



Default Prevention Day

Missouri Department of Higher Education

Debt Management by Young Families

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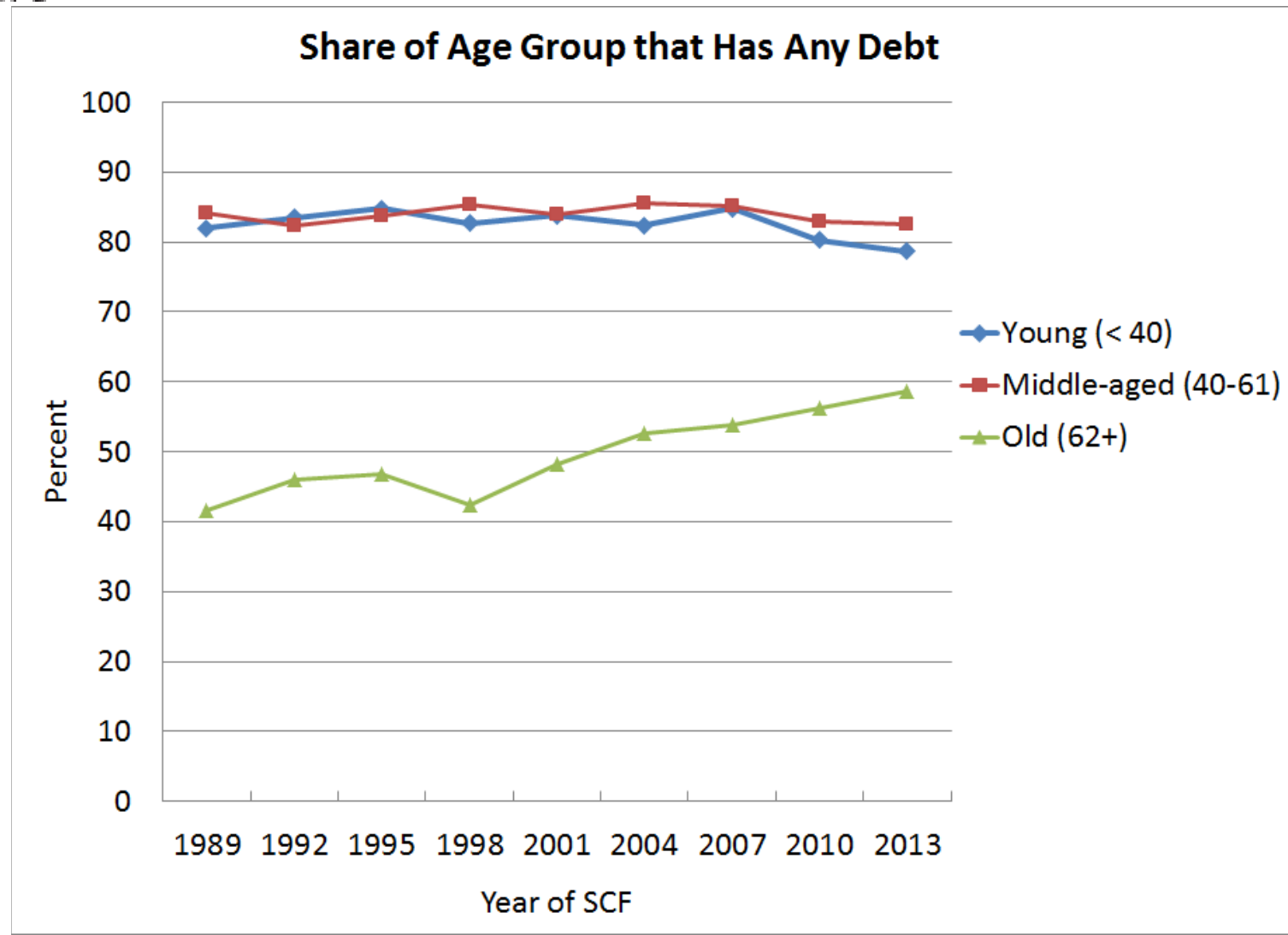
Debt Management by Young Families

- **Total debt: Incidence and burden among young families (Bill)**
 - **Borrowing can help a young family achieve its goals but too much debt can be a burden.**
 - **The young families most likely to be burdened by debt are black and Hispanic.**

- **Student loans (Bryan)**
 - **Background information.**
 - **Delinquencies and defaults.**

