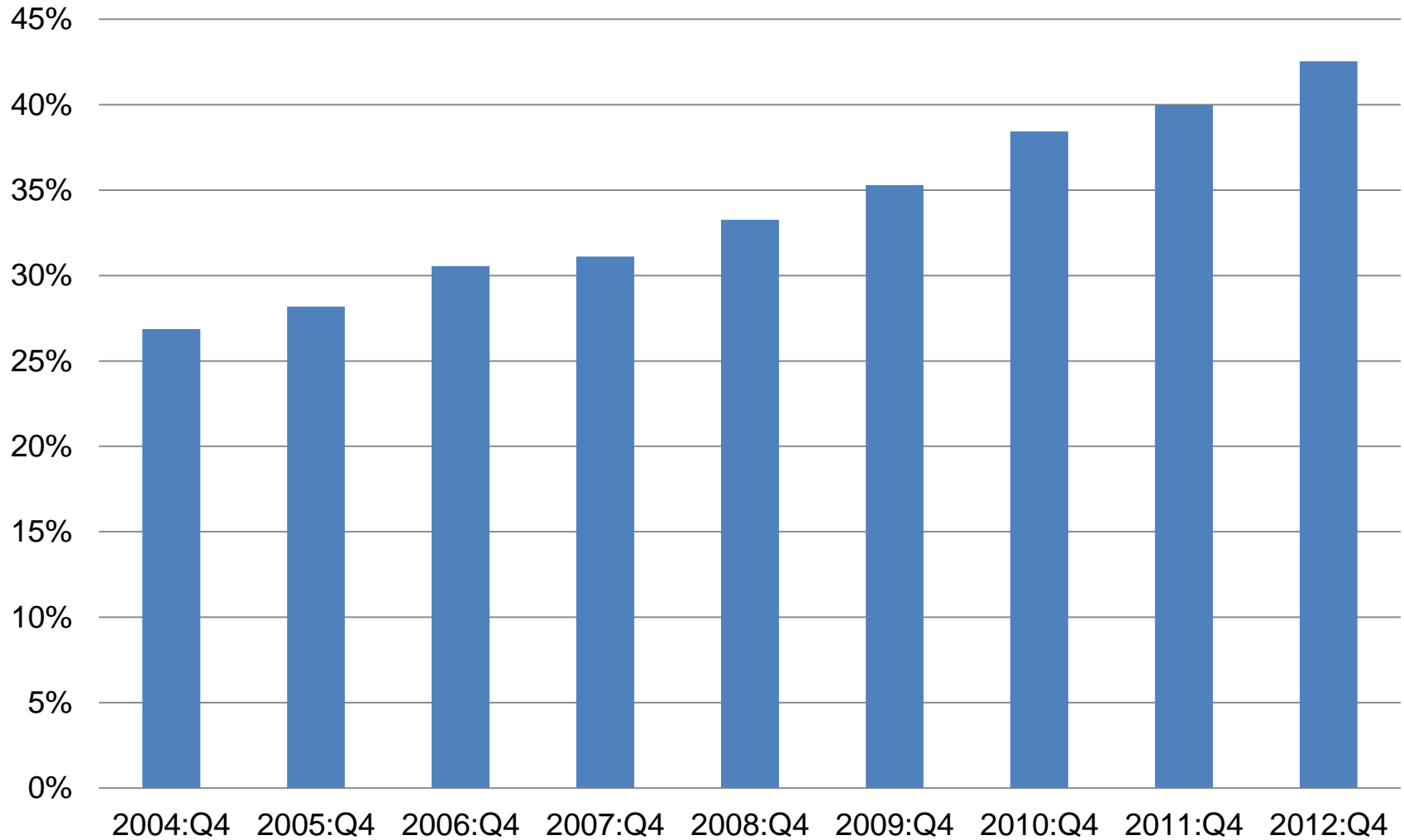
Number of borrowers and average balance per person



