# High Texas Student Loan Delinquency Rates Underscore Deeper Challenges

By Wenhua Di and Stephanie Gullo

**ABSTRACT:** Texas student loan borrowers have lower debt balances but higher delinquencies than the national average. Debt loads have increased in recent years, further challenging Texas students, who are already more likely than their counterparts nationally to work while in school.

Repaying student debt is a growing challenge for many who pursue a college education. About 58 percent of Texas students and 48 percent of their counterparts nationally relied on loans to finance their studies during the 2014–15 academic year.[1]

Student loan delinquency has been the highest among all major types of consumer loans in Texas and the nation. Serious delinquencies—loans that are over 90 days late or severely derogatory, indicating repayment problems—accounted for about 13.4 percent of the outstanding student loan balance in Texas in March 2017 and 11.1 percent nationally.[2,3]

High and rising loan balances alone do not explain student loan delinquencies. Factors such as income and family resources, willingness to take on debt, college preparedness, attendance, failure to complete programs, types of educational institutions attended and labor market conditions contribute to student loan borrowing and repayment performance.

## Behind Texas Delinquencies

About 44 million Americans have outstanding student loans. The $1.35 trillion owed is the largest portion of nonmortgage debt and accounts for 11 percent of total U.S. household debt (*Chart 1*).[4] While Texas consumers hold a much higher level of auto debt and lower level of home-related debt than the national average, the share of student loans in the debt portfolio is about the same as in the U.S. The median balance of Texas student loan borrowers is $14,964, compared with the U.S. median, $16,184.

There are a variety of ways to measure the level of student loan repayment difficulties. One can view the share of the delinquent balance relative to total owed, the proportion of delinquent borrowers compared with all borrowers, and the shares of delinquent balances or borrowers relative to those who are in repayment of the debt.[5]

For both Texas and the U.S., loan performance has deteriorated throughout the past decade (*Chart 2*). Texas consistently has a higher delinquency rate by every measure relative to the nation.

Student loan borrowers typically take out multiple loans each school year, sometimes with different terms and different servicers. A borrower's status is determined by the worst-performing loan. Thus, the delinquency rate based on total balance is usually lower than that of the total number of borrowers.

Additionally, delinquency rates based on balance or consumers in repayment are much higher than those based on the totals because many student loan borrowers are not yet repaying loans because they are still in school, in the grace period after graduation, or in deferment or forbearance.[6]

A total of 39 percent of loan balances and 56 percent of borrowers are in repayment in Texas. Considering only the student loan balance in repayment, the estimated serious delinquency rate is 34 percent in Texas and 29 percent for the nation. In other words, more than one-third of Texas student loan borrowers currently in repayment are at least three months behind on payments.

## Rising Debt Levels

Studies show that higher-balance student loan borrowers tend to default less, counter to the suspicion that increasing debt necessarily leads to repayment problems. A White House Council of Economic Advisers report in 2016 showed that over a three-year period after entering repayment, the default rate was 24 percent for those borrowing $5,000 or less, 19 percent for those borrowing from $5,001 to $10,000 and 7 percent for those who borrowed more than $40,000. Among all defaulters, two-thirds borrowed less than $10,000 and only 4 percent borrowed more than $40,000.[7]

Still, students have become more indebted over the past decade. The share of Texas borrowers with more than $40,000 in student loans nearly doubled from 10.6 percent in March 2007 to 20.7 percent in March 2017. During the period, the proportion of Texas borrowers owing $100,000 or more increased from 1.8 percent to 4.7 percent, compared with a rise nationally from 2 percent to 5.5 percent. The Texas and national increases were largely driven by debt for graduate school.[8]

Graduate students on average borrow three times as much in direct federal loans every year than undergraduates. They are also more likely to repay loans after graduation.

