$1 Trillion in Student Loan Debt: The Story Behind the Numbers

August 29, 2012

Organized by the Federal Reserve Banks of Dallas and Kansas City

The Connecting Communities® audio conference series is a Federal Reserve System initiative intended to provide timely information on emerging and important community and economic development topics with a national audience. The audio conference series complements existing Federal Reserve Community Development outreach initiatives that are conducted through our regional Reserve Bank offices and at the Federal Reserve Board of Governors in Washington, D.C.
Thank you to everyone for joining this session.

For today:

- This call is being recorded.

- An archived recording of this session will be available on the Connecting Communities® web site shortly after the session has taken place: www.stlouisfed.org/connectingcommunities/

- We will be taking questions via e-mail during this session. Please direct your questions to communities@stls.frb.org. These questions may be part of the recorded archive for this session.

- In connection with this session, several of our Reserve Bank offices have posted links to a variety of additional resources on this topic. We encourage you to browse through this list and to contact your regional office if you would like additional information on any of these items.
Legal Notices and Disclaimer

The information, analyses, and conclusions set forth are those of the presenters and do not necessarily indicate concurrence by the Board of Governors of the Federal Reserve System, the Federal Reserve Banks, or members of their staffs.
Community affairs programs at the Federal Reserve Board and the 12 Federal Reserve Banks support economic growth by promoting community development and fair access to credit.

Community affairs offices at the Board and Reserve Banks engage in a wide variety of activities to help financial institutions, community-based organizations, government entities, and the public understand and address financial services issues that affect low- and moderate-income people and geographic regions.
Each office responds to local needs in its district and establishes its own programs to:

- Foster depository institutions’ active engagement in providing credit and other banking services to their entire communities, particularly traditionally underserved markets
- Encourage mutually beneficial cooperation among community organizations, government agencies, financial institutions, and other community development practitioners
- Develop greater public awareness of the benefits and risks of financial products and of the rights and responsibilities that derive from community investment and fair lending regulations
- Promote among policy makers, community leaders, and private-sector decision makers a better understanding of the practices, processes, and resources that result in successful community development programs
Today’s Presenters and Agenda

• **Sandy Baum**, *Senior Fellow*, George Washington University Graduate School of Education.

• **Rohit Chopra**, *Student Loan Ombudsman*, Consumer Financial Protection Bureau.

• **Ajita Talwalker**, *Senior Policy Advisor – Office of the Under Secretary*, U.S. Department of Education.
Sandy Baum
Senior Fellow,
George Washington University Graduate School of Education

$1 Trillion
Why do Students Borrow?

• College is expensive.

• College is an investment in the future.

• Few families have saved enough in advance to pay.

• Working full time in college is not usually a good idea.
What Are Students Paying For?
## Average Published Charges for Undergraduates by Type and Control of Institution, 2011-12 (Enrollment-Weighted)

<table>
<thead>
<tr>
<th>Sector</th>
<th>Tuition and Fees</th>
<th>Room and Board</th>
<th>Total Charges</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2011-12 2010-11</td>
<td>$ Change % Change</td>
<td>2011-12 2010-11</td>
</tr>
<tr>
<td>Public 2-Year In-State</td>
<td>$2,963 $2,727</td>
<td>$236 8.7%</td>
<td>— —</td>
</tr>
<tr>
<td>Public 4-Year In-State</td>
<td>$8,244 $7,613</td>
<td>$631 8.3%</td>
<td>$8,887 $8,549</td>
</tr>
<tr>
<td>Public 4-Year Out-of-State</td>
<td>$20,770 $19,648</td>
<td>$1,122 5.7%</td>
<td>$8,887 $8,549</td>
</tr>
<tr>
<td>Private Nonprofit 4-Year</td>
<td>$28,500 $27,265</td>
<td>$1,235 4.5%</td>
<td>$10,089 $9,706</td>
</tr>
<tr>
<td>For-Profit</td>
<td>$16,104 $15,734</td>
<td>$370 2.4%</td>
<td>— —</td>
</tr>
</tbody>
</table>

Source: The College Board, Trends in College Pricing 2011
Average Annual Percentage Increases in Inflation-Adjusted Published Prices by Decade, 1981-82 to 2011-12