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



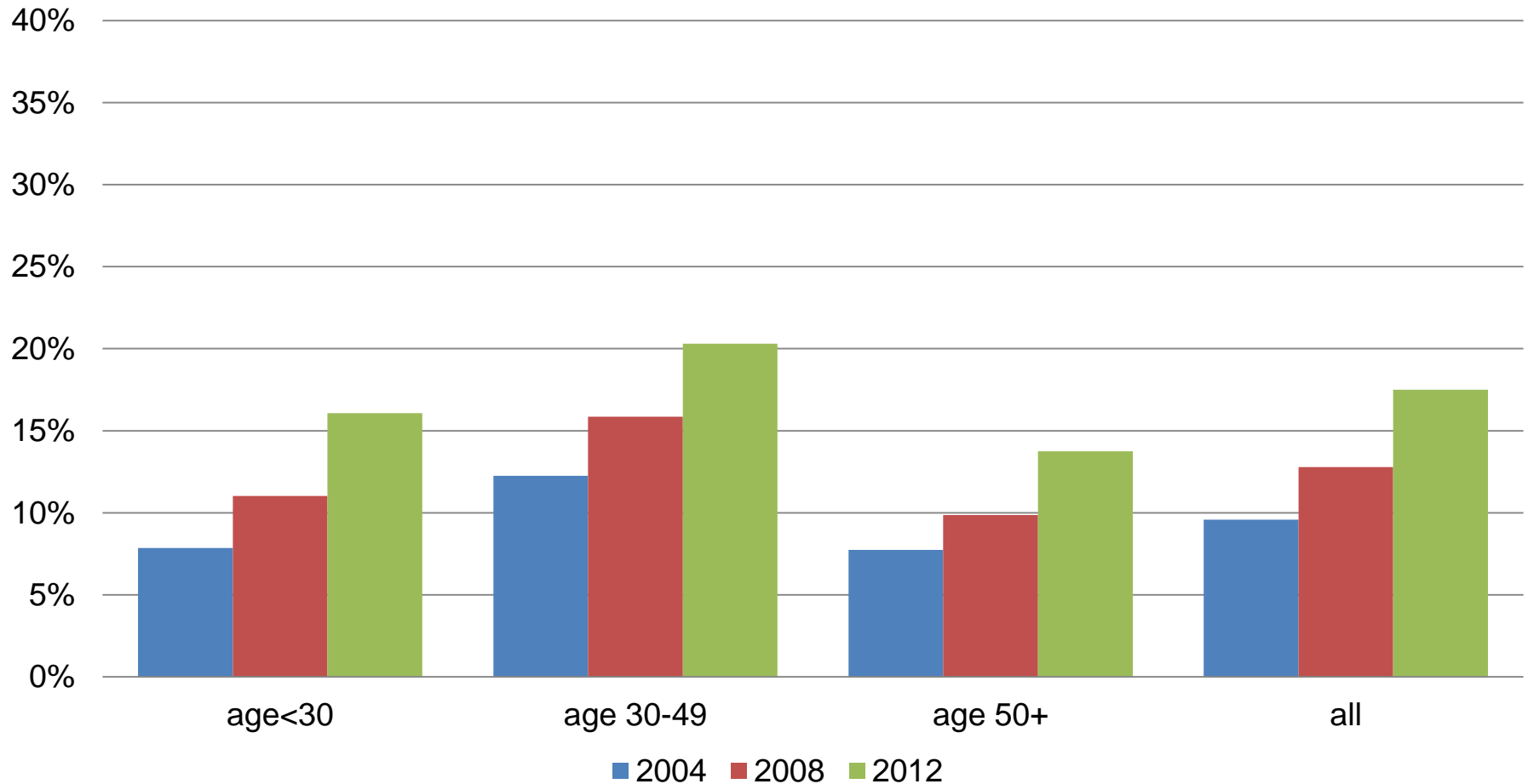
Summary 1: Growth of Student Debt

- 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
 - High inflow:
 - Increasing number of new borrowers
 - Taking more years to complete education
 - Low outflow:
 - Low repayment rates
 - High delinquency
- Two-thirds of the outstanding balance is held by borrowers under 40 years old
- Student loans are now the second-largest form of household debt, after mortgages



Part 2: Student Debt Delinquency

Share of borrowers 90+ days delinquent (incl. default)



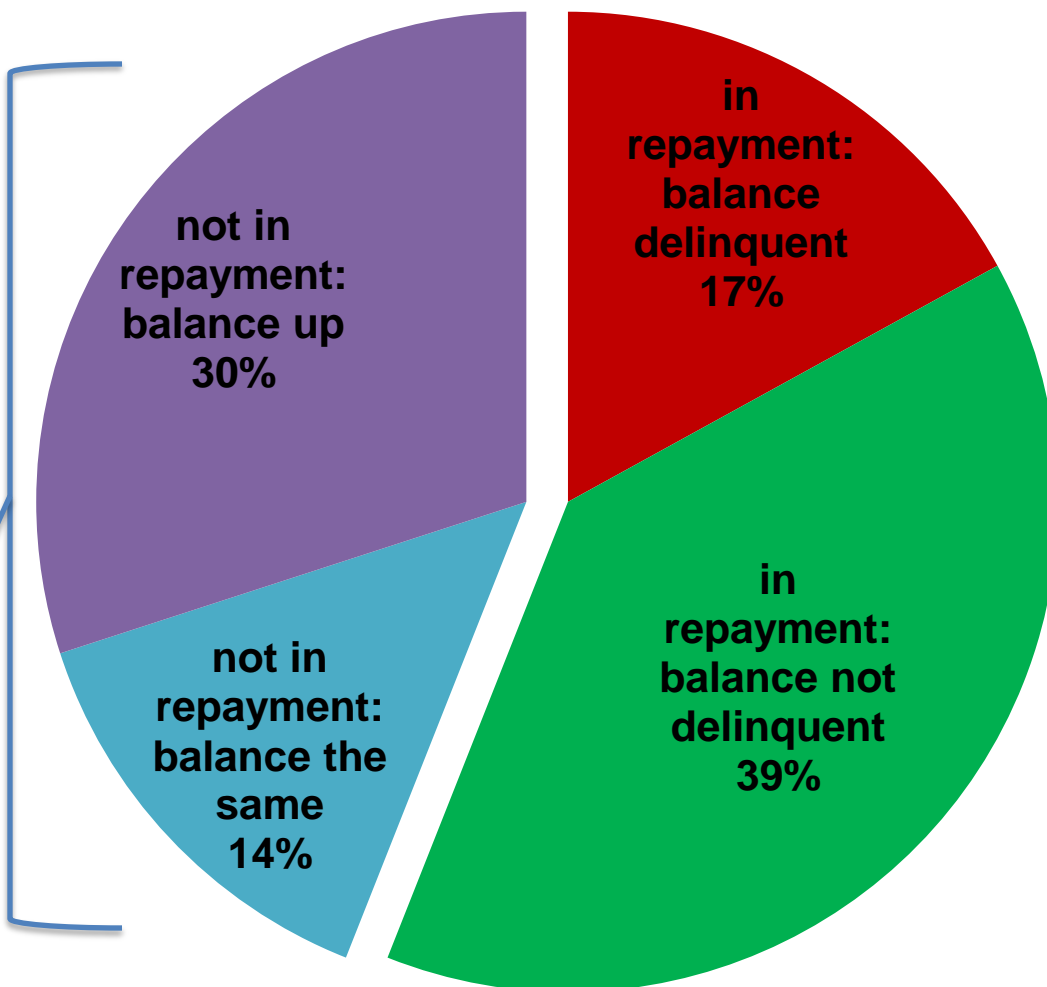
Source: FRBNY Consumer Credit Panel / Equifax

