Student Debt Growth in the Eighth District

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Joint work done with Charles Gascon

These comments do not necessarily represent the views of the Federal Reserve Bank of St. Louis or the Federal Reserve System.
Motivation

• Student debt has been increasing locally, as well as nationally.

• Question: What are the factors driving the increases?

• Can look at tuition, aid and enrollment trends at the state level to see how they interact and affect student debt levels.
Debt on the Rise

Aggregate Student Debt in the 8th District

Source: FRBNY Credit Panel and Equifax Based on Author's Calculations
• Simplistic explanation: Debt increasing in two ways:
  – Number of people with debt (Extensive margin)
    • Enrollment
  – Debt per borrower (Intensive margin)
    • Tuition
    • Aid
  – A host of other factors affect both margins
Enrollment

• Increase in college-aged population

• Rise of nontraditional students

• Increasing college wage premium

• A degree has become a necessity for many jobs
Demographic Changes

Population (Ages 18-25)

Source: Census
Nontraditional Students

Composition of Enrollment

- 2000:
  - Private: 95.64%
  - Public: 80.00%
  - For Profit: 4.36%

- 2012:
  - Private: 95.64%
  - Public: 80.00%
  - For Profit: 11.10%

Source: IPEDS based on Authors Calculations
Enrollment by State

Total Enrollment Growth

Source: National Digest of Education Statistics
Tuition Increasing

Inflation-Adjusted Tuition Increases

Source: The College Board's Trends in College Pricing 2013
Tuition Increasing

Tuition Growth (Public 4-Year)

Source: IPEDS Based on Author's Calculations
Note: Tuition Weighted by Total Fall Enrollment
Tuition Increasing

### Tuition Growth (Private 4-Year)

<table>
<thead>
<tr>
<th>State</th>
<th>2005-06</th>
<th>2011-12</th>
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</thead>
<tbody>
<tr>
<td>Arkansas</td>
<td>$10,000</td>
<td>$13,000</td>
</tr>
<tr>
<td>Illinois</td>
<td>$15,000</td>
<td>$20,000</td>
</tr>
<tr>
<td>Indiana</td>
<td>$20,000</td>
<td>$27,000</td>
</tr>
<tr>
<td>Kentucky</td>
<td>$22,000</td>
<td>$27,000</td>
</tr>
<tr>
<td>Missouri</td>
<td>$18,000</td>
<td>$22,000</td>
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<tr>
<td>Mississippi</td>
<td>$15,000</td>
<td>$18,000</td>
</tr>
<tr>
<td>Tennessee</td>
<td>$15,000</td>
<td>$18,000</td>
</tr>
</tbody>
</table>

Source: IPEDS Based on Author's Calculations
Note: Tuition Weighted by Total Fall Enrollment
Aid Increasing

Nonloan Student Aid per Full-Time Equivalent

Source: College Board
Note: In 2012 Dollars
Tuition Increase Drivers

• Cuts to state funding of higher education.

• Intercollege competition has led to more spending on infrastructure and salaries of instructors.

• Demand for college.

• Availability of student loans.
State Fiscal Support Since 2007

Source: Illinois State University Grapevine Reports
Other Factors Affecting Debt Balances

• Current job market impeding the ability of borrowers to make payments.

• Changing landscape of higher education: Public/Private/For-Profit.

• Access to alternative forms of credit (HELOC’s, Credit Cards, Parents, etc.).

• Many other factors.
• Student debt levels rapidly increased across the district
  – More enrollees
  – Higher percentage of enrollees taking on debt
  – Borrowers taking on higher levels of debt
  – Previous vintages of loans not being paid back “on time”

• How drastic are the increases?
Debt Per Borrower
Increasing

Adjusted Average Balances of Borrowers

Source: FRBNY Credit Panel and Equifax based on Author's calculations
Adjusted Median Balances of Borrowers

Source: FRBNY Credit Panel and Equifax based on Author's calculations
Shift in Balance Distribution

Distribution of Balances in Eighth District States

Percent

Source: FRBNY Credit Panel and Equifax Based on Author's Calculations
Many Zero Payments

Distribution of Payments in Eighth District States

Source: FRBNY Credit Panel and Equifax Based on Author’s Calculations
Delinquencies Up

State Delinquency Rates

Source: FRBNY Credit Panel and Equifax Based on Author's Calculations
District Overview

Student-Loan Debt in the District: Reasons behind the Recent Increase

By Charles S. Gascon and Bryan Noeth

Read more at:

Thanks
Appendix
Present Discounted Value of College Degree Net of Tuition, 1965–2010

Source: Avery and Turner  Journal of Economic Perspectives (2012)
Tuition Increasing

Tuition Growth (Public ≤ 2-Year)

Source: IPEDS Based on Author's Calculations
Note: Tuition Weighted by Total Fall Enrollment
Other Factors

Unemployment Rates by Age

- 20 and Over
- 20-24
- 25-34

Source: Bureau of Labor Statistics
Other Factors

Annual Loan Volume by 4-Year, 2-Year, and Proprietary School Sectors

Source: 2013 Department of Education Budget Request
## Number of Credit Reports with Student Debt

<table>
<thead>
<tr>
<th></th>
<th>Arkansas</th>
<th>Illinois</th>
<th>Indiana</th>
<th>Kentucky</th>
<th>Missouri</th>
<th>Mississippi</th>
<th>Tennessee</th>
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<tbody>
<tr>
<td><strong>Q1 2005</strong></td>
<td>173,500</td>
<td>968,900</td>
<td>512,300</td>
<td>278,780</td>
<td>504,600</td>
<td>201,500</td>
<td>398,020</td>
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<tr>
<td><strong>Q1 2013</strong></td>
<td>327,580</td>
<td>1,674,620</td>
<td>940,500</td>
<td>539,440</td>
<td>825,880</td>
<td>370,960</td>
<td>748,760</td>
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<tr>
<td><strong>Pct Increase</strong></td>
<td>88.8%</td>
<td>72.8%</td>
<td>83.6%</td>
<td>93.5%</td>
<td>63.7%</td>
<td>84.1%</td>
<td>88.1%</td>
</tr>
</tbody>
</table>

Source: FRBNY Credit Panel and Equifax Based on Authors Calculations