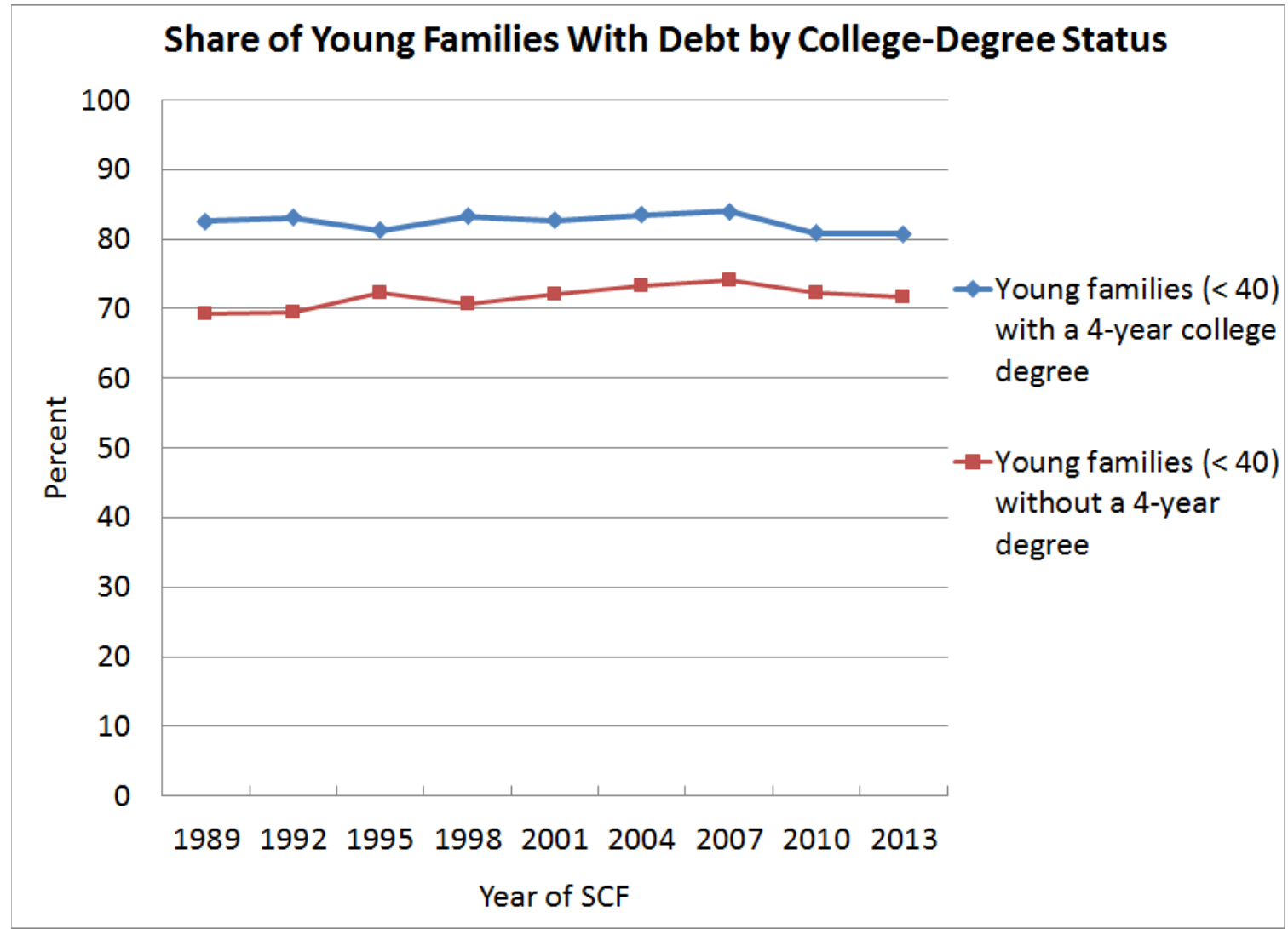


Young Families (< 40) Are Less Likely to Have Debt Now than Before



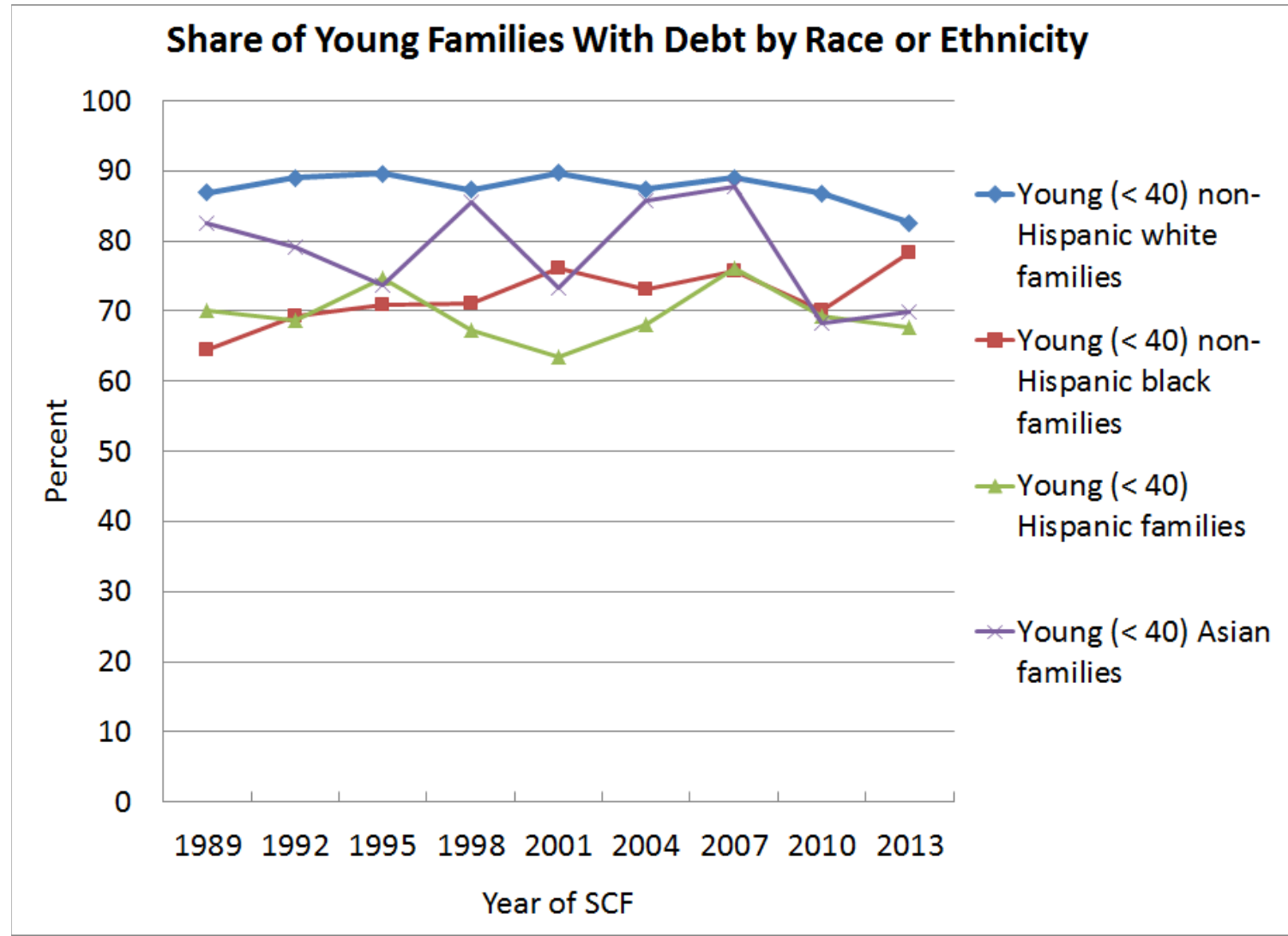


Young Families (< 40) With College Degrees Are More Likely to Have Debt



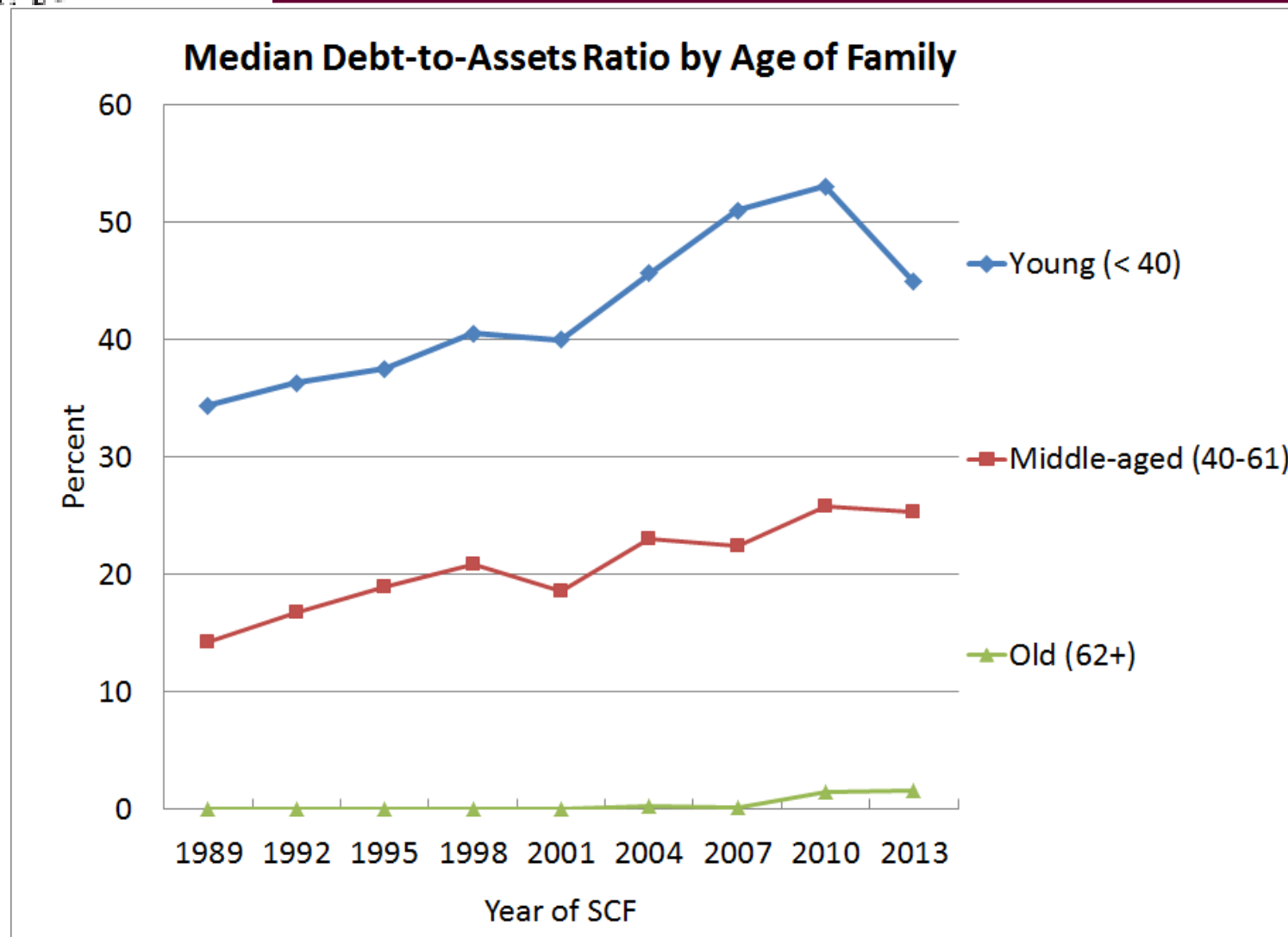


Young White Families (< 40) Are the Most Likely to Have Debt



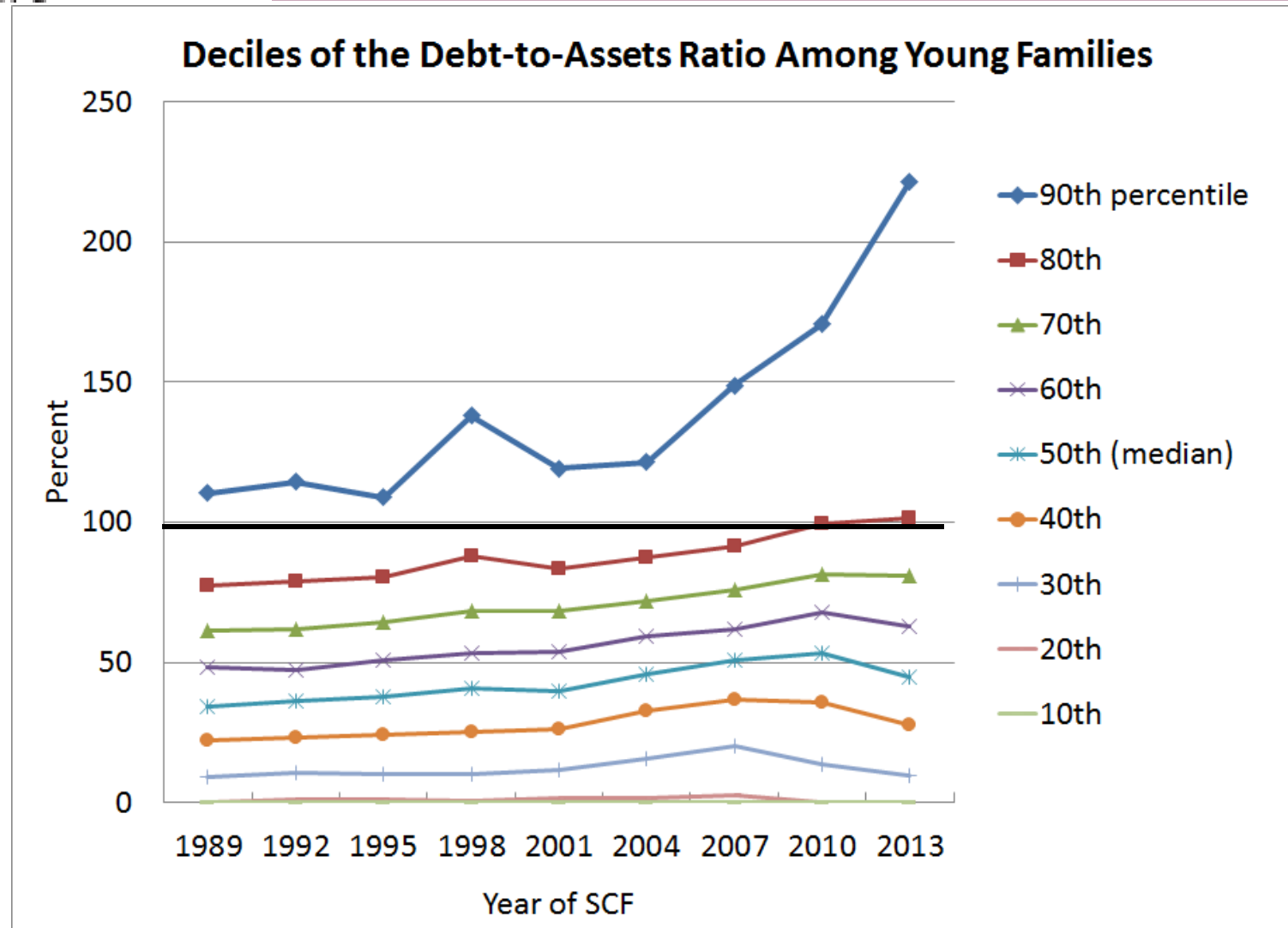


Young Families (< 40) Have Increased Their Debt Burdens the Most



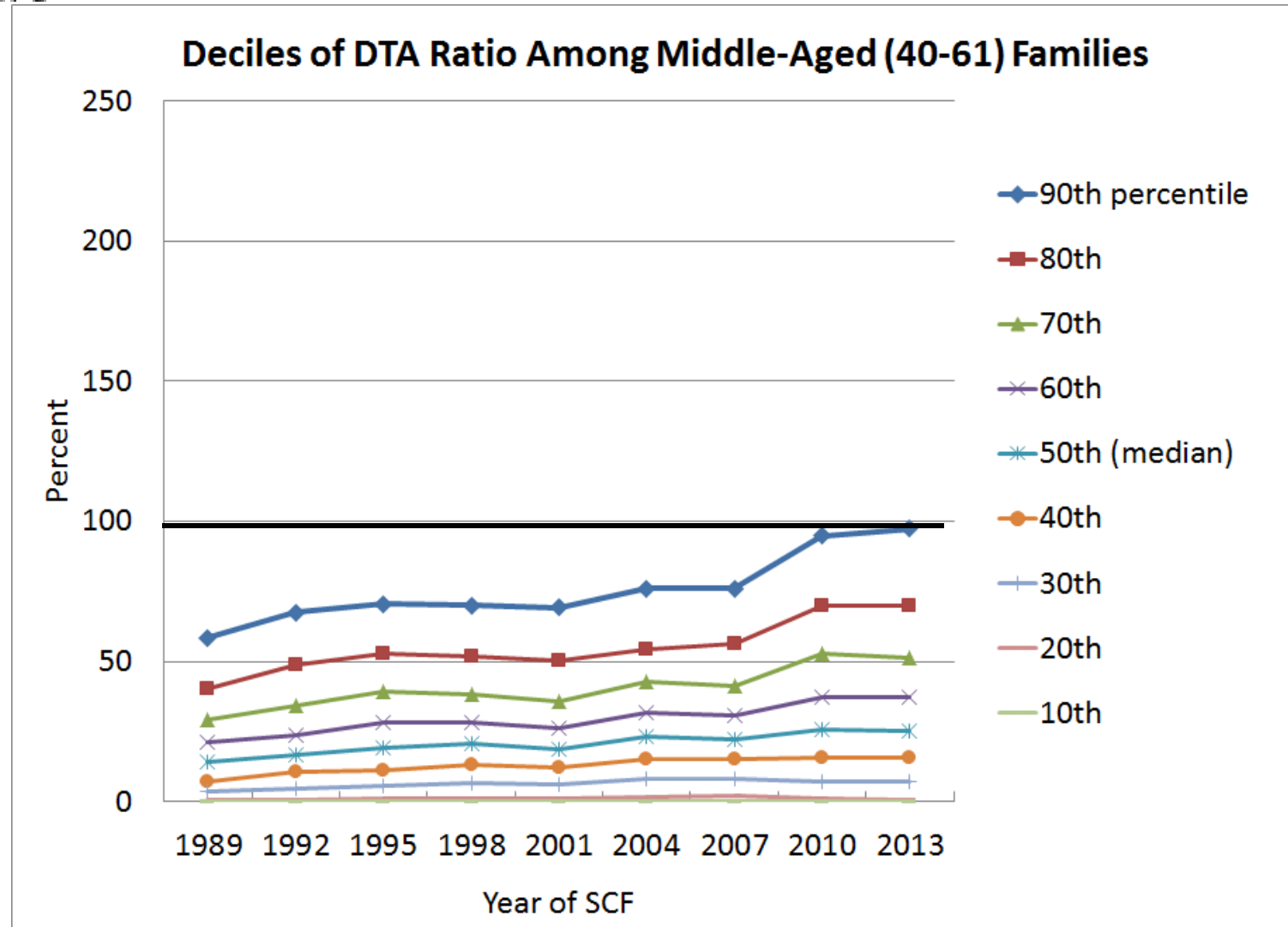