Source: The College Board, Trends in College Pricing 2011

[Bar chart showing average annual percentage increases for different types of institutions and time periods.]
Average Estimated Undergraduate Budgets, 2011-12 (Enrollment Weighted)

Source: The College Board, Trends in College Pricing 2011
Published Tuition and Fees, Net Tuition and Fees, and Room and Board in Constant 2011 Dollars, Full Time Undergraduate Students, 1996-97, 2001-02, 2006-07, and 2011-12

Source: The College Board, Trends in College Pricing 2011

Source: The College Board, Trends in College Pricing 2011
Mean Earnings of Full Time, Year-Round Male Workers Ages 25-34, 1991-2010

Source: U.S. Census Bureau, Historical Income Tables, Table P-32
## Mean Earnings of Full Time, Year-Round Workers Ages 25-34 Relative to High School Graduates

<table>
<thead>
<tr>
<th></th>
<th>Male High School</th>
<th>Male Some College</th>
<th>Male Associate's</th>
<th>Male Bachelor's or Higher</th>
</tr>
</thead>
<tbody>
<tr>
<td>1991</td>
<td>1.0</td>
<td>1.2</td>
<td>1.2</td>
<td>1.7</td>
</tr>
<tr>
<td>1995</td>
<td>1.0</td>
<td>1.1</td>
<td>1.1</td>
<td>1.6</td>
</tr>
<tr>
<td>2000</td>
<td>1.0</td>
<td>1.2</td>
<td>1.2</td>
<td>1.8</td>
</tr>
<tr>
<td>2005</td>
<td>1.0</td>
<td>1.2</td>
<td>1.3</td>
<td>1.8</td>
</tr>
<tr>
<td>2010</td>
<td>1.0</td>
<td>1.1</td>
<td>1.2</td>
<td>1.7</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Female High School</th>
<th>Female Some College</th>
<th>Female Associate's</th>
<th>Female Bachelor's or Higher</th>
</tr>
</thead>
<tbody>
<tr>
<td>1991</td>
<td>1.0</td>
<td>1.1</td>
<td>1.3</td>
<td>1.6</td>
</tr>
<tr>
<td>1995</td>
<td>1.0</td>
<td>1.1</td>
<td>1.3</td>
<td>1.7</td>
</tr>
<tr>
<td>2000</td>
<td>1.0</td>
<td>1.1</td>
<td>1.2</td>
<td>1.9</td>
</tr>
<tr>
<td>2005</td>
<td>1.0</td>
<td>1.2</td>
<td>1.3</td>
<td>1.6</td>
</tr>
<tr>
<td>2010</td>
<td>1.0</td>
<td>1.1</td>
<td>1.4</td>
<td>1.8</td>
</tr>
</tbody>
</table>

**Source:** U.S. Census Bureau, Historical Income Tables, Table P-32
Borrowing Over Time
Total Education Loans Disbursed, 1990-91 to 2010-11 (in Constant 2010 Dollars)

Source: The College Board, Trends in Student Aid 2011
## Total Full Time Enrollment, 1990-2010 (Undergraduate + Graduate)

<table>
<thead>
<tr>
<th>Period</th>
<th>Enrollment Growth</th>
<th>% Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990-1995</td>
<td>352,565</td>
<td>4%</td>
</tr>
<tr>
<td>1995-2000</td>
<td>950,483</td>
<td>9%</td>
</tr>
<tr>
<td>2000-2005</td>
<td>1,916,693</td>
<td>17%</td>
</tr>
<tr>
<td>2005-2010</td>
<td>2,699,714</td>
<td>21%</td>
</tr>
</tbody>
</table>

**Source:** IPEDS
Federal Stafford Loans: Number of Borrowers (2000s) and Average Borrowed 2000-01 to 2010-11 (in 2010 dollars)

Source: The College Board, Trends in Student Aid 2011
Total Loans Per FTE Undergraduate and Graduate Student, 2000-01 to 2010-11

Source: The College Board, Trends in Student Aid 2011
What Should We Worry About?
Common “Wisdom”

• Most students are drowning in debt.

• Student debt will be the next bubble.