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 active repayment due to deferments and forbearances.

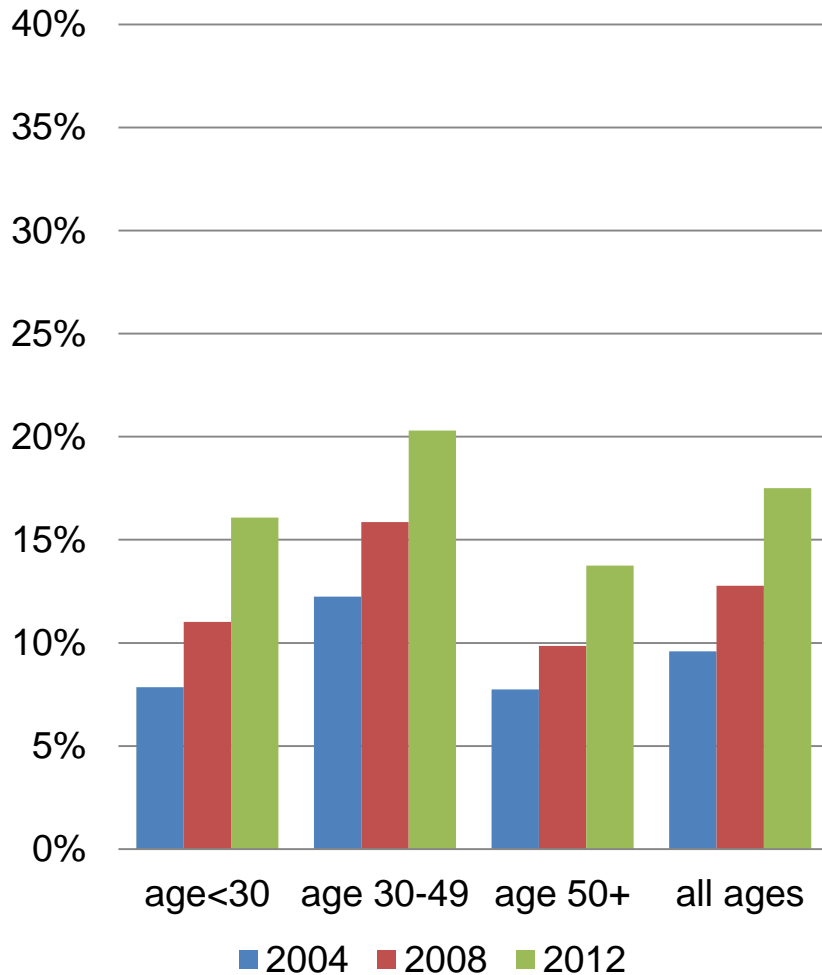
Another way to look at the delinquency rate is to consider only those in active repayment and remove those who are not in repayment from the denominator...



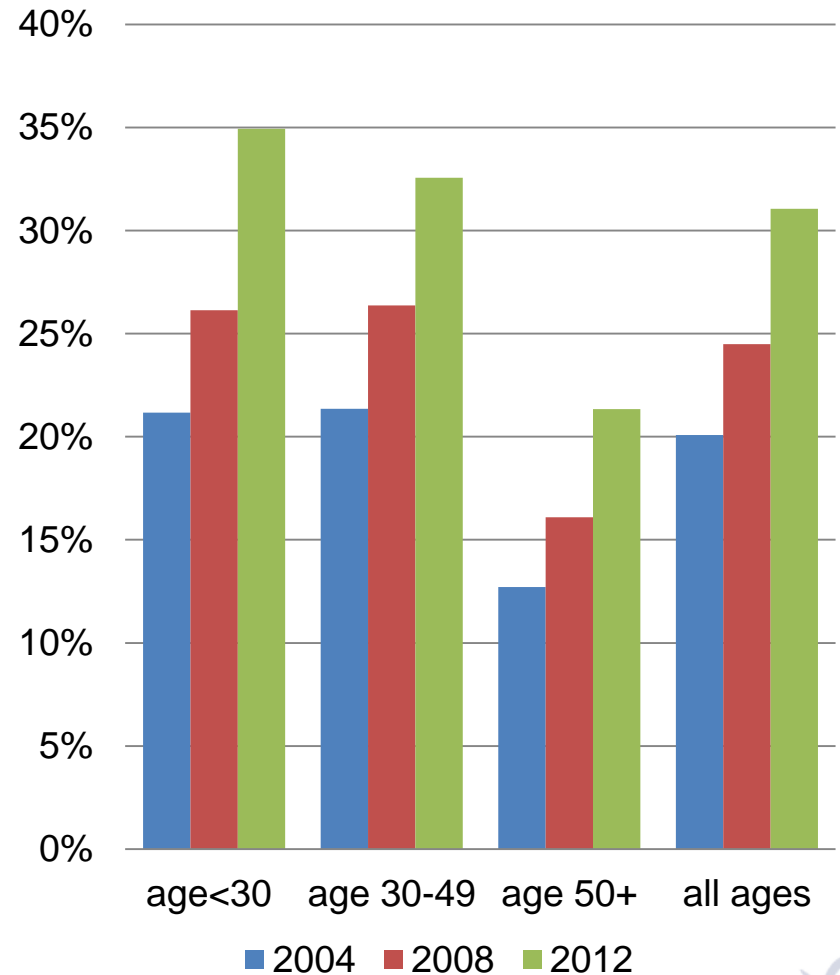
* Repayment status is defined using the quarterly change in balance and the current payment status.