20 Percent of Young Families (< 40) Have Negative Net Worth (DTA > 100%)





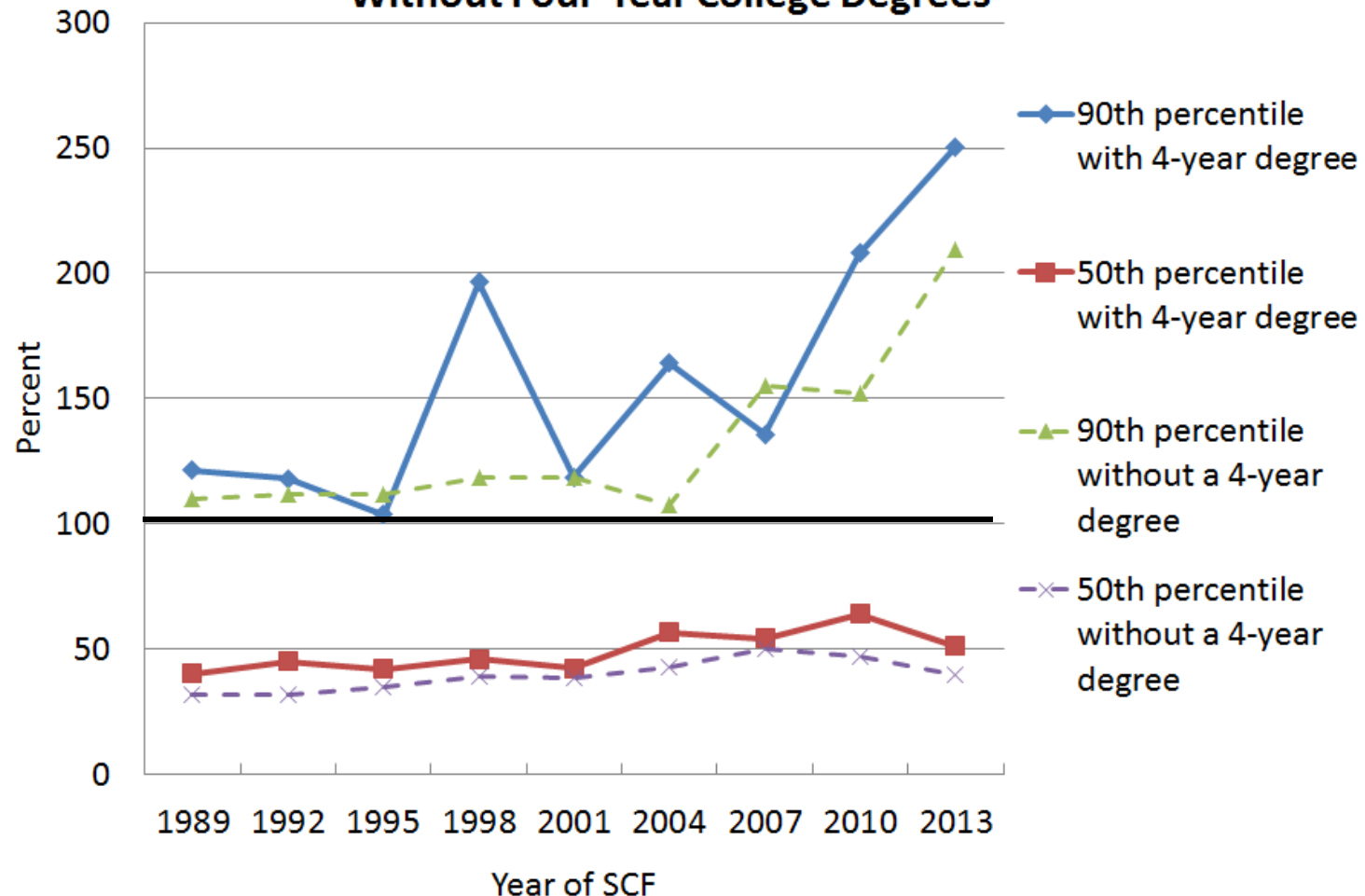
10 Percent of Middle-Aged Families (40-61) Have Negative NW (DTA > 100%)





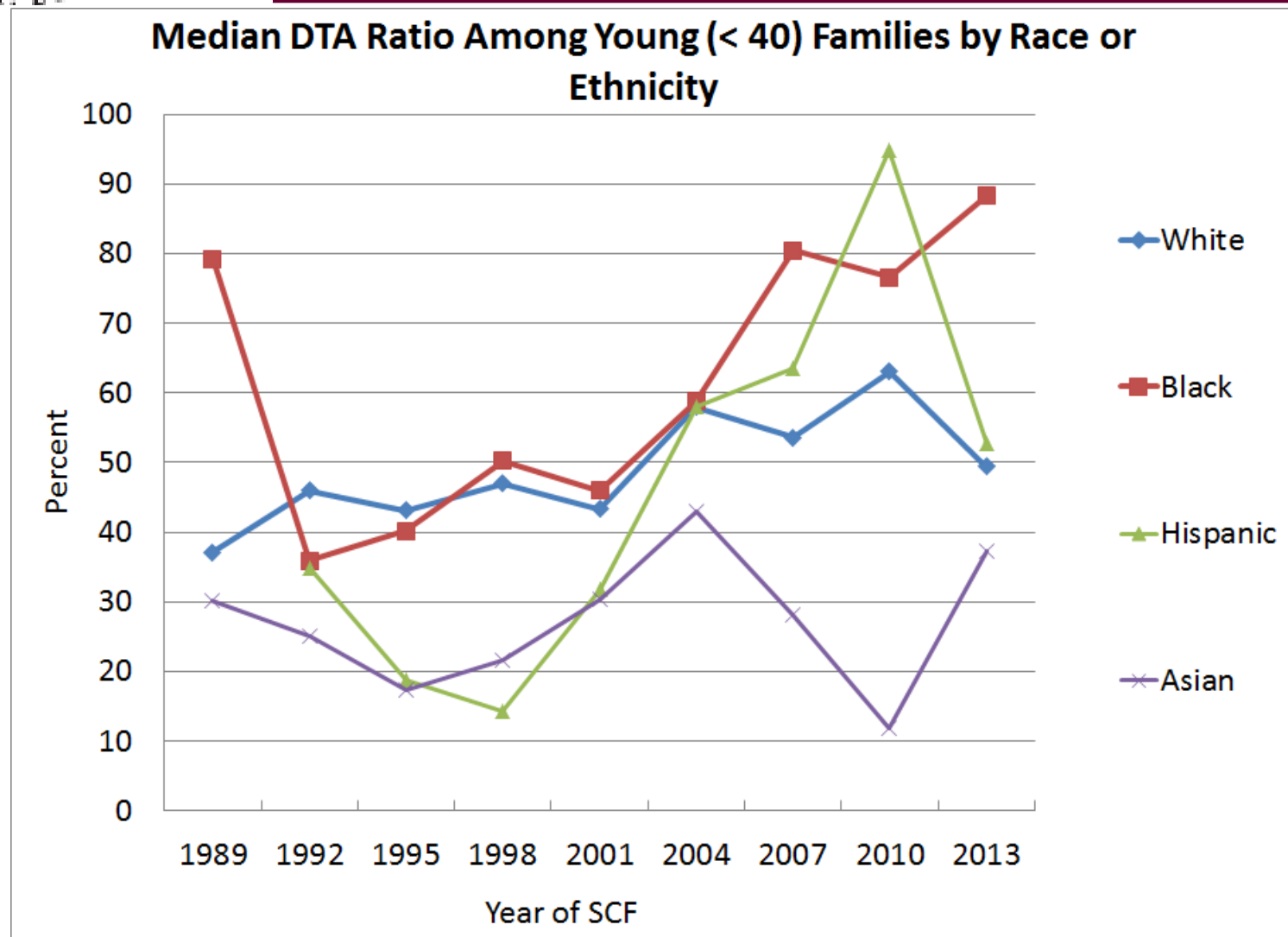
Young (< 40) Families With 4-Year Degrees Have Slightly Higher Debt

Deciles of DTA Ratio Among Young (< 40) Families With and Without Four-Year College Degrees





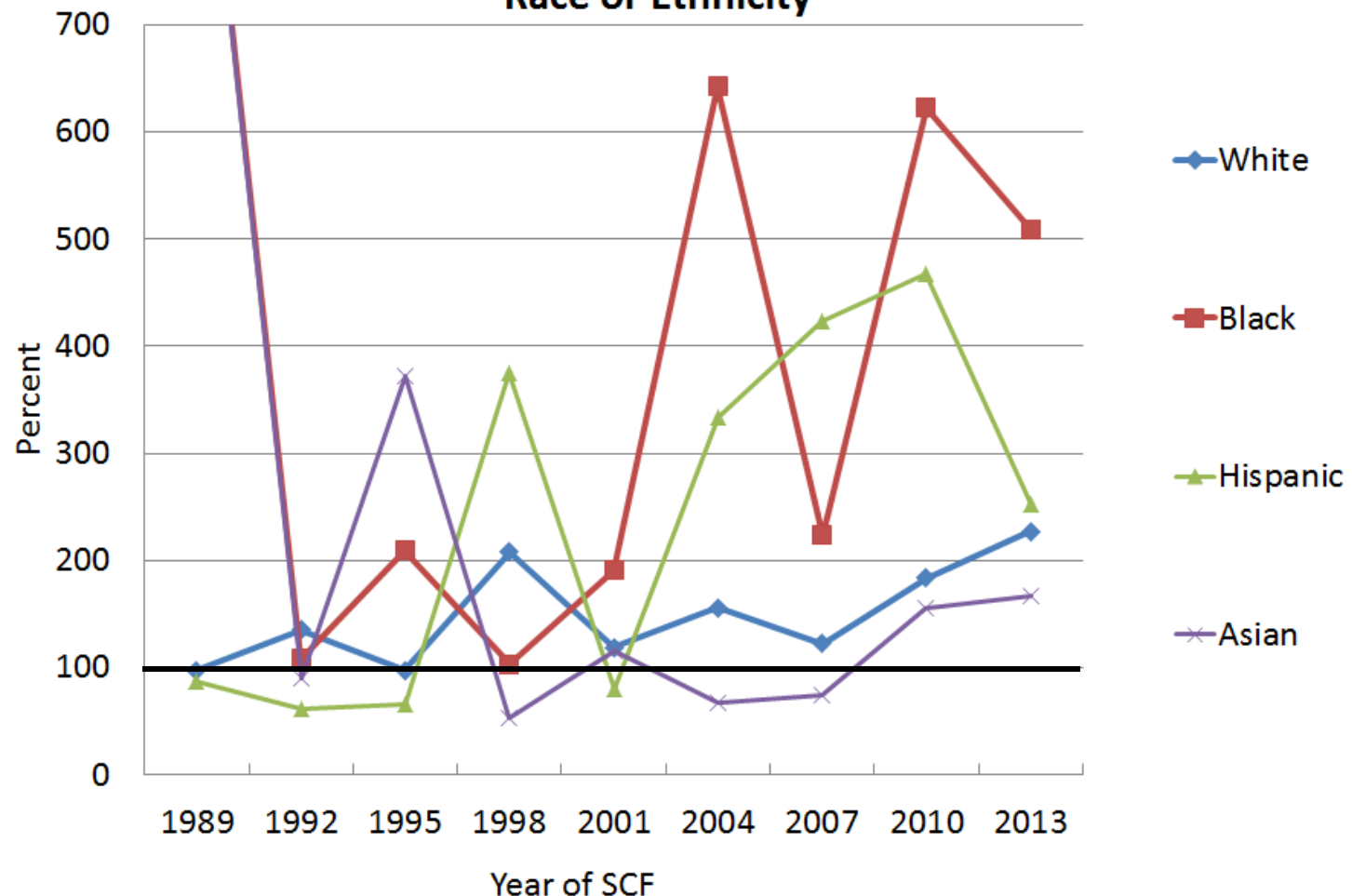
Young (< 40) Black and Hispanic Families Have Largest Debt Burdens





