Overview of the Student Loan Market and Predictors of Student Loan Delinquencies

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Roadmap

- Overview of recent trends in the student loan market

- Predictors of student loan delinquencies (joint work with Kamila Sommer)

Student Loan Market

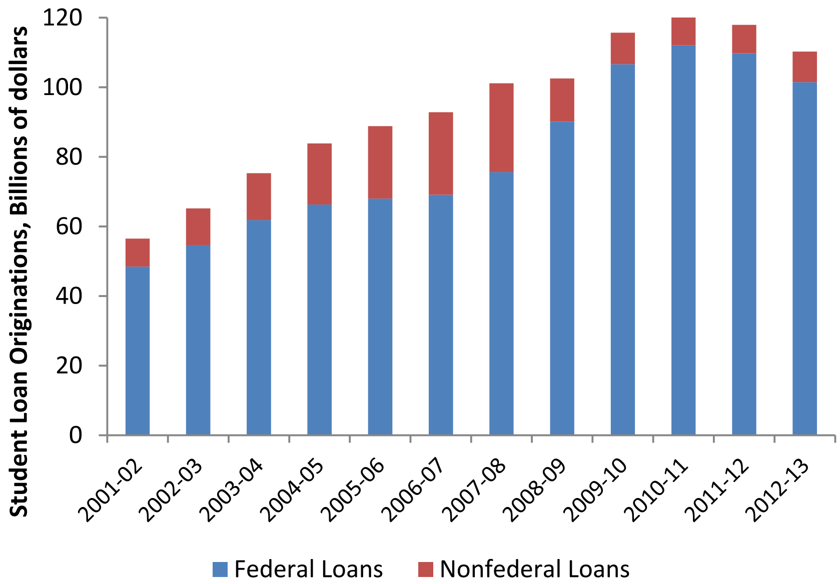
- U.S. consumers have over $1.2 trillion in student loan debt
  - 41 million student loan borrowers, up from 24 million in 2005
  - Average student loan debt over $26,000 per borrower, up from about $16,000 in 2005
  - 70 percent of borrowers have less than $30,000 in debt, 10 percent between $50,000-$100,000; and 4 percent more than $100,000

Student Loan Market (cont'd)

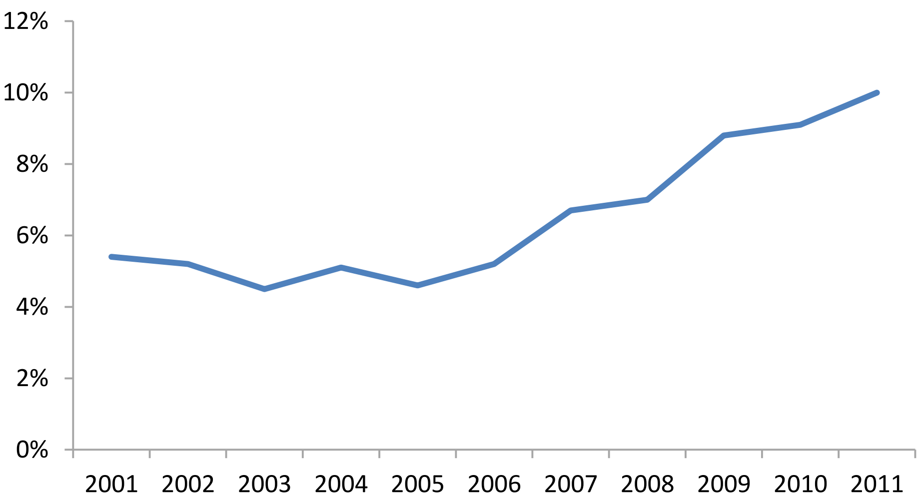
- Federal loans comprise about 90 percent of the market
  - Federal Family Education Loans (FFEL)
    - Originated by private lenders and guaranteed by the Federal Government
    - Discontinued in 2010
  - Direct Loans (DL)
    - originated by the Department of Education
    - Main source of federal loans since 2010
- Most federal student loans are not underwritten at the student level
- Student debt is not dischargeable in bankruptcy