Delinquency rates higher among borrowers in repayment

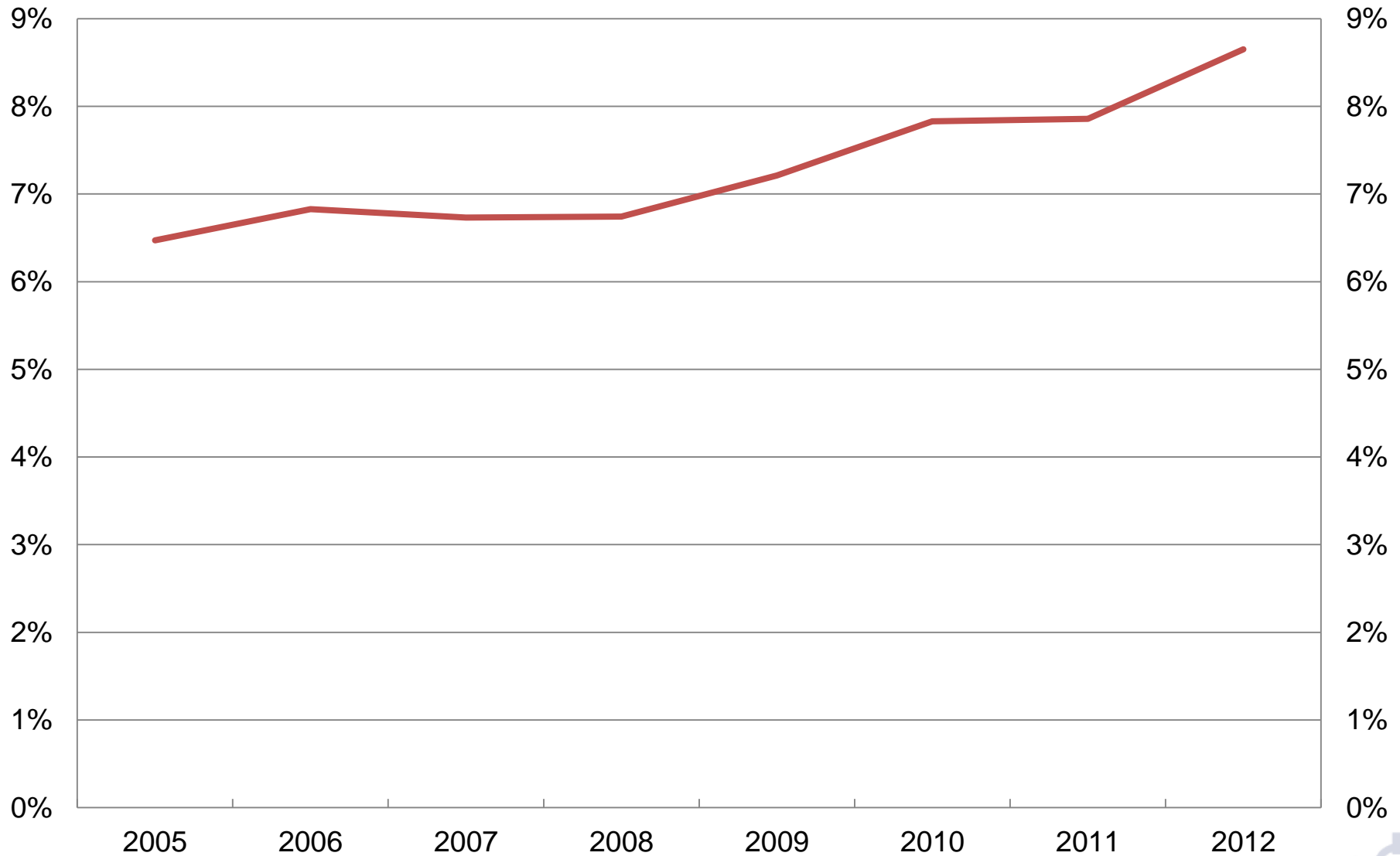
Share of borrowers 90+ days delinquent



Share of borrowers in repayment 90+ days delinquent



Quarterly transition rate of borrowers in repayment from non-delinquent to delinquent