Young (< 40) Black and Hispanic Families Have the Most Extreme Debt Burdens

90th-Percentile DTA Ratio Among Young (< 40) Families by Race or Ethnicity





Conclusions: Young Families and Debt

- **Most young families have debt of some kind.**
- **Debt burdens have been rising for decades among families of all ages, education levels and races and ethnicities.**
- **Across the entire population, debt burdens (DTA ratios) generally are heaviest among:**
 - **Young families.**
 - **Families with less education.**
 - **Blacks and Hispanics.**
- **The exception to these rules and the highest-risk groups:**
 - **Young black and Hispanic families with college degrees.**
 - **Young black and Hispanic families with student debt but no degree.**

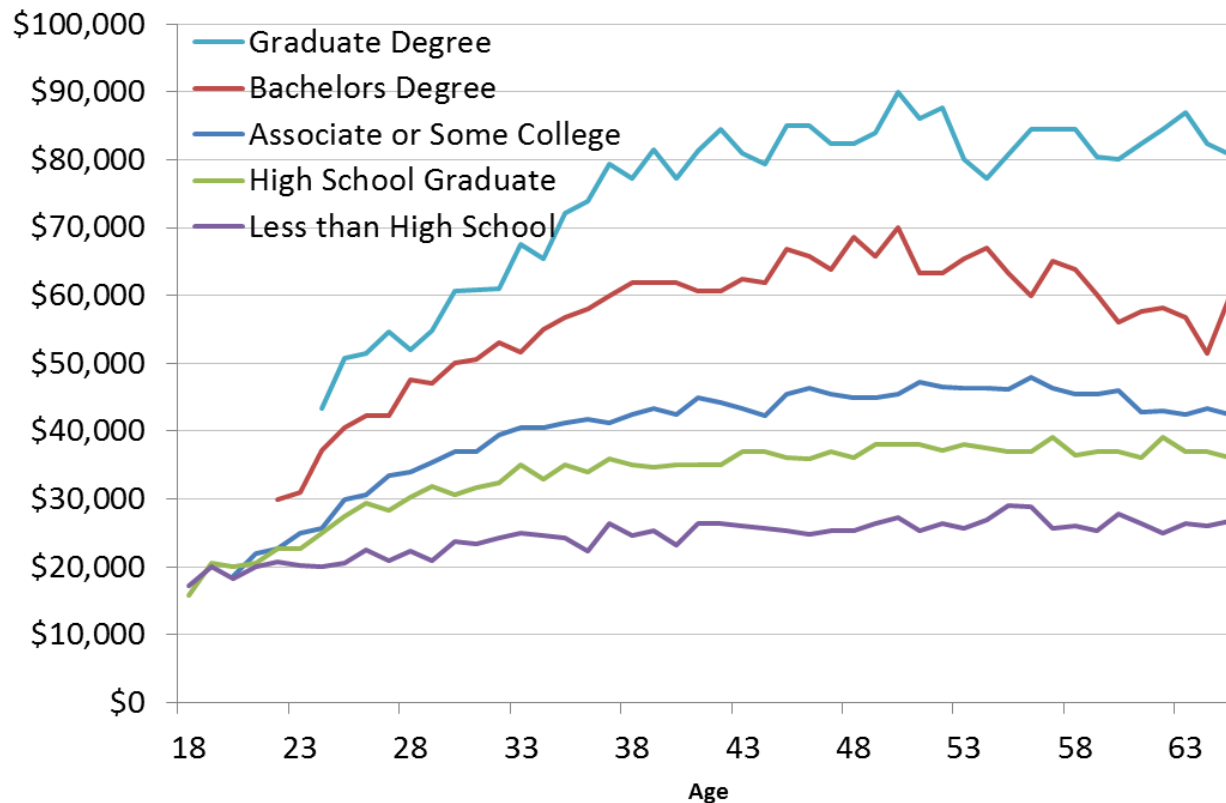


Motivation and Facts on Student Debt



Returns to Education Seem Large

Median Earnings By Education over the Life Cycle

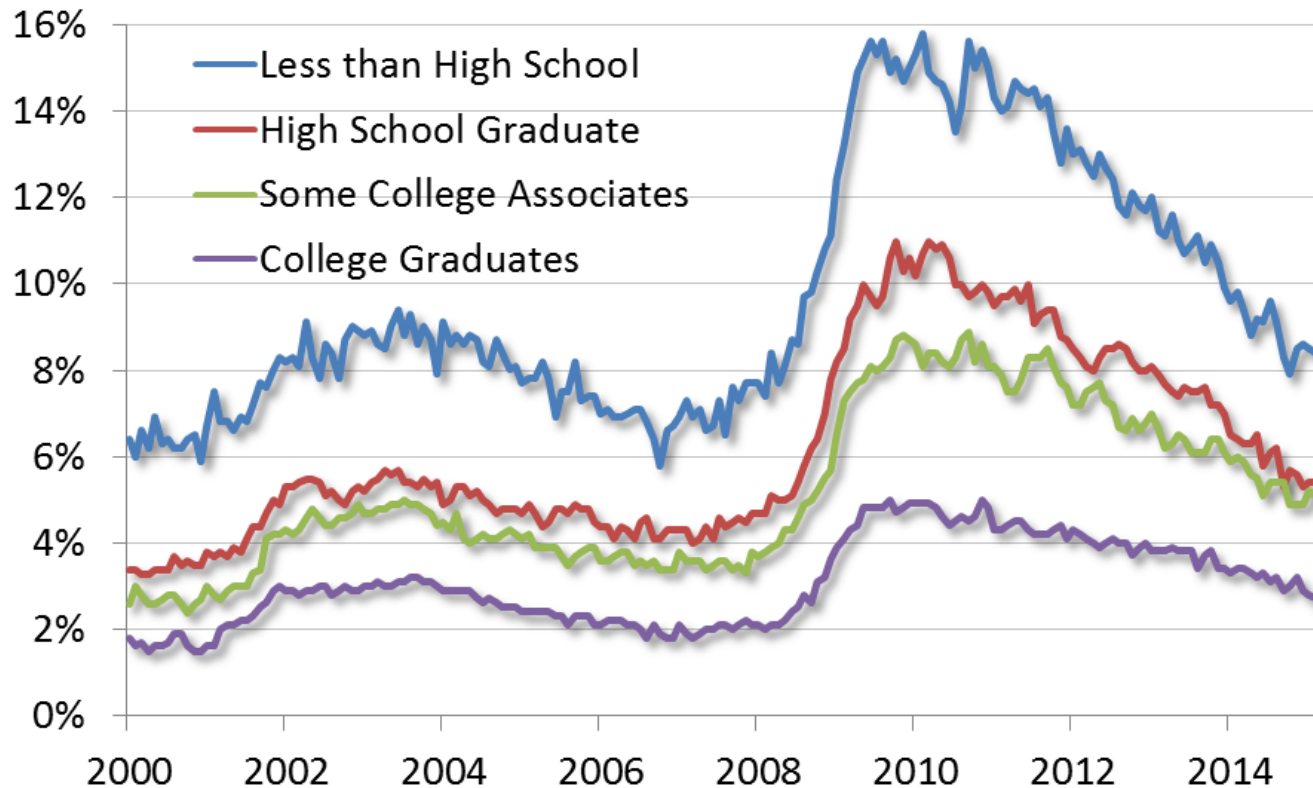


Source: U.S. Census Bureau, Current Population Survey, 2013 Annual Social and Economic Supplement. 4



Educational Attainment Also Associated with Better Labor Market Outcomes

Unemployment by Education

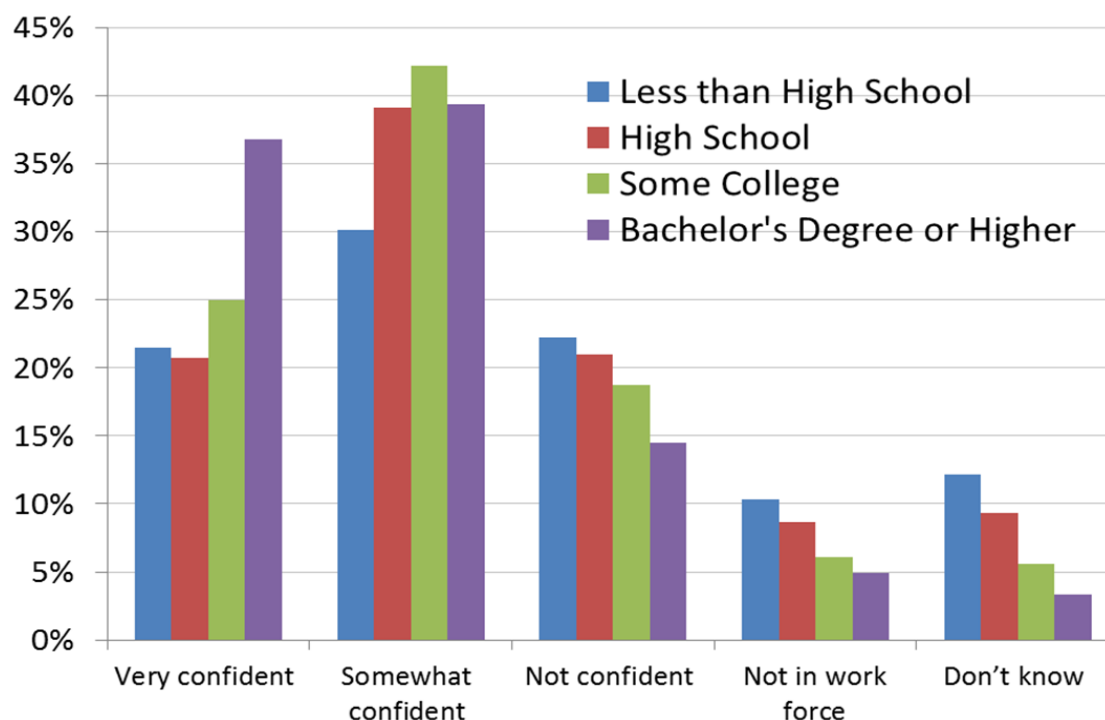


Source: Bureau of Labor Statistics.



Graduates feel More Prepared

Thinking about your current education and work experience, how confident are you that you have the skills necessary to get the kind of jobs you want now.



Source: Board of Governors' Survey of Household Economics and Decision Making



Some Basic Student Debt Facts

- Currently: Around **43.3 million borrowers**¹
- College seniors that graduated with debt: **71 percent**²
- Debt per undergraduate borrower at graduation: **\$29,400**²
- Mean debt of all borrowers: **\$28,362 (\$300.82 payment)**¹
- Median debt of all borrowers: **\$15,622 (\$165.70 payment)**¹
- Delinquency rate as of 2011: **31.4 percent**¹