Trends in the Student Loan Market

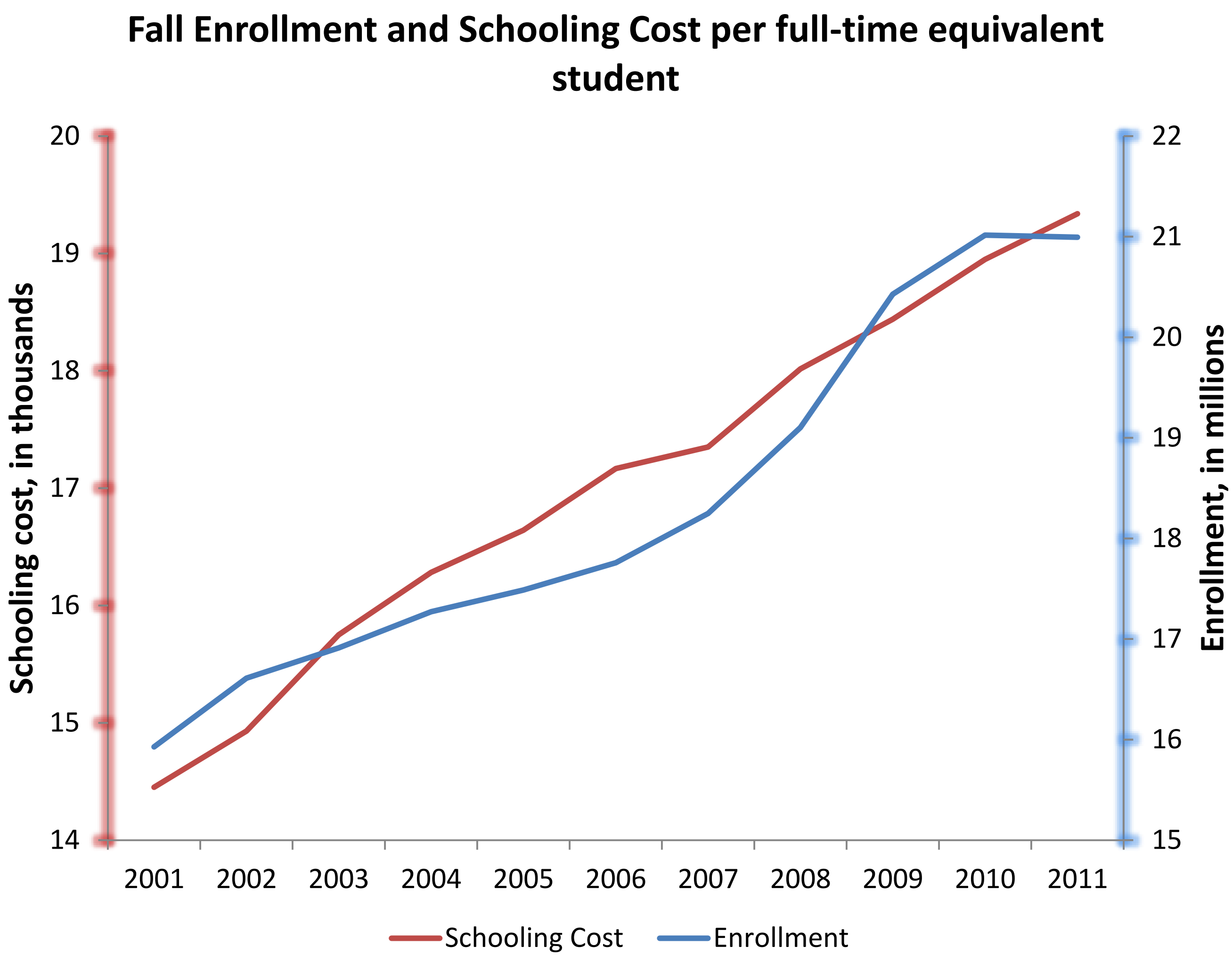
Student Loan Originations



2-year Cohort Default Rate