• Students with debt lose out on other consumption with serious implications for the economy.
Distribution of Undergraduate Debt by Sector and Type of Degree or Certificate, 2007-08

**Bachelor's Degree**
- Public Four-Year: 38% No Debt, 16% Less than $10,000, 19% $10,000 to $19,999, 14% $20,000 to $29,999, 6% $30,000 to $39,999, 6% $40,000 or More
- Private Not-for-Profit Four-Year: 28% No Debt, 10% Less than $10,000, 19% $10,000 to $19,999, 17% $20,000 to $29,999, 10% $30,000 to $39,999, 15% $40,000 or More
- For-Profit: 4% No Debt, 12% Less than $10,000, 23% $10,000 to $19,999, 33% $20,000 to $29,999, 24% $30,000 to $39,999

**Associate Degree**
- Public Two-Year: 62% No Debt, 23% Less than $10,000, 9% $10,000 to $19,999, 3% $20,000 to $29,999, <1% $30,000 to $39,999, <1% $40,000 or More
- For-Profit: 2% No Debt, 22% Less than $10,000, 34% $10,000 to $19,999, 23% $20,000 to $29,999, 13% $30,000 to $39,999, 6% $40,000 or More

**Certificate**
- Public Two-Year: 70% No Debt, 21% Less than $10,000, 7% $10,000 to $19,999, <1% $20,000 to $29,999, <1% $30,000 to $39,999, <1% $40,000 or More
- For-Profit: 10% No Debt, 46% Less than $10,000, 34% $10,000 to $19,999, 8% $20,000 to $29,999, <1% $30,000 to $39,999, <1% $40,000 or More

**Source:** The College Board, Trends in Student Aid 2009
Who Are Most at Risk?

- Students who don’t complete a program
- Students in the for-profit sector
- Students who rely on private loans
- Students who borrow much more than the average
- Students from low-income backgrounds
For the Future

- Student loans create educational opportunities for many students.

- The payoff to education is high for most people, but the value of the investment is uncertain.

- We should create opportunities, provide better information guidance, and consumer protection, and improve provisions for students with unexpectedly poor outcomes.
Federal Student Loan Borrowing

Ajita Talwalker
Senior Policy Advisor-Office of the Under Secretary,
U.S. Department of Education
The Federal student aid programs provide federal grants, loans, and work study to help students and families cover the cost of higher education.

The Department of Education offers four types of federal student loans:

- Direct Subsidized Loans
- Direct Unsubsidized Loans
- Direct PLUS Loans
- Direct Consolidation Loans
# Federal Student Loan Overview

<table>
<thead>
<tr>
<th>Loan Type</th>
<th>Who can borrow it?</th>
<th>Annual Limit</th>
<th>Total Limit</th>
<th>Interest Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stafford (Dependent Students)</td>
<td>All eligible students (only low-income undergraduates get subsidized)</td>
<td>$5,500 to $7,500</td>
<td>$31,000 (up to $23,000 can be subsidized)</td>
<td>3.4% fixed (subsidized) / 6.8% fixed (unsubsidized)</td>
</tr>
<tr>
<td>Stafford (Independent Students)</td>
<td></td>
<td>$9,500 to $12,500</td>
<td>$57,000 (up to $23,000 can be subsidized)</td>
<td></td>
</tr>
<tr>
<td>PLUS</td>
<td>Parents of dependent undergraduates</td>
<td>Cost of Attendance minus aid</td>
<td>None</td>
<td>7.9% fixed</td>
</tr>
<tr>
<td>Grad PLUS</td>
<td>Graduate Students</td>
<td>Cost of Attendance minus aid</td>
<td>$138,500 (includes undergrad debt)</td>
<td>7.9% fixed</td>
</tr>
<tr>
<td>Perkins</td>
<td>All Students, but school chooses</td>
<td>$5,500 (undergrad) / $8,000 (grad)</td>
<td>$27,500 (undergrad) / $60,000 (grad)</td>
<td>5% fixed</td>
</tr>
</tbody>
</table>
Federal Student Loan Overview

• As of the 2010-11 academic year:
  – The total Federal student loan debt outstanding was approximately $800 billion.
  – There were 36 million Federal student loan borrowers.
  – This represented roughly 90 percent of student loan debt that is supported through the Federal student loan programs.
Federal Student Loan Borrowing Trends

Total Federal Student Loan Debt Disbursed and Number of Borrowers, 1997 to 2011

Source: U.S. Department of Education
Federal Student Loan Borrowing Trends

Median Undergraduate Balance Upon Entering Repayment, 1997 to 2010

Source: U.S. Department of Education
Federal Student Loan Borrowing Trends

• Federal student loan borrowing varies greatly by sector ranging from 29.9 percent at public two-year institutions to 94.5 percent at private, for-profit institutions.