Source: FRBNY Consumer Credit Panel / Equifax



Summary 2: Student Debt Delinquency

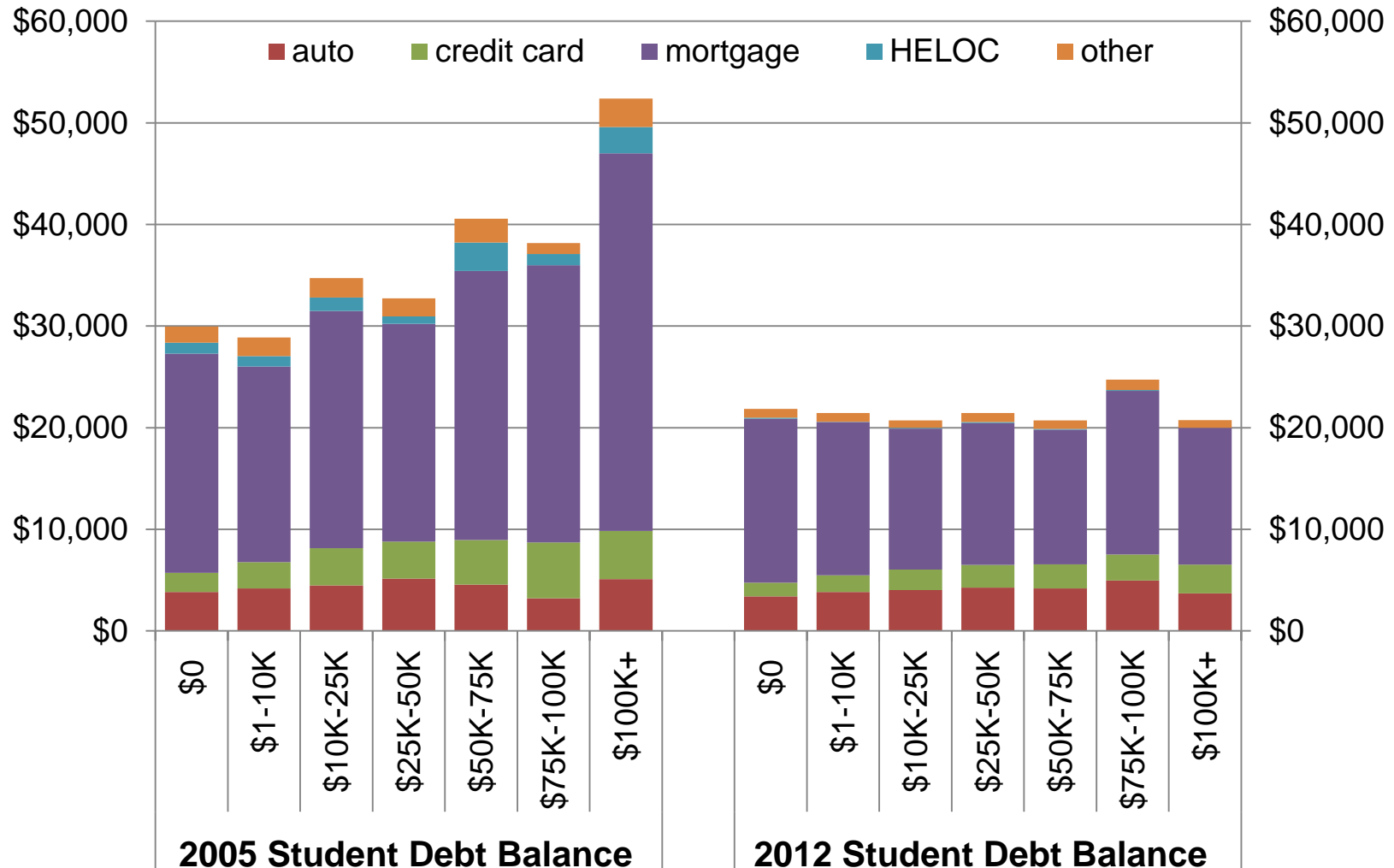
- About 17% of borrowers are past due on their student debt more than 90 days in 2012, a large increase from under 10% in 2004
- 44% of borrowers are not yet in active repayment, and excluding those, the effective 90+ delinquency rate rises to more than 30%.
- The transition rate among borrowers in active repayment from current to delinquent has been rising since 2008 from about 7% 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