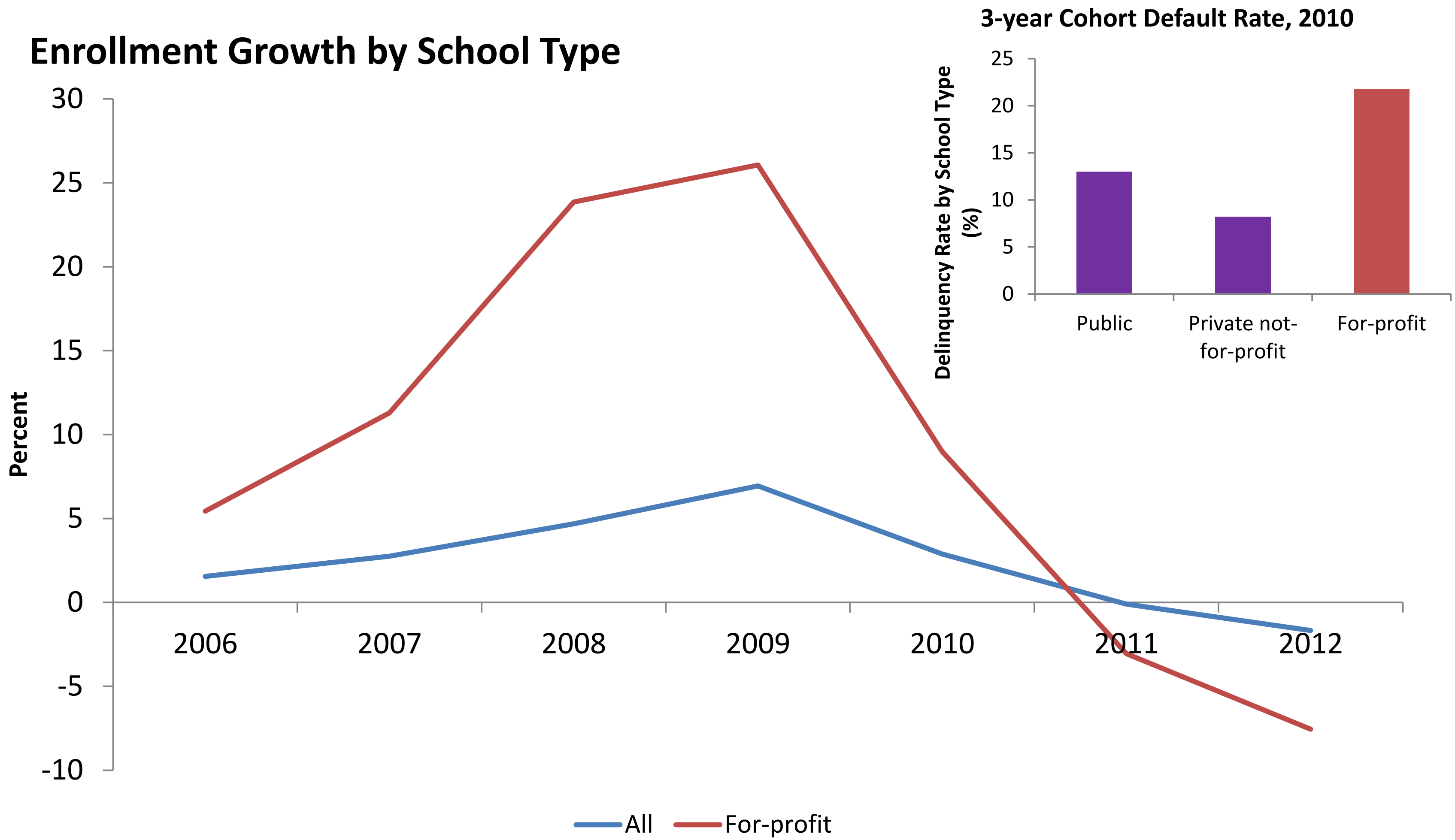
Main Factors Accounting for Increase in Student Loan Originations