• While there have been increases in average cumulative student loan debt, most students are repaying their Federal student loans.
Cohort Default Rates

• The primary measure for default rates, as required by statute, are calculated by the institution for a defined cohort period.

• Overall, while we have seen an uptick in the Cohort Default Rate (CDR) between FY 2008 and FY 2009, the rate is not near historically high rates.
Cohort Default Rates

National Student Loan Cohort Default Rates

Source: U.S. Department of Education
Cohort Default Rates

Institutional 2-Year Cohort Default Rates by Sector

Source: U.S. Department of Education
Impact of Default on Borrowers

- Accelerates repayment obligation (balance and interest due immediately in full)
- Loss of eligibility for other debt management tools such as deferment, forbearance, and Income-Based Repayment (IBR) and Income-Contingent Repayment plans
- Loss of eligibility for additional federal student aid
- Loan assigned to a collection agency
- Loan reported as delinquent to credit bureaus, damaging credit rating
- Tax refunds or wages can be garnished
Tackling Default

• Focusing on averting defaults
• Working with higher education institutions
• Strengthening options for borrowers
• Providing better information and debt management tools for borrowers
• Helping students make better educational investment decisions
• Protecting program integrity in the student financial aid programs
Working with Colleges

- Higher education institutions participating in the Federal student loan program have a critical role to play in helping students avoid default.
- The Department works closely with colleges providing training and technical assistance to assist them with default prevention activities.
- Additionally, institutions with high CDRs (30% or greater) are required to develop a default management plan (specified in regulations).
Working with Colleges (continued)

• Program integrity:
  – In response to recent trends including the uptick in CDRs and stagnant graduation rates, the Department has also worked to strengthen the regulations governing participation by higher education institutions in the federal student aid programs to ensure students, families, and taxpayers are protected.
Repayment Options for Borrowers

• Federal student loan programs offer flexible repayment options:
  – Standard repayment
  – Income-based and income-contingent repayment
  – Graduated repayment
  – Extended repayment
  – Deferments
  – Forbearances
Strengthening Repayment Options

• New Pay As You Earn regulations
• Process improvements to help borrowers participate in income-based repayment options
• Broader outreach and improved customer service to ensure students are aware of flexible repayment options
• Better standards for defaulted student loan borrowers to rehabilitate their loans through regulations
Better Tools for Borrowers

• Targeted customer service improvements:
  – Integrated and streamlined web experience across the student aid lifecycle
  – Clear and concise communication with borrowers
  – Upgraded tools and services for borrowers:
    • Mobile interface
    • Student loan counseling tool
Better Tools for Borrowers

Integrated Student Experience

Source: U.S. Department of Education
Better Tools for Borrowers (continued)

Source: U.S. Department of Education
Better Tools for Borrowers (continued)

- Highly interactive tool which enables student borrowers to manage their loans.

Source: U.S. Department of Education
Improving Consumer Information

• Promoting greater transparency to promote better educational decisions:
  – College Affordability and Transparency Center
  – College Scorecard
  – Financial Aid “Shopping Sheet”
  – Financial Aid Award Comparison Tools
College Scorecard

Source: U.S. Department of Education
**Student Specific Information:**

- Elements of cost of attendance appropriate for the specific student
- Grant aid (does not have to be repaid or earned)
- Net price after grants
- Aid awarded but earned thru work
- School recommended loan amounts under Federal loan programs
- General listing of other types of funding that can be used to meet net costs (including family contribution)
- Space for institution to send custom message

**Institutional Performance Metrics:**

- Student Right-to-Know graduation rate at 150 percent of normal time
- Most recent cohort default rate
- Median debt for completers

**Contact Information:**

Where to go for more information

**Source:** U.S. Department of Education
Consumer Financial Protection Bureau (CFPB) and Student Loan Debt

Rohit Chopra
Student Loan Ombudsman,
Consumer Financial Protection Bureau
Contents

• About the CFPB

• The student loan marketplace

• Selected CFPB initiatives

• Potential implications on the broader economy and areas for further exploration
Establishment of the CFPB

• In July 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act was enacted, which created an independent consumer agency to oversee the financial services marketplace. The Act provides for the CFPB to engage in financial education, research, rulemaking, supervision, and enforcement.