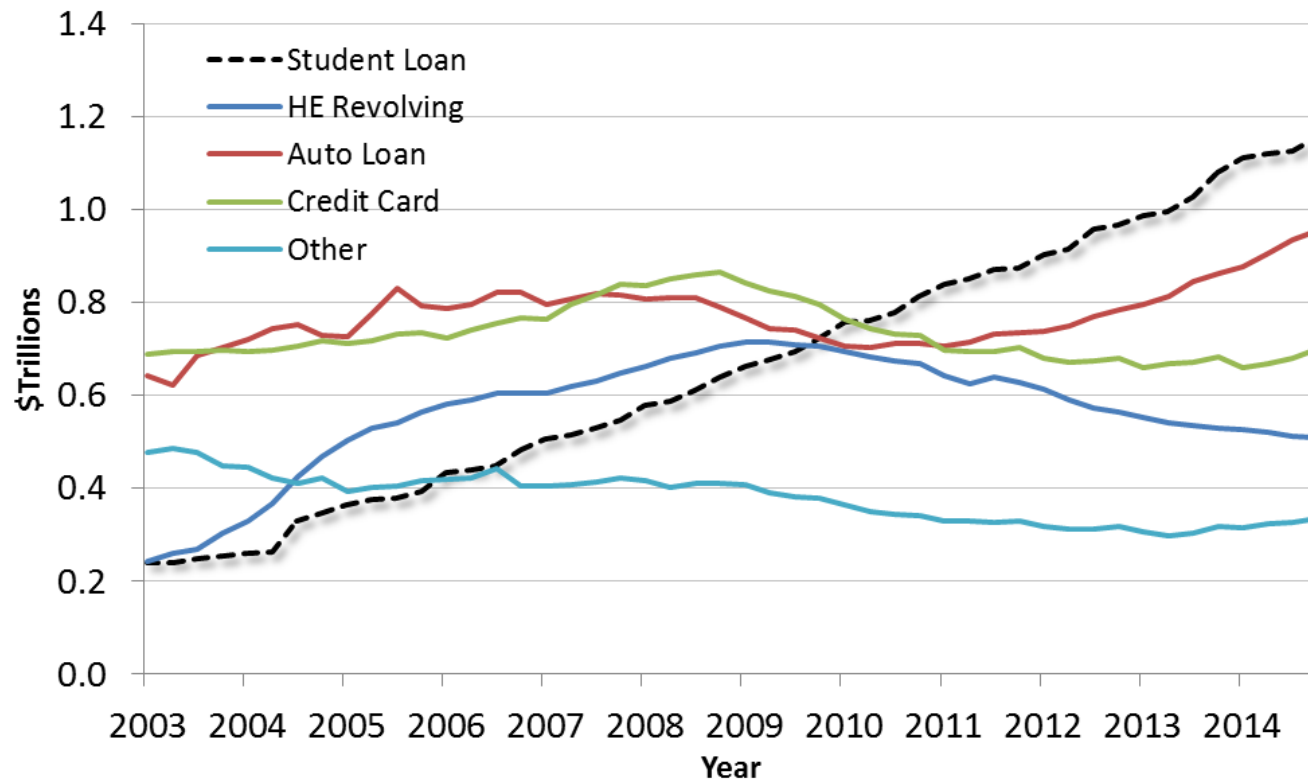
¹ FRBNY Consumer Credit Panel/Equifax Haughwout, Lee, Scally, and van der Klaauw (2015)

² Project for Student Debt (2012)



Student Debt Relatively Large and Increasing

Aggregate Debt by Category (Mortgages Excluded)

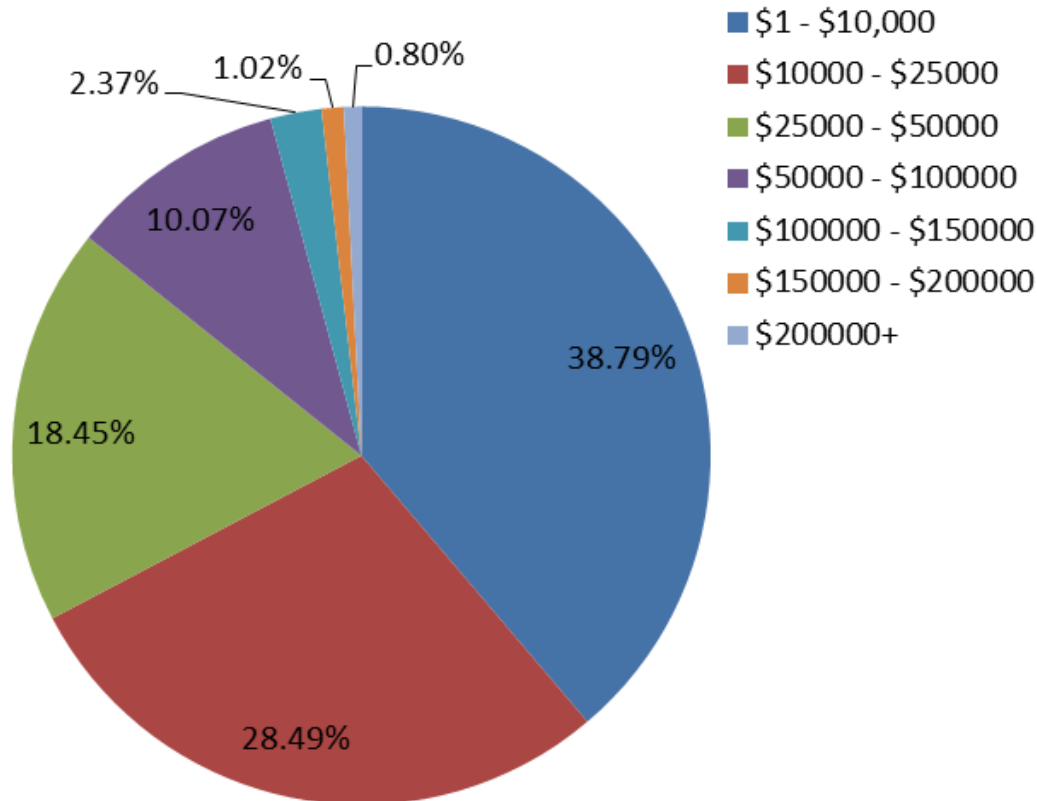


Source: FRBNY Consumer Credit Panel / Equifax



Most have “Manageable“ Levels of Student Debt

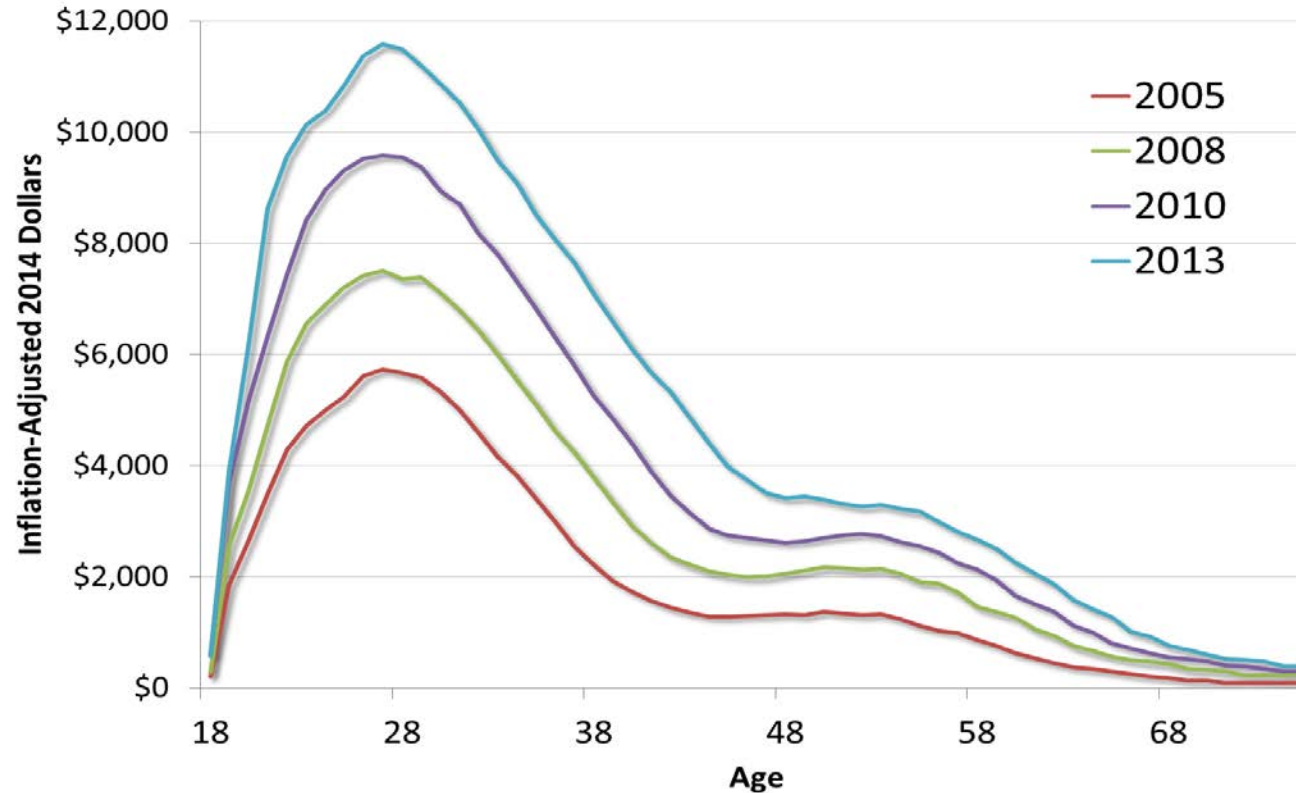
Percentage of Borrowers with Various Levels of Debt





Age Profile is Interesting

Average Student Debt over the Life Cycle



Source: FRBNY Consumer Credit Panel / Equifax
Noeth and Schlagenhauf (2014)



Thinking About Defaults



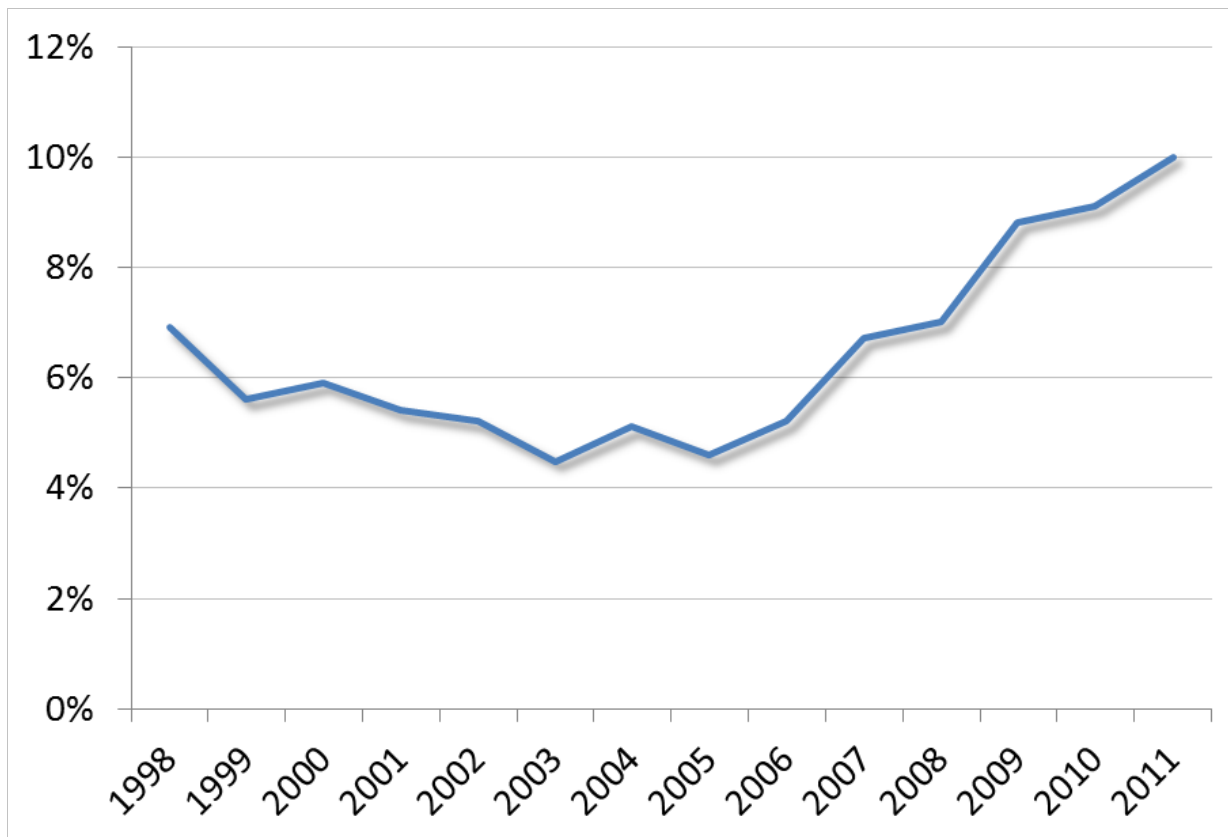
Factors Affecting Individual Default

- **Economic environment during repayment**
 - Wages and employment opportunities
- **Student specific factors**
 - Age, ability, gender, race, preferences and background
 - GPA, major, completion and level of attainment
 - Post-college: Balance sheet choices
- **Institutional characteristics**
 - Networks, selectivity, prestige, faculty ratio, debt counseling, etc.
 - Private, Public, for-profit? Two- or four- year?
- **Financing options**
 - Payment structure of loan (Standard, graduated, PAYE, IBR, etc.)
 - Flexibility (Grace period, deferment, forbearance and bankruptcy)
 - Size of loan
 - Scholarships/grants? Loans? Work? Savings? Work-study? Other forms of debt? Parents?
- **Other idiosyncratic factors**
 - Life happens