## Repayment Problems

A top reason for borrower distress is inability to complete school; ironically, it can be related to taking out too few student loans rather than too many.[9] Some students, especially those with limited college experience—first-generation students, immigrants and adult students—may be unaware of financial aid and seek to minimize the risk of borrowing, obtaining insufficient financial backing.

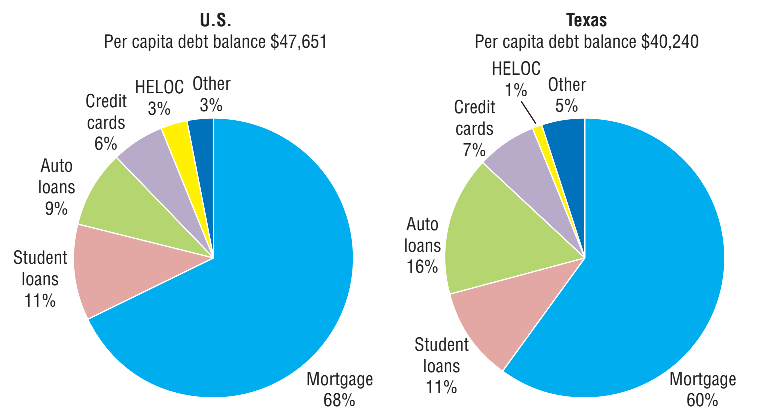
Some students' decision not to borrow enough money—often while attempting to work their way through school—leads to failure to complete their studies. Although college graduation rates for first-time freshmen at Texas public universities has significantly improved over the past two decades, minority students, especially black students, remain far behind their white, non-Hispanic counterparts.[10]

More than a quarter of undergraduate students in Texas were age 25 or older in fall 2014. Most undergraduate students in Texas enrolled in two-year institutions and of those attending such schools, two-thirds did so on a part-time basis. Meanwhile, Texas high school students trail their counterparts nationally in college readiness.

Another complicating factor is a lack of health insurance.[11] The state has the highest percentage of population without coverage, making some students more likely to drop out because of illness-related financial shocks involving themselves or family members.

Still others are unable to find well-paying jobs after graduation, sometimes after borrowing too much relative to their earning potential. For example, students may borrow thousands of dollars and go to a for-profit school to learn a trade rather than attending a community college for similar training at a much lower cost.[12]

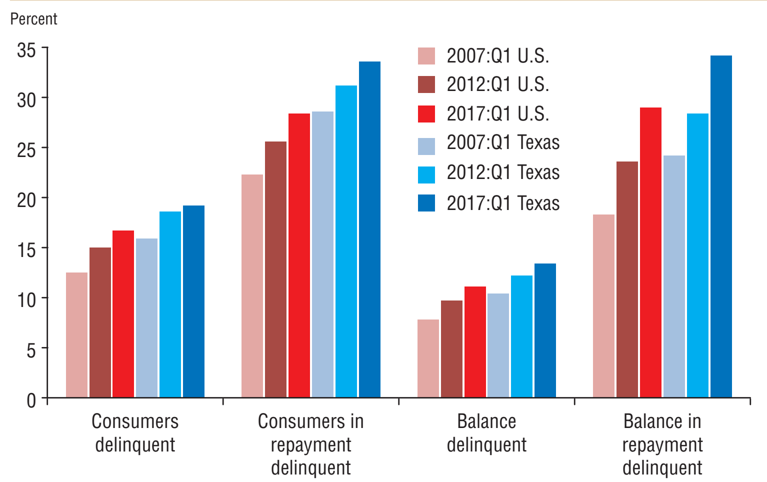
**Chart 1** More Than One-Tenth of Consumer Debt Is Student Loan Debt




NOTES: Percent of total debt balance based on 5 percent sample of all consumers with credit. U.S. includes the 50 states and Washington, D.C. HELOC refers to home equity line of credit. Mortgage includes home equity installment loans.

SOURCE: Federal Reserve Bank of New York Consumer Credit Panel/Equifax.