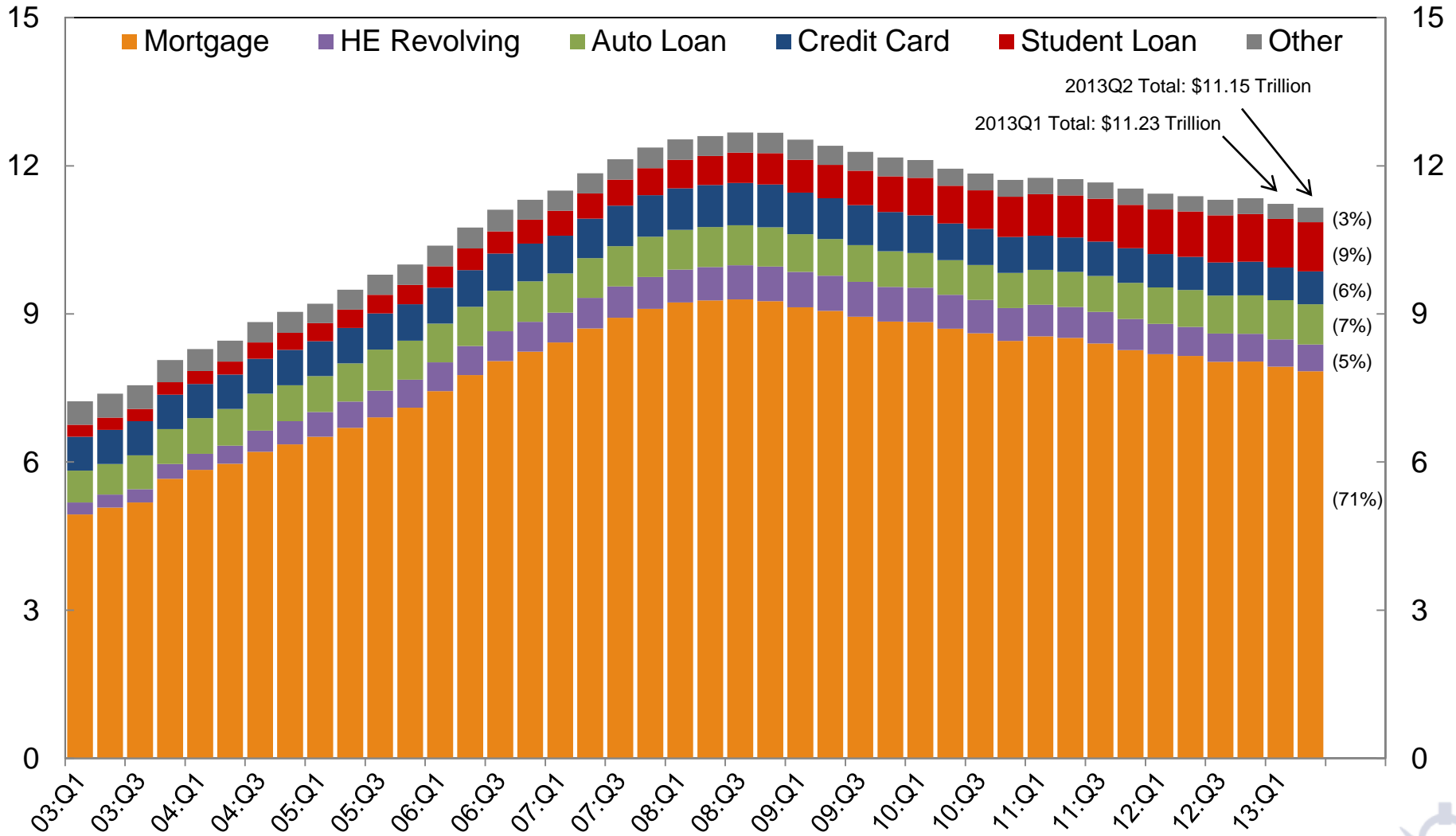
Average non-student loan balances, age 25-30