Issues Associated with Increases in Tuition and Enrollment

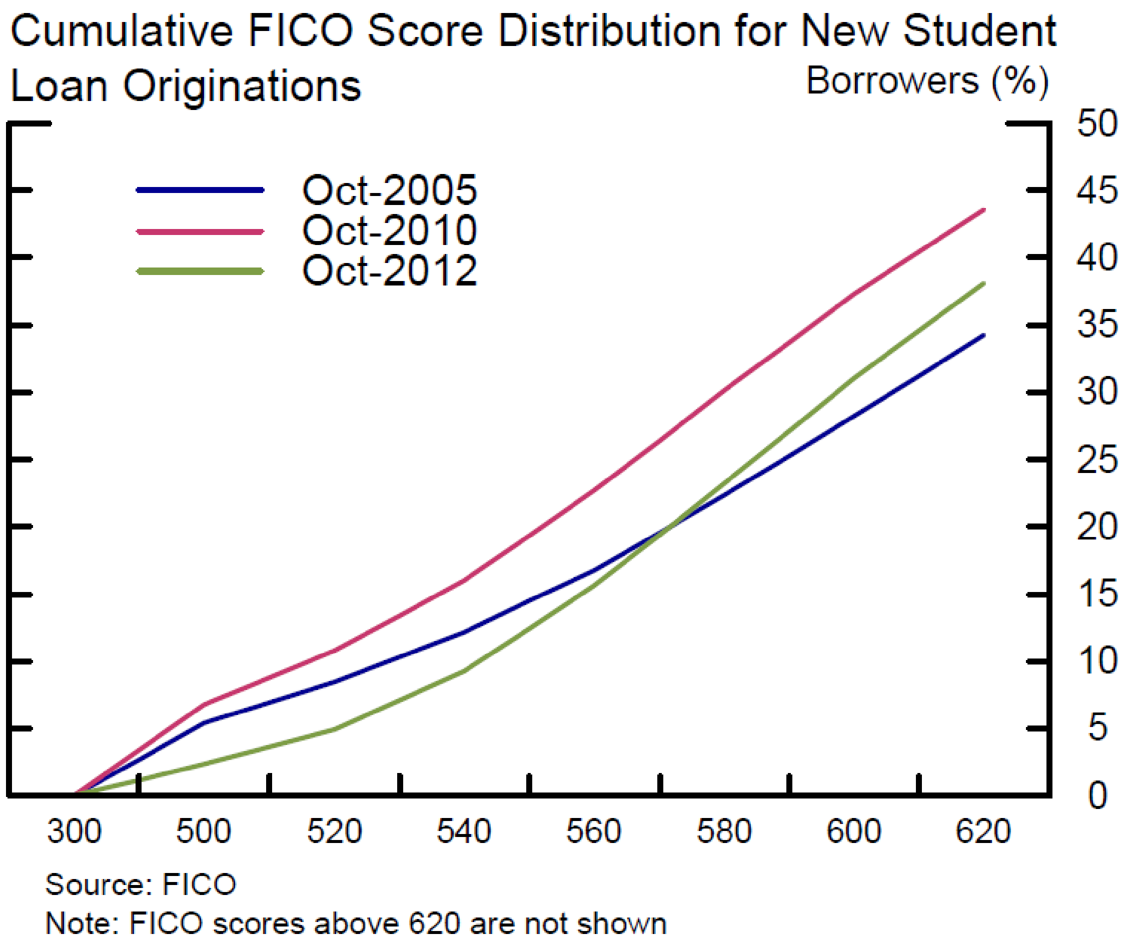
- Tuition increases reduce the return to the investment
- Studies still support that college education pays-off
  - Lots of heterogeneity
  - Heterogeneity might have increased during the recession
- Increases in enrollment should be beneficial
  - However, composition tilted towards enrollees who may be more likely to have problems repaying debt

Compositional Change in Enrollment



Source: National Center for Education Statistics and Department of Education.
Note: Based on data for Fall enrollment.