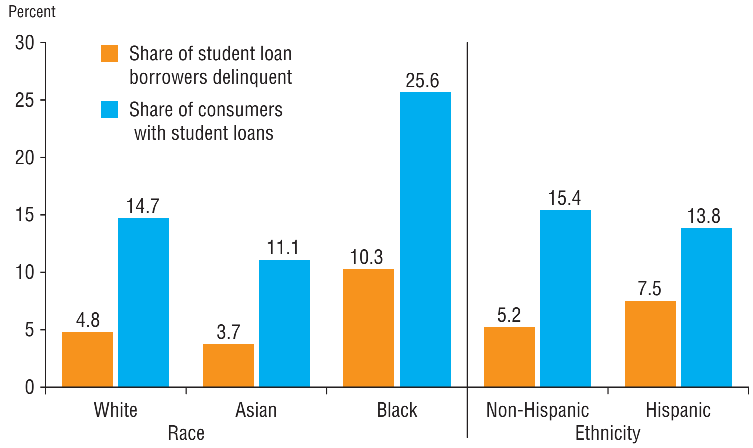
**Chart 2** Texas Student Loan Borrowers Perform Worse than the Nation




NOTE: Based on 1 percent sample of consumers with a credit report.

SOURCE: Federal Reserve Bank of New York Consumer Credit Panel/Equifax.

**Chart 3** Student Loan Borrowers' Debt Profile Varies by Race, Ethnicity Among U.S. Mortgage Holders




NOTE: Data for March 2017.

SOURCE: Home Mortgage Disclosure Act–Credit Risk Insights Servicing McDash/Equifax match data.

## Difficult Repayment Terms

The terms of some student loan programs are complicated, leaving borrowers in the dark about their choices and obligations or relief plans if they get into trouble. About 90 percent of student loans originated are direct federal loans. There are four types for undergraduates and three types for graduate students.[13] The federal government offers nine repayment plans from which borrowers can choose—four without loan forgiveness and five income-driven plans that allow payment to be adjusted according to borrowers' discretionary income and loan forgiveness.[14]

There are also complaints about outside servicers who work on behalf of the government collecting payments. Some borrowers say they are not providing accurate information and prompt assistance, especially involving enrollment in income-driven repayment plans, which might help avoid defaults.[15]

Overall, student loan borrowers tend to have lower credit scores than nonborrowers, although this difference is not necessarily a consequence of indebtedness but a reflection of the credit profiles of those unable to repay loans. Defaulting federal loan borrowers may also have wages, tax refunds or Social Security payments garnished and cannot have their student loan discharged even in bankruptcy unless they can prove overwhelming debt burden.

Broader economic consequences arise from student debt problems. Heavily indebted students may reduce savings and consumption, delay home or car purchases or family formation, or put off starting a business.[16] Delinquencies or defaults impair credit and limit future borrowing capacity.

## Differing Debt Patterns

Credit reports highlight but do not explain higher Texas student loan delinquencies. Income and demographic differences vis-à-vis the rest of the nation play a role, as evidenced in a unique dataset that includes credit bureau data and demographic information for consumers with mortgages.[17]

Among mortgage holders, middle-income consumers are more likely than high- or low-income consumers to have a student loan. This may be because grant aid is less available and family resources to fully fund education are inadequate.

Borrowers in the lower-income quintile are more likely to be late with student loan payments. Because a narrower group of borrowers have sufficient credit standing to obtain a mortgage, their overall delinquency rate is much lower than that in the credit bureau data. The median loan balance is greater in the higher-income quintiles and relatively less in the lower-income quintiles.

Texas has a higher poverty rate than the nation. There is a greater percentage of student loan borrowers among middle- and low-income consumers in Texas than in the nation. Among all income quintiles, however, the median of Texas student loan balances is lower than those nationally, while the Texas delinquency rate is higher except among the top 20 percent income group.