Deleveraging of Household Debt

Trillions of Dollars

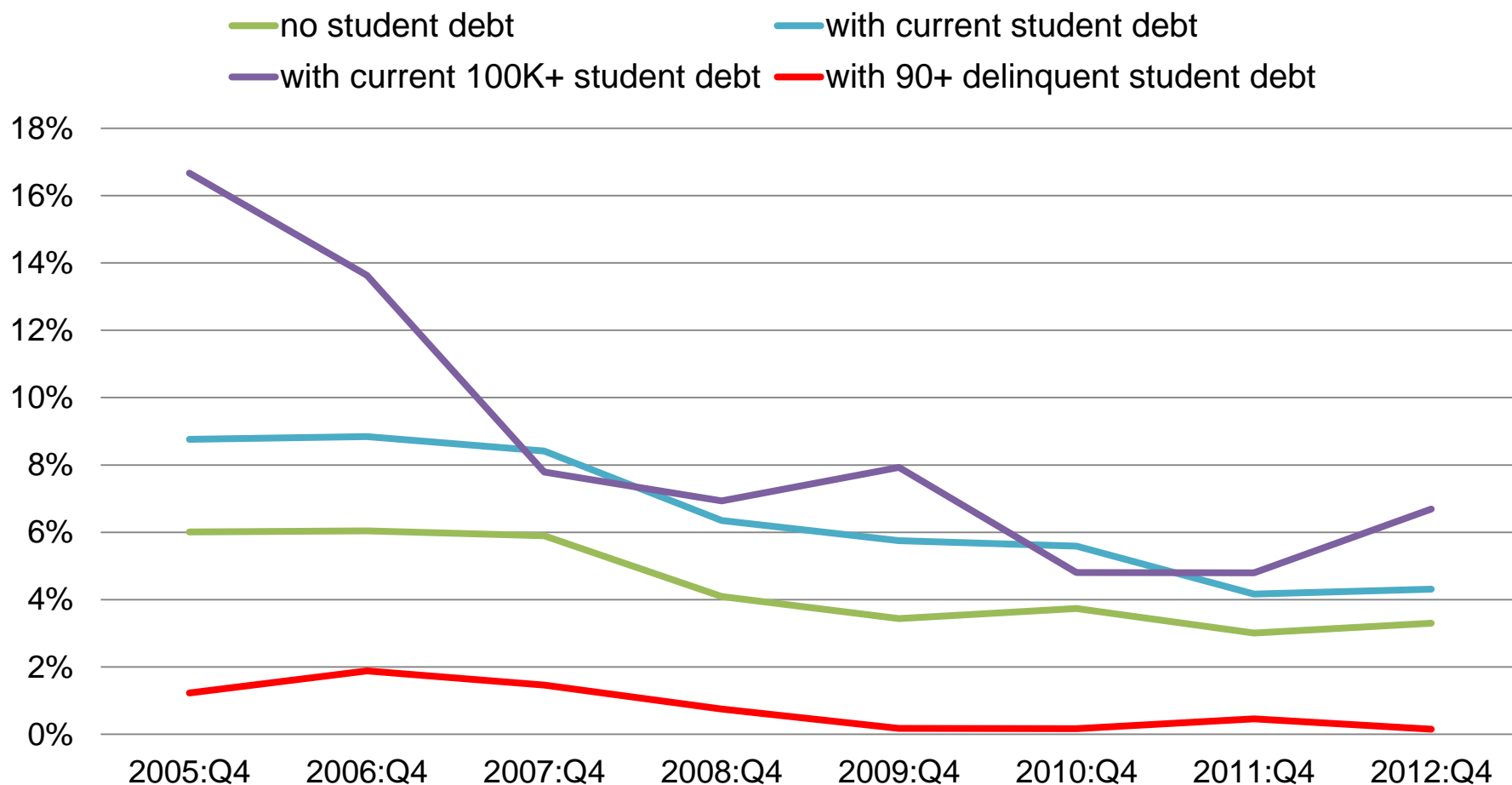
Trillions of Dollars



Source: FRBNY Consumer Credit Panel/Equifax

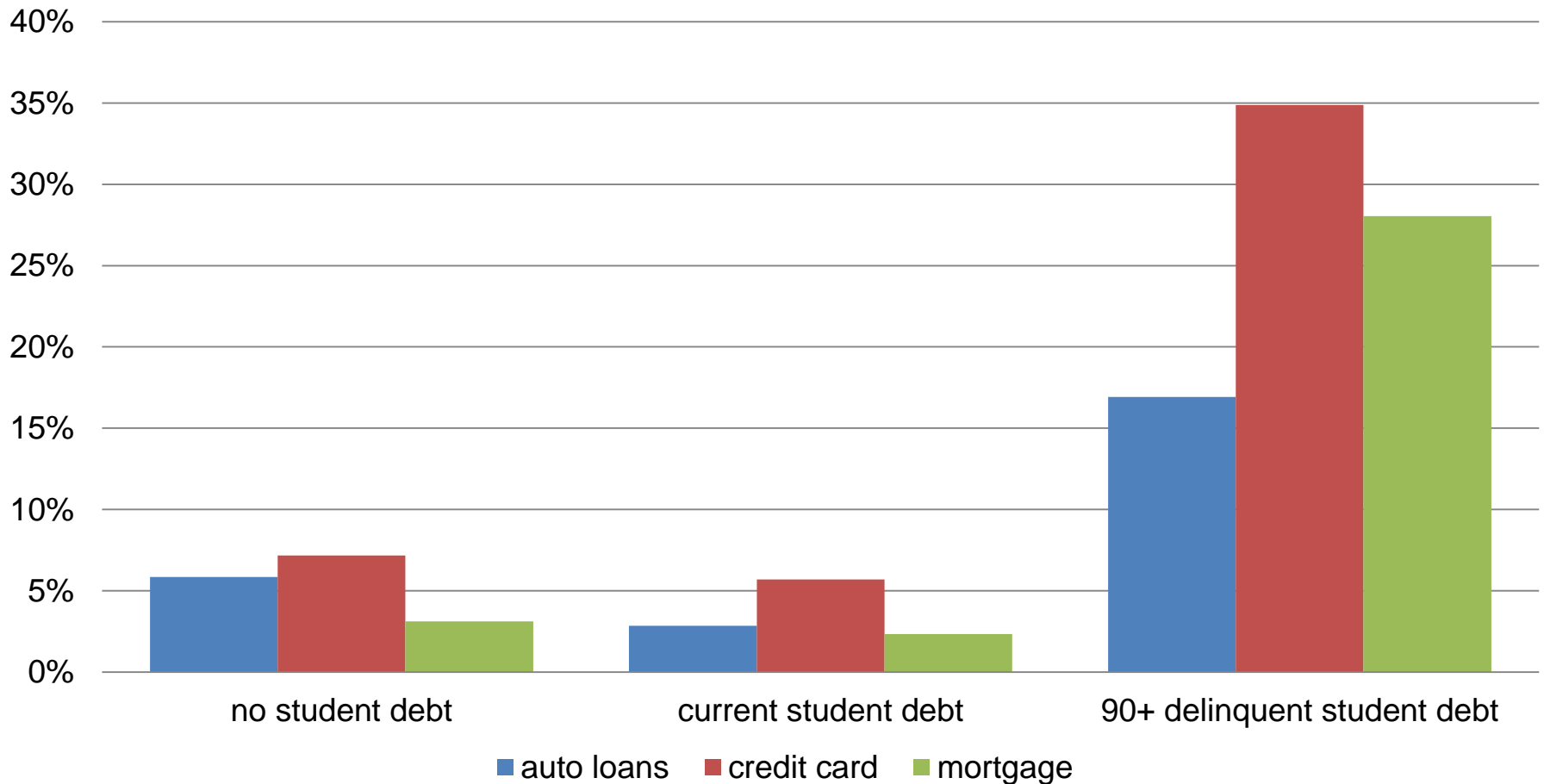
Mortgages among student loan borrowers age 25-30

Originations by student loan balance and delinquency status



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.