Compositional Change in Enrollment (cont'd)



- Most of the delinquencies are concentrated in the low credit score risk group

Implications of Compositional Change in Enrollment

- Surge in enrollment of non-traditional students and lower credit quality of students during the recession likely contributed to the increase in delinquency rates
- Increase in heterogeneity of enrollees might also have increased heterogeneity in returns to education
- Recent factors might help reduce student loan delinquency rates
  - Reduction in enrollment of non-traditional students
  - Improvement in credit quality
  - Improvement in the labor market
  - Expansion of income-driven repayment plans
- However, dropout rates are structurally high

Predictors of Student Loan Delinquencies

- Existing studies explored demographic, socioeconomic and education determinants of student loan delinquencies, but ignored credit risk attributes

- Our paper bridges gap by including credit data information into the analysis of student loan delinquencies

Data

- Cohort of young individuals b/w ages 23 and 31 in 2004
- Credit records by TransUnion, LLC, available approx. bi-annually b/w 1997 and 2010
- Educational records available through December 2007
- Focus on borrowers with:
  - Student loan debt when entering the last repayment spell
  - Existing education records
- Final sample: panel of 5,837 individuals

Empirical Framework

- Probability model
- Dependent variable:
  - 120+ days past due on student loan debt within 5 years after entering last repayment spell
- Controls:
  - Individual credit bureau data
  - Records on college enrollment, graduation and major
  - Characteristics of the schools attended
- Preferred specification: students with at most a Bachelors degree

Regression Results

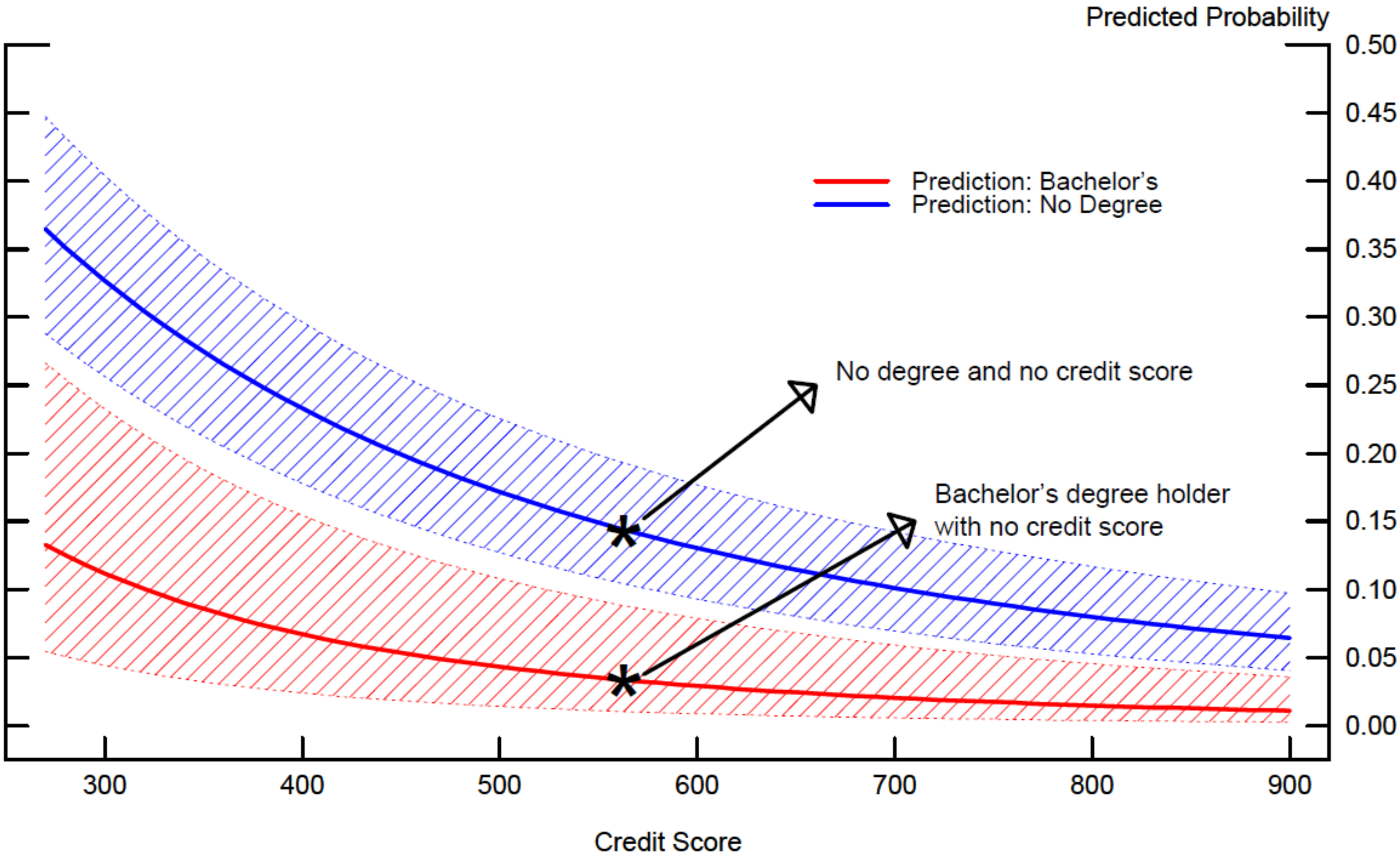
Dependent variable: 120+ days past due on student loan debt within 5 years after entering last repayment spell
Results limited to individuals with at most a Bachelor degree