Defaults are Increasing

2-Year Cohort Default Rate

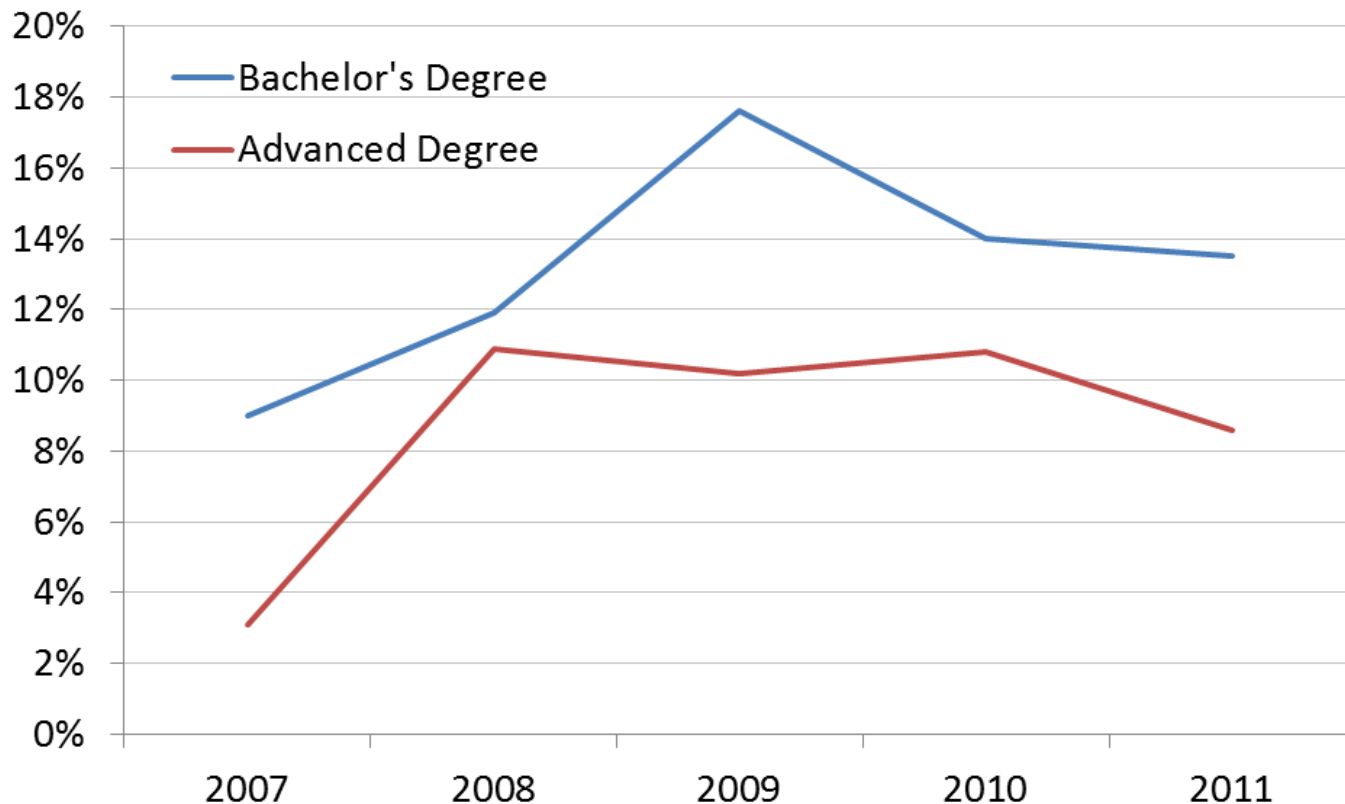


Source: U.S. Department of Education



Recent College Graduates are Facing Labor Market Challenges

Unemployment Rates of Recent College Graduates Ages 20 to 29 by Degree, October 2007–2011

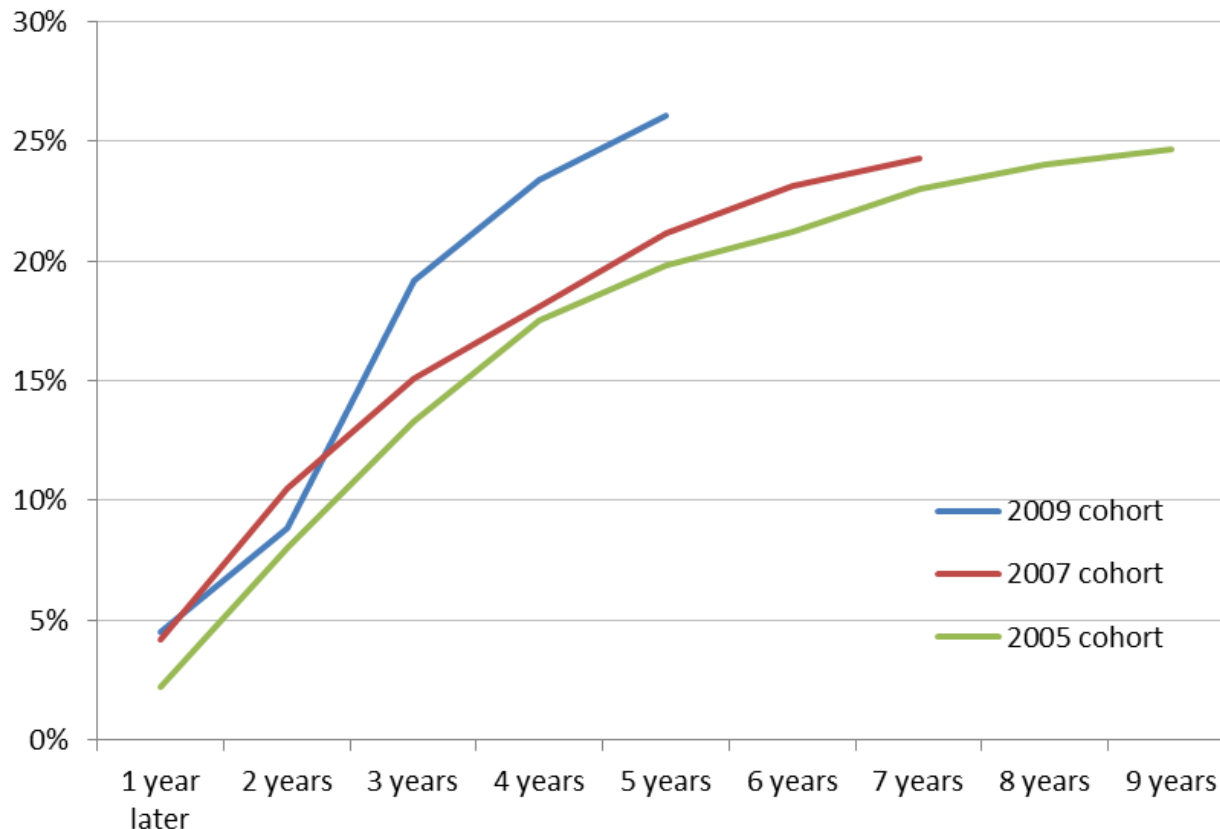


Source: Bureau of Labor Statistics



Borrowers Defaulting at Higher Rates

Cumulative Default Rates by Cohort

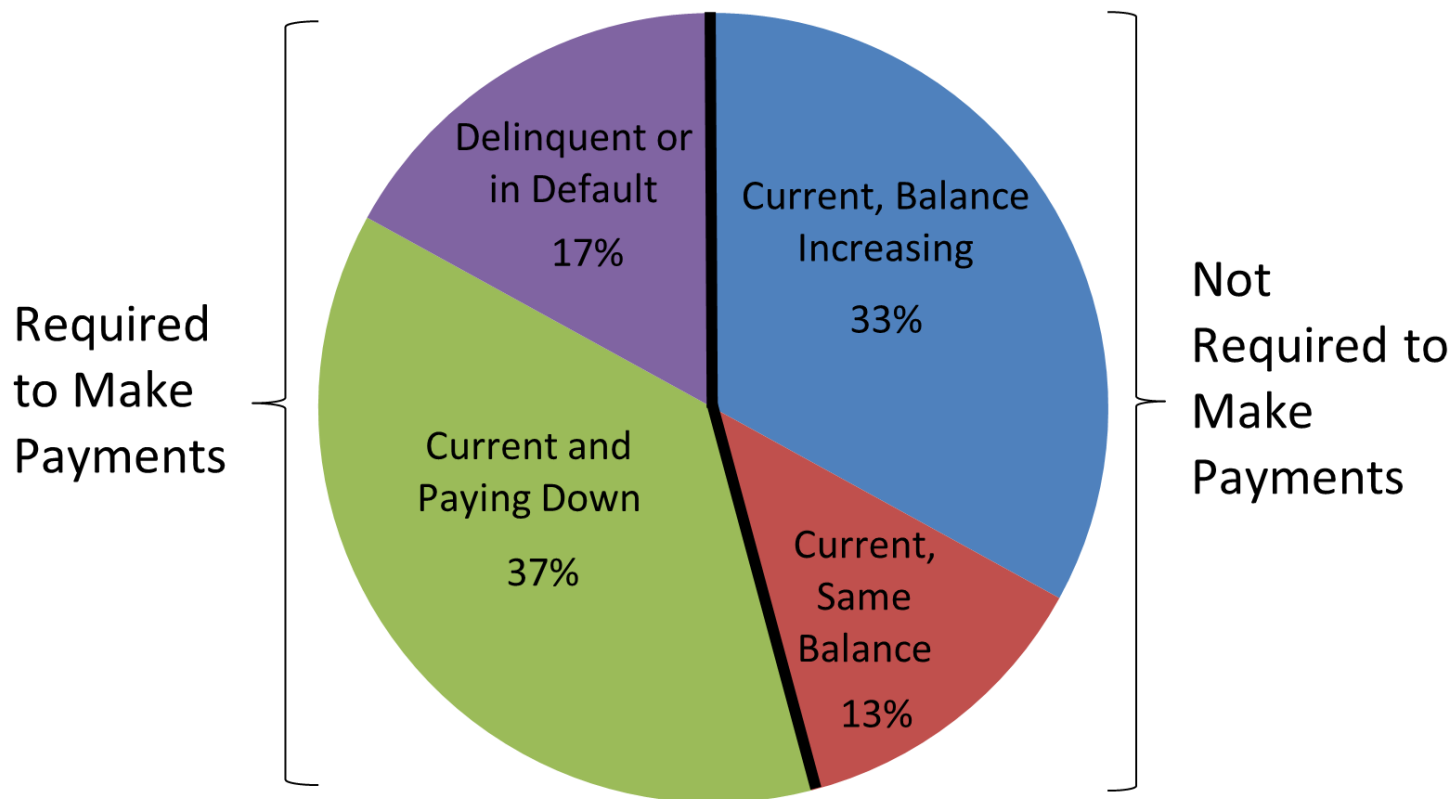


Source: FRBNY Consumer Credit Panel / Equifax
Haughwout, Lee, Scally, and van der Klaauw (2015)