• In July 2011, consumer protection functions from other bank regulators transferred, and the CFPB began supervising the nation’s largest financial institutions.

• In March 2012, the CFPB launched the student loan complaint system at consumerfinance.gov.

• Last month, the CFPB and U.S. Department of Education released a Report to Congress on Private Student Loans.
The total amount of outstanding student loans has reached the $1 trillion mark in 2011. Delinquency and defaults have increased substantially.

Outstanding private student loan debt has reached $150 billion, with over $8 billion in default status.

Total student loans have grown by over 10 percent every year since 2005.
Students Were Hit Hard by the Financial Crisis

- New college graduates have high unemployment rates.

- Shrinking public budgets put more pressure on colleges to fill gaps, increasing tuition at a faster rate.

- Tightening family budgets make paying for college harder.

- Student loan delinquency and default rates have jumped.
When things don’t go according to plan, the CFPB can help student loan borrowers with:

- Getting a loan
- Repaying a loan
- When they are unable to repay a loan

CFPB Student Loan Complaint System
What We’ve Heard

• Even for borrowers making on-time payments with good credit history, there are few options to refinance and take advantage of lower rates.

• Struggling private student loan borrowers tell us they have a tough time modifying their repayment terms.

• Many were not fully aware of the differences between federal and private loans until it was too late.

• Borrowers worry that they’ll be unable to own a home, start a business, or live a “normal” American life because of their debt.
Income for all educational levels have been falling consistently since 2007, except for a minor jump for Master’s Degree holders.

Degree holders earn nearly twice as much as high school graduates.

Home Ownership Has Declined Among Young Americans

- The 25-29 age group has faced the greatest decrease in ownership since the crisis.

- The median age of first time home buyers has increased from 39 to 45 from 2010-2011.

- Americans under 35 have hit their lowest point of homeownership in 2011 at 37.7 percent since 1994 when young homeownership hit 37.3 percent.

Source: U.S. Census Bureau, 2010.
Why Aren’t Borrowers Refinancing Their Student Loans?

Issues:
For loans made after 2006, “consolidation” doesn’t lower federal student loan rates, it just reduces the number of loans a borrower separately pays.

Few lenders in the market are offering refinancing products.

Open questions:
Would lenders enter the market if they had access to:
• Adequate funding sources like warehouse credit?
• Take-out mechanisms through the Asset-Backed Securities (ABS) market or other means?
Intervention by the Fed During the Crisis

The Fed’s Term Asset-Backed Loan Facility program provided significant liquidity to the private student loan market.

Source: Report on Private Student Loans
Congress passed the Ensuring Continued Access to Student Loans Act, which injected over $100 billion in liquidity to ensure that banks could originate federal student loans.
This interactive tool helps borrowers navigate various student loan options.

Borrowers can learn more about:

- Income-based repayment
- Forbearance
- Deferment for military service or economic hardship
- Public service loan forgiveness
Financial Aid Shopping Sheet

- The shopping sheet developed by the Department of Education, with the help of the CFPB, helps give clear information to students on their loans and grants.

- Borrowers can easily:
  - Compare offers side by side
  - Get a sense of school quality indicators
  - Estimate how much debt they might end up with after graduation
Proposed: No surprises and no runarounds

We’re proposing new rules for mortgage servicing to make sure you can understand where you stand when it comes to paying your mortgage, and to make sure you’re connected with all of your options. Read more

www.consumerfinance.gov
Do you have questions?
E-mail us at:

communities@stls.frb.org
Thank you to today’s presenters and to all participants for joining this session.

Next steps:

- All session materials are available on our web site, and in the next few days we will be posting an audio file of today’s session.
- Additional Federal Reserve System resources related to this topic can be found on our web site along with links to your local Federal Reserve Community Development office.
- If you have topical suggestions for future sessions, or any questions about this program, please feel free to contact us at communities@stls.frb.org.
- Information about future sessions will be posted on our website along with archived materials from past sessions: www.stlouisfed.org/connectingcommunities/.