	Coeff. Sign/Significance
Demographics	
Age at Repayment	(-)**
Age at Repayment Squared	(+)**
Pell Grants	
Received Pell Grants	(+)
Average Pell Grants Received	(+)**
School Records	
Dropout	(+)
BA Degree	(-)***
Private 4-year, Not-for-profit	(+)
Public 2-year	(-)**
Private, for-profit	(+)
School Cohort Default Rate	(+)***

	Coeff. Sign/Significance
Credit Records (At or Prior to Repayment)	
Student Debt Amount	(+)**
Ln(Credit Score)	(-)***
Missing Credit Score	(-)***
W/ Credit Card Debt	(-)***
W/ Mortgage Debt	(-)***
W/ Auto Debt	(+)
Obs.	4,398
R-Squared	0.182

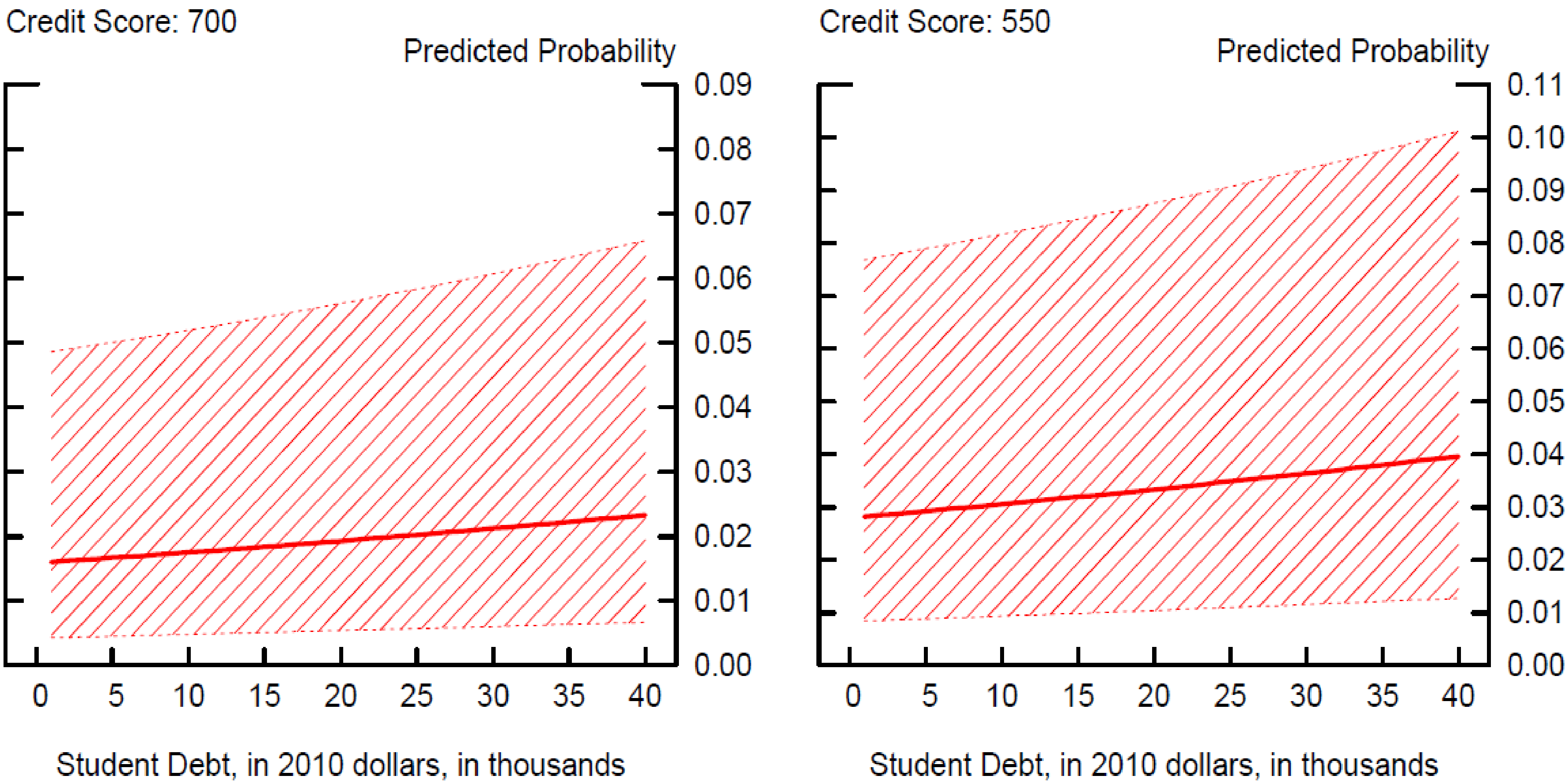
Additional Controls: School sector with which the borrower was ever associated while enrolled, open admission indicator, time-dummy for year when entered repayment, and degree major dummies. Omitted categories: having an Associate's degree/Certificate for degrees and being most recently associated with a public, 4-year school for sectors

Probability of Student Loan Delinquency, by Credit Score



Calculations assume that the borrower entered repayment in 2005 at the age of 25, only attended a public, 4-year school with an average (5.8 percent) CDR, and received a Bachelor's Degree in Engineering. Moreover, the borrower did not receive any Pell Grants, had a student loan debt of $26,900 prior to entering repayment and no other debt. Dashed lines represent 90 percent confidence intervals

Probability of Student Loan Delinquency, by Student Loan Balances



Calculations assume that the borrower entered repayment in 2005 at the age of 25, only attended a public, 4-year school with an average (5.8 percent) CDR, and received a Bachelor's Degree in Engineering. Moreover, the borrower did not receive any Pell Grants, had a credit score of 700 (550) prior to entering last repayment, and had no other debt. Dashed lines represent 90 percent confidence intervals

Main Takeaways

- Credit scores of even young borrowers highly predictive of future student loan delinquencies
- Limited effect of student loan debt balances in predicting future student loan credit events
  - Leaving school with no Bachelor Degree is associated with relatively low student loan balances but disproportionately greater student loan delinquency risk

Cumulative Delinquency Distribution, by Model-predicted Student Loan Delinquency Risk