Most Borrowers Not Making Payments

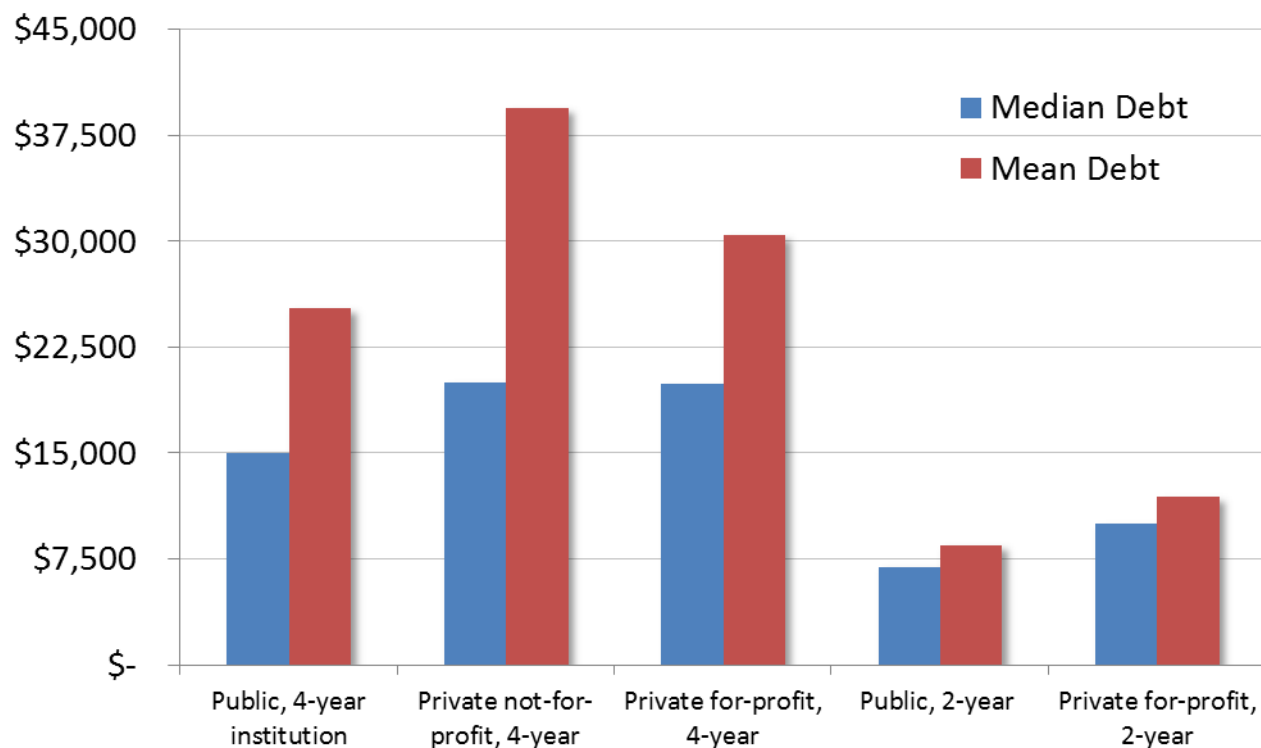
Repayment Status in 2014





Institution Matters for Debt Levels

Mean and Median Current Amount Owed on Student Loan Debt Incurred for Respondent's Own Education

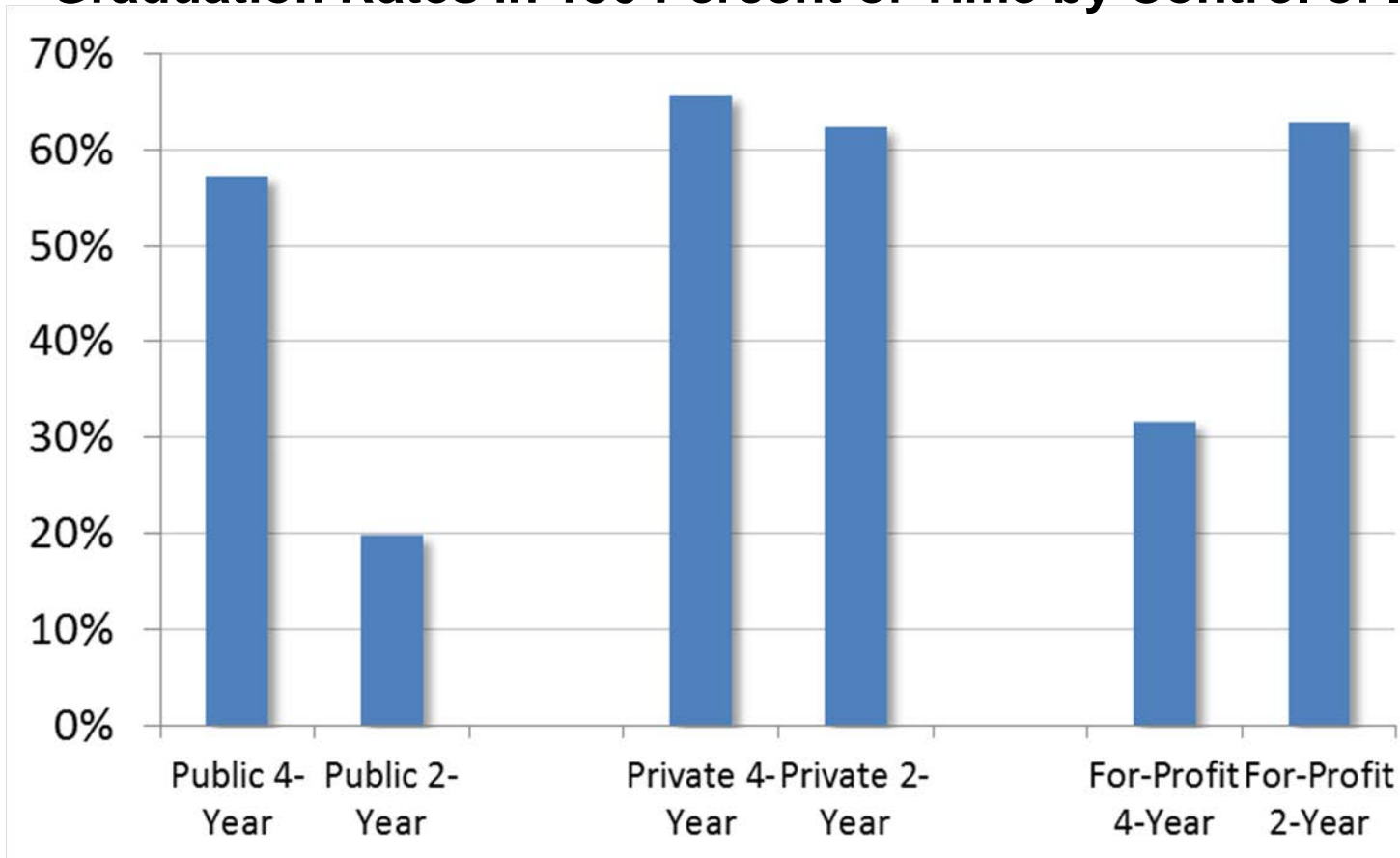


Source: Board of Governors' Survey of Household Economics and Decision Making



Graduation Rates Differ by Institution Type

Graduation Rates in 150 Percent of Time by Control of Institution

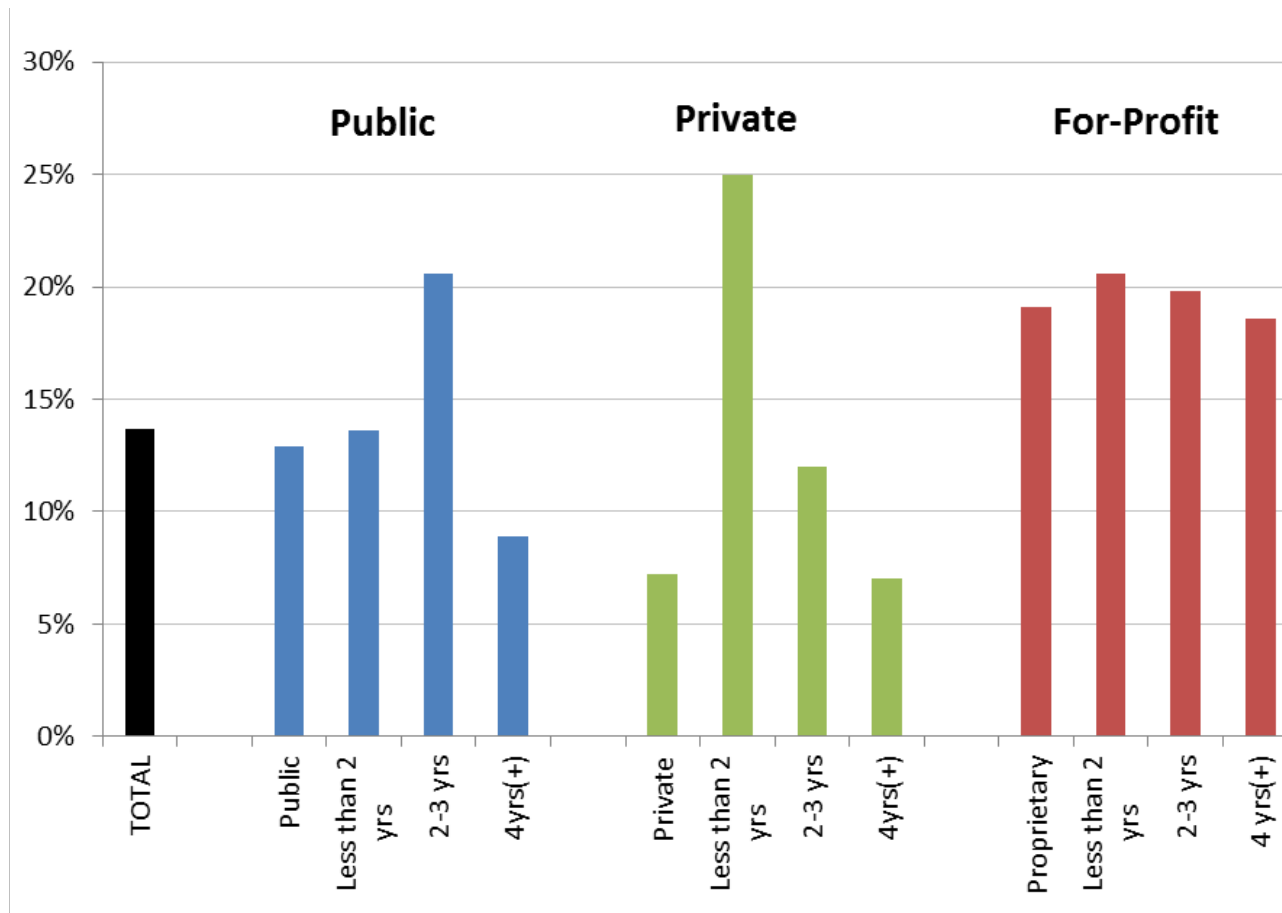


Source: U.S. Department of Education, National Center for Education Statistics, Integrated Postsecondary Education Data System



Default Rates Differ by Institution Type

3-Year FY 2010 Official Cohort Default Rates





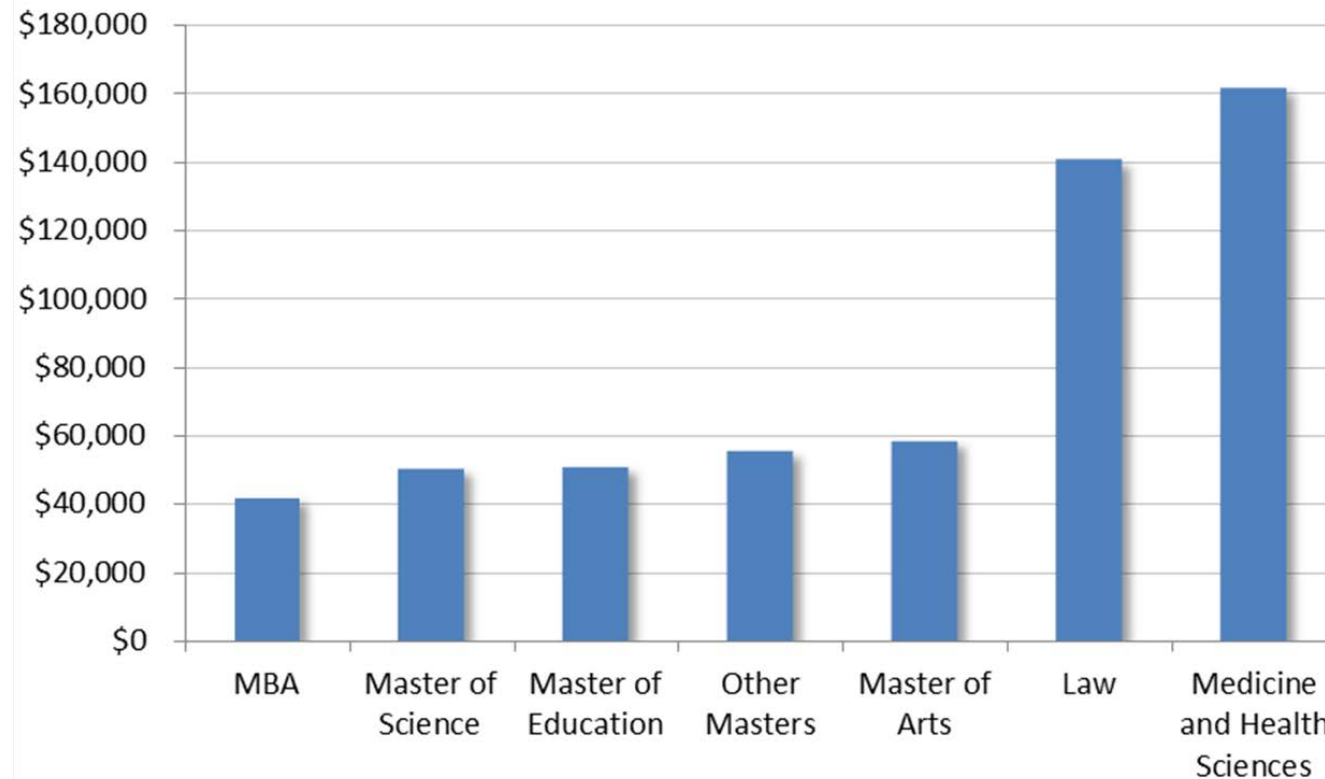
Payment Structure?