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 people borrowed less in 2012 compared to 2005, but the differences were more pronounced among borrowers with high student loan balances, likely reflecting declines in demand and access to credit.
- Student debt delinquency reduces a young borrower's ability to secure other types of credit.
- Student loan delinquency is also associated with higher delinquency rates on other types of debt.



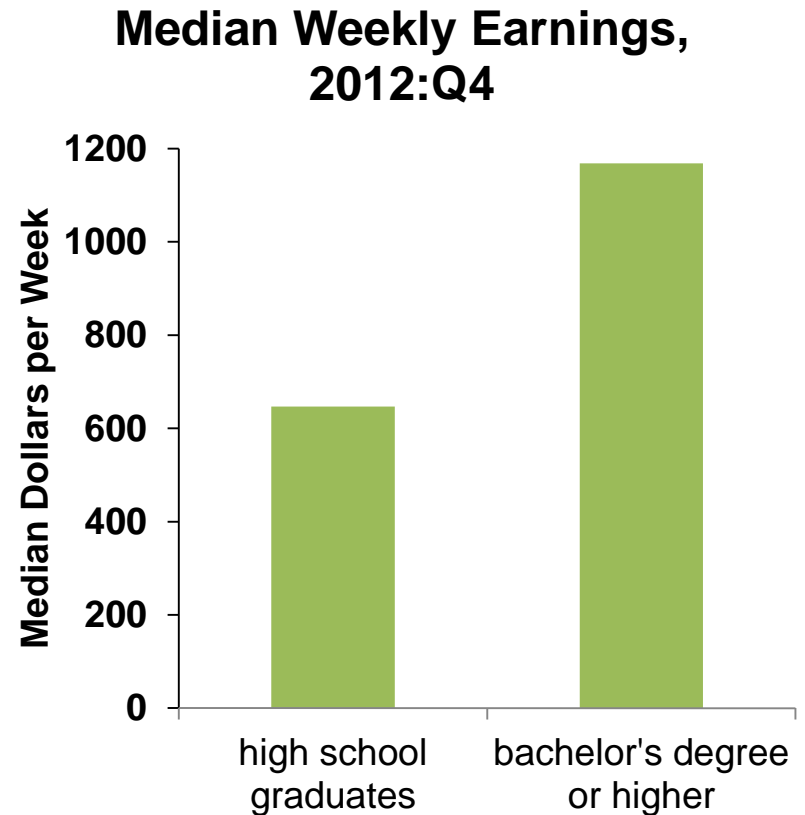
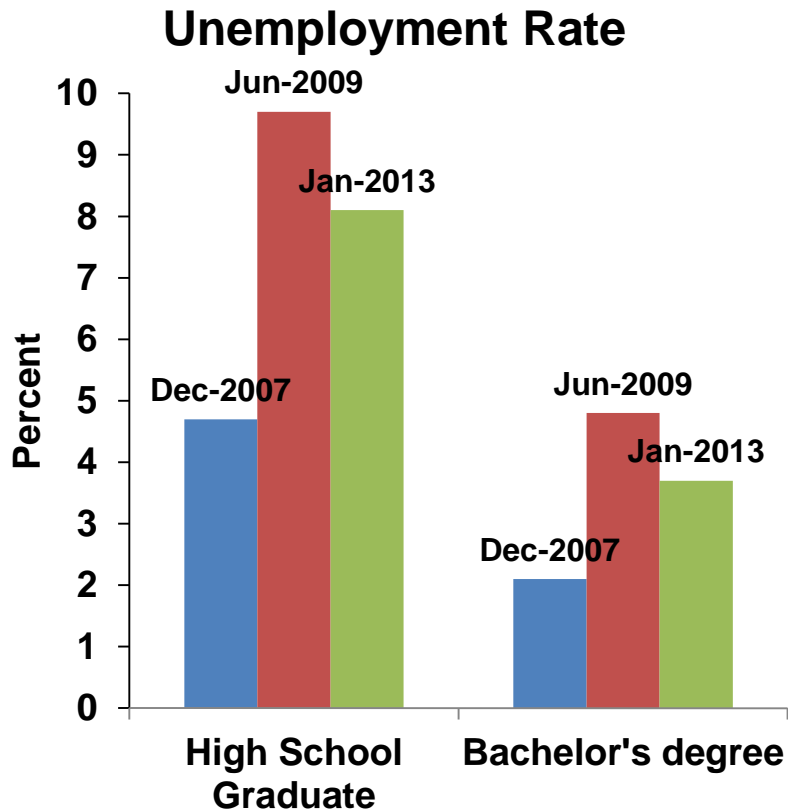
Conclusion

- 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.
- Aggregate student loan balances almost tripled between 2004 and 2012 due to an increasing number of borrowers and higher balances per borrower.
- About 17% of borrowers are delinquent on student debt. Adjusting for repayment causes the delinquency rate to rise to over 30%.
- The larger burden of student loans and higher delinquencies may affect borrowers' access to other types of credit and the performance of other debt.

APPENDIX

Appendix A: Why borrow for education?

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



- On our website, we provide:
 - Updates of our Quarterly Report on Household Debt & Credit
 - Balances for Mortgages, Credit Card, Auto, & Student Debt
 - Delinquency rates
 - Spreadsheets:
 - All data featured in the Quarterly Report on Household Debt & Credit (1999-2013:q1, quarterly)
 - Student loan
 - # borrowers, delinquency rates, average balance
 - By state (2004-2012, annual)
 - By age group (2012 only)