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Recent Trends in Student Loans: More Loans and Higher Balances

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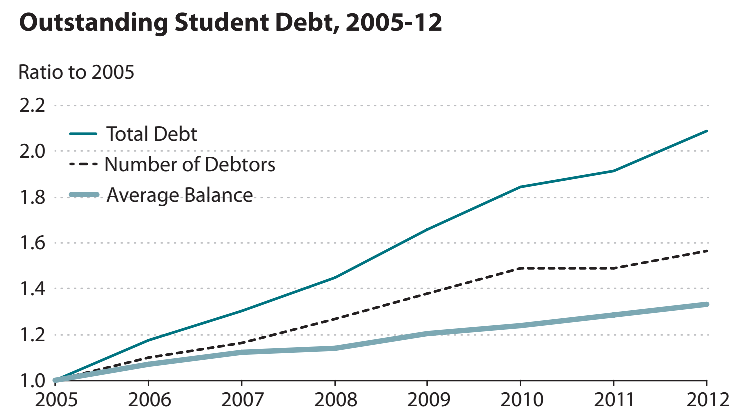
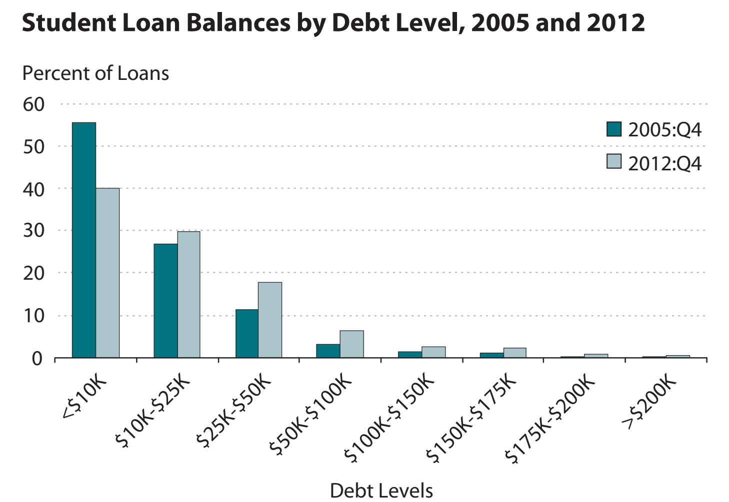
In the United States, increasing numbers of students are borrowing from public and private lenders to finance their higher education. Over the past decade, the number of individuals taking out Stafford loans, the main form of federal student loans, has nearly doubled, reaching 10.4 million in 2011-12. During that year, aggregate credit granted in federal student loans topped $73 billion. Moreover, although households deleveraged other forms of debt during the Great Recession, they accumulated so much student loan debt that it now outranks any nonmortgage debt, including auto loans and credit card debt. As of March 2012, the stock of outstanding student loan debt stood at about $870 billion, surpassing total credit card debt ($693 billion) and total auto loan debt ($730 billion).[1] These trends have raised concerns and received ample attention from major news outlets.[2]

This essay analyzes the recent growth in student loan debt by the number of borrowers and the average balances of borrowers across different debt levels. Such decompositions shed light on how credit has been allocated. In addition, they can be informative about prospects for the borrowers regarding, for example, repayment and getting other forms of loans.

The first chart shows total student loan debt from 2005 to 2012 (in constant 2012 dollars) as a fraction of the 2005 level. Interestingly, student loan borrowing accelerated during the Great Recession and, as noted, more than doubled in real terms between 2005 and 2012. Total growth is driven by both the number of borrowers and the average balance of each borrower. These increases, in turn, were likely driven by higher tuition and college expenses. In addition, during the Great Recession and its aftermath, strained family finances and weak labor markets may have driven larger numbers of students to attend graduate and professional schools.





See College Board (2013a) and Baum, Ma, and Payea (2013) for ample information on college costs and returns.[3]

In addition to more borrowers and higher average balances, an interesting shift occurred in the distribution of student loans by debt levels. Comparison of this distribution for the fourth quarter of 2005 with the fourth quarter of 2012 reveals the following: Borrowing at the \$10K level and above increased, with the fraction of borrowers at the highest level (\$200K or more) more than doubling. In 2005, only 3 percent of the borrowers owed more than \$100K, while in 2012 that fraction reached 6.2 percent. At the \$150K to \$175K, \$175K to \$200K, and \$200K or more levels, the increases were even greater: from 1.7 percent to 3.7 percent, from 0.6 percent to 1.5 percent, and from 0.2 percent to 0.6 percent, respectively.

Student loan borrowing accelerated during the Great Recession and now outranks any non-mortgage debt, including auto loans and credit card debt.

High levels of student loan debt pose no problems as long as the investment in education has high returns and the loans are repaid. However, a non-negligible fraction of borrowers may suffer adverse effects from high student loan debt, including difficulty obtaining other forms of credit (as argued by Brown and Caldwell, 2013) and/or the inability to repay the loans. The credit problems of these individuals are not likely to create major overall disruption in financial markets but could be a long-lasting hurdle for the economy: Impaired credit scores could limit access to and reduce the demand for credit for a number of households for many years to come. ■

NOTES

[1] See Brown et al. (2014), Federal Reserve Bank of New York (2013), College Board (2013a, b), and Baum, Ma, and Payea (2013).

[2] See, for example, the following: CNN, http://money.cnn.com/2012/10/18/pf/college/student-loan-debt/; Bloomberg, http://www.bloomberg.com/news/2013-09-30/student-loan-defaults-rise-in-u-s-as-borrowers-struggle-1-.html; and the *New York Times*; http://www.nytimes.com/2014/02/20/business/economy/the-hefty-yoke-of-student-loan-debt.html.

[3] Belley and Lochner (2007) and Lochner and Monge-Naranjo (2011) use the trends in College Board (2013a) and Baum, Ma, and Payea (2013) to explain the increasing role of family wealth in educational attainment and the recent increase in student borrowing.

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