- Median monthly net of taxes wages for new grads (\$30,000-\$40,000) is **\$2,239.06 - \$2,947.40**
- Average monthly payment is **\$311**
- Payments represent **10.55-13.89 percent** of monthly income.
 - Assumes completion and gainful employment (strong assumptions)



Who has Large Debts?

Median Combined Undergraduate and Graduate Debt

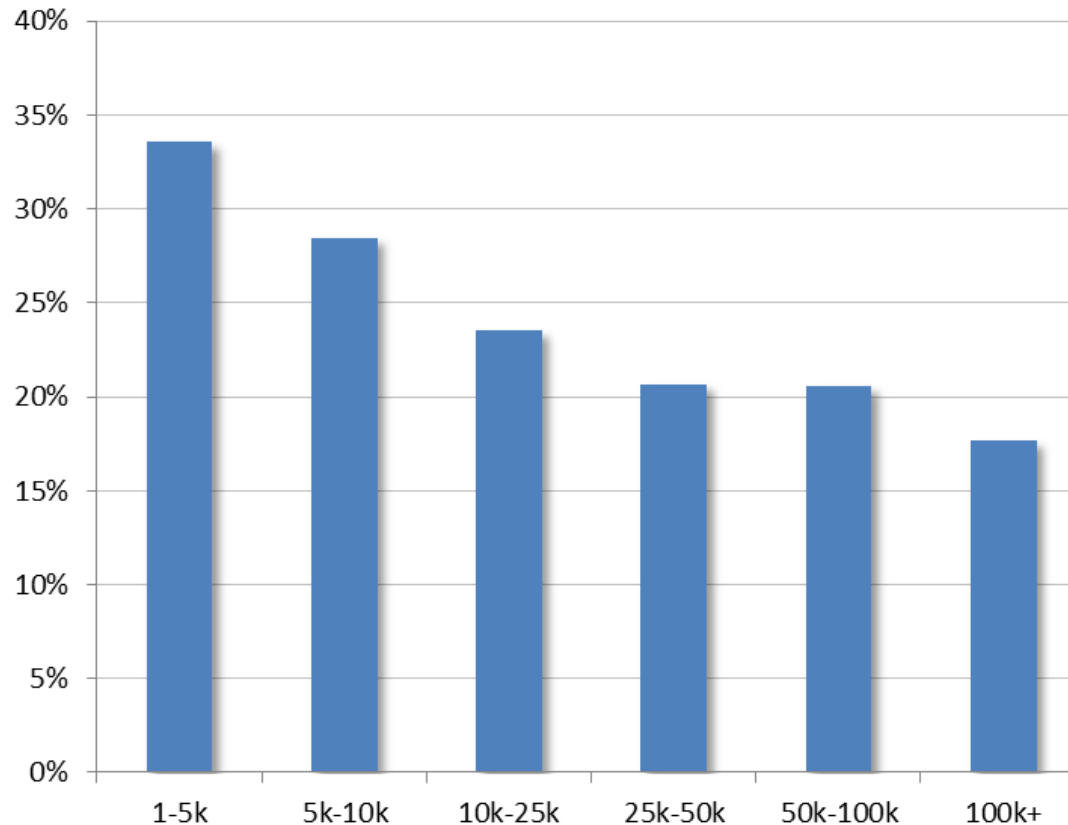


Source: New America Foundation analysis of U.S. Department of Education National Postsecondary Student Aid Study



Default Rate by Balance Amount?

Default Rates by Balance

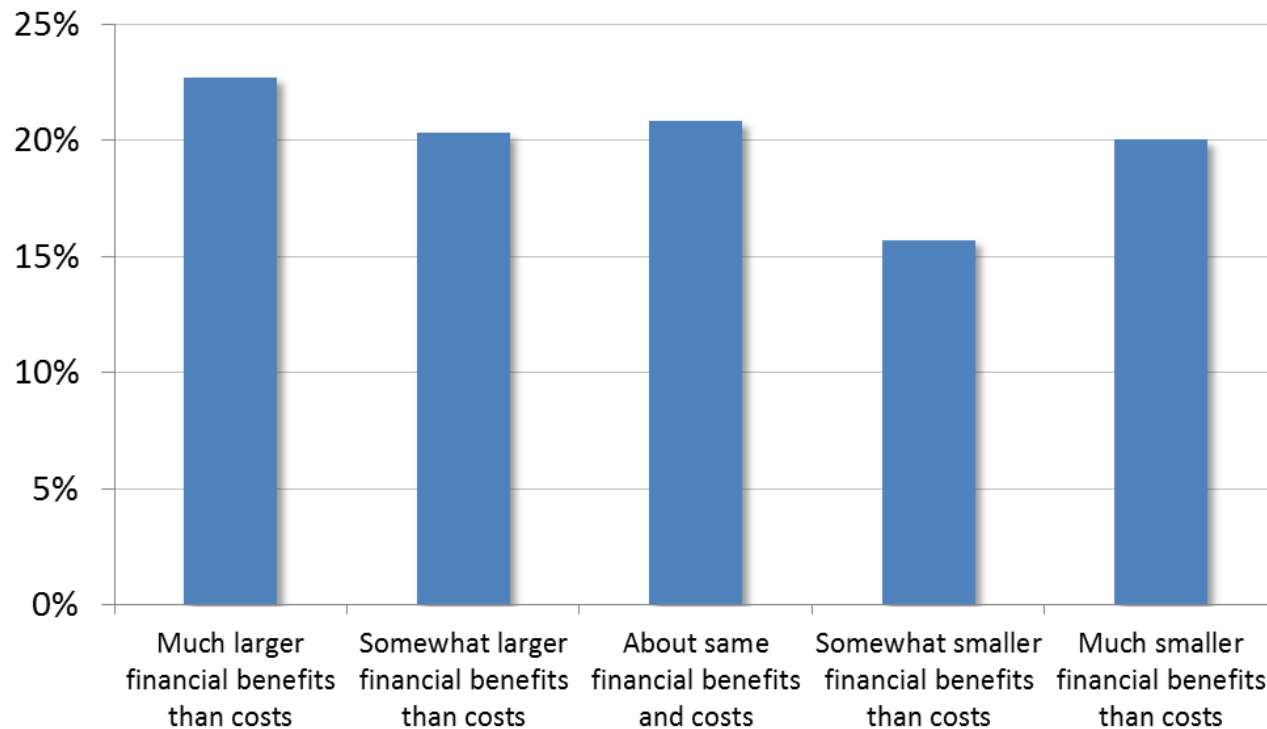


Source: FRBNY Consumer Credit Panel / Equifax
Haughwout, Lee, Scally, and van der Klaauw (2015)



Was it Worth it?

Overall, how would you say the lifetime financial benefits of your most recent educational program compare to the lifetime financial costs to you of this education?



Source: Board of Governors' Survey of Household Economics and Decision making



Implications

- **Where to put resources:**
 - Can't change macroeconomic environment, idiosyncratic factors, or individual characteristics.
 - Better debt contracts?
 - Alternative financing? Change aid structure?
 - Better mix of students?
 - Early warning system?
 - Steer students into institutions and majors that pay off?
 - Be careful here
 - More student debt counseling? What is the efficacy?
 - Start earlier?

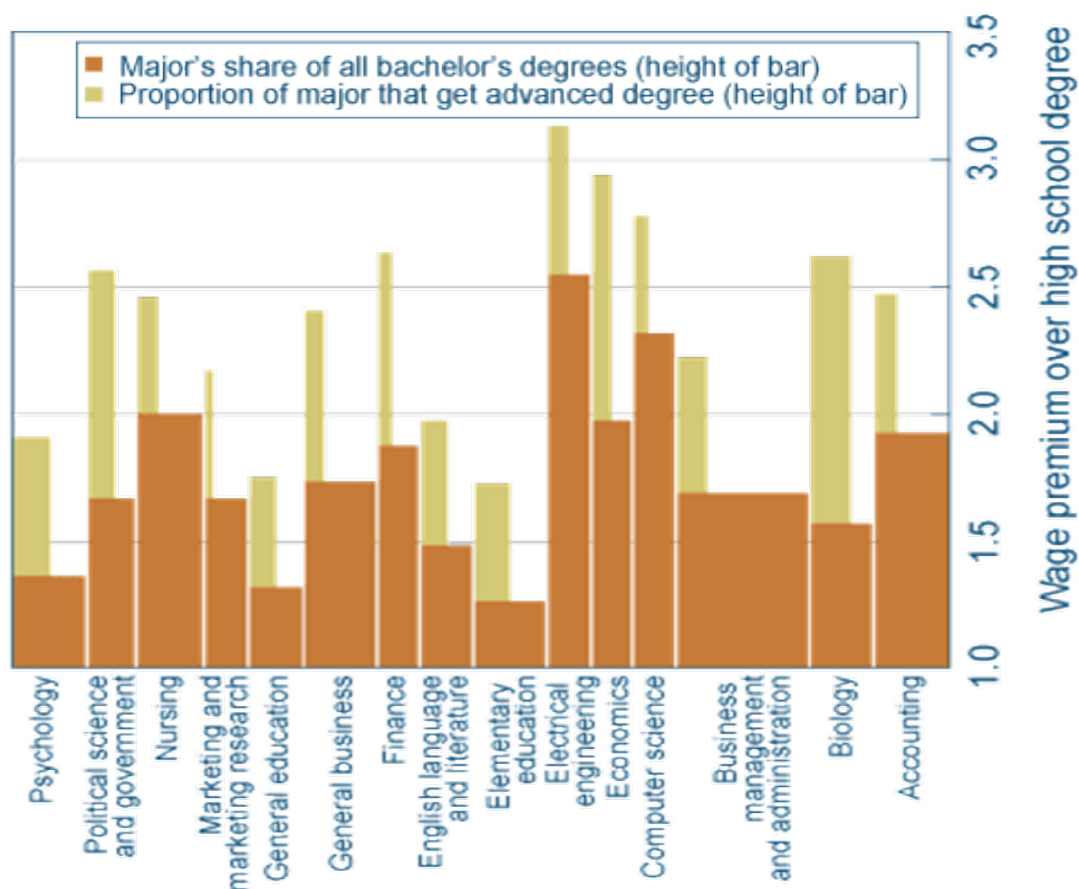


Thanks



Wage Varies by Major

Wage Premiums for Four-Year and Advanced Degrees in Selected Majors



Source: James FRBC Economic Commentary (2012)