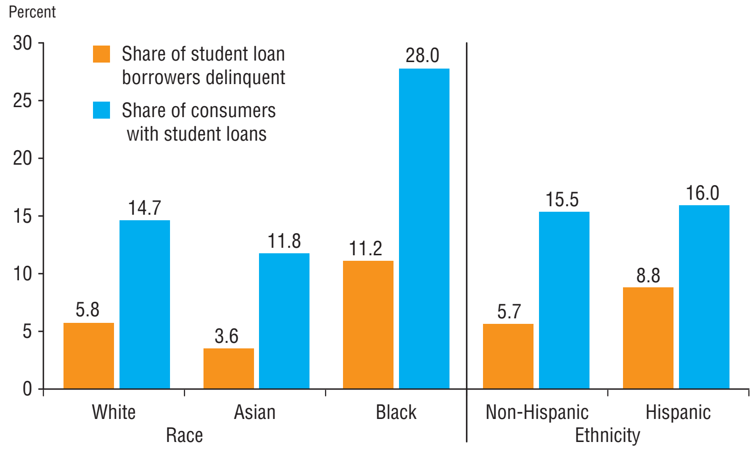
Borrowing and repayment among mortgage holders also varies by race and ethnicity (*Chart 3*). Nationally, black consumers are more likely to hold student loans and also more likely to be delinquent than white and Asian borrowers.[18] Hispanic consumers are less likely to borrow but more likely to be delinquent than non-Hispanic consumers. When it comes to the amount owed, black borrowers have a higher median balance than Asian borrowers; whites have the lowest. Non-Hispanics have a higher median balance and lower delinquency rate than Hispanic borrowers.

A greater percentage of Hispanics borrowing has thus contributed to higher Texas loan delinquencies.

Hispanics make up 23 percent of borrowers in Texas—14 percentage points higher than nationally. Texas debt patterns are similar to those in the nation, apart from Texas Hispanics' greater willingness to take out student loans (*Chart 4*). Texas' delinquency rates exceed those of the nation for all race and ethnic groups, except for Asians. Among the Texas mortgage holder group, the median balance of Hispanic student loan borrowers totaled $15,367—$4,255 lower than that of non-Hispanic borrowers.

Studies show that black and Hispanic students more often work full time during college, possibly affecting graduation chances.[19] Asian and Hispanic immigrant groups, meanwhile, may be less willing to take on debt for cultural reasons, possibly leading to underfunding and subsequent repayment problems.

Chart 4 Among Mortgage Holders, Hispanics More Likely to Have Student Loans than Non-Hispanics in Texas




NOTE: Data for March 2017.

SOURCE: Home Mortgage Disclosure Act–Credit Risk Insights Servicing McDash/Equifax match data.

## Student Loan Impact

Although Texas tuition and fees are lower than colleges nationally, a higher percentage of Texas students rely on loans, especially federal loans, to fund their education.[20] For many, the debt allows acquisition of skills and knowledge, leading to financial independence and professionally fulfilling lives that might otherwise be unattainable. When debt is properly managed, borrowers are on track to building good credit as well as promising careers.

However, many borrowers cannot handle their debt. Delinquency and defaults are especially high among lower-income and minority groups despite availability of a variety of income-based repayment relief programs. Additional research could examine the factors underlying these borrowing and debt performance patterns. In the meantime, schools can offer financial counseling to help students handle debt, while loan servicers should work to assist and inform borrowers regarding their loan obligations.

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## Notes

[1] "State of Student Aid and Higher Education in Texas," by Chris Fernandez, Carla Fletcher and Kasey Klepfer, Texas Guaranteed Student Loan Corp., January 2017, www.tg.org/research/state-of-student-aid-in-texas/.

[2] "Student Loans Part 1: Get the Numbers Right," by Wenhua Di and Emily Ryder Perlmeter, Texas Consumer Credit Series, Federal Reserve Bank of Dallas, December 2014, www.dallasfed.org/cd/FinAccess/ConsumerCredit/2014/1202.aspx.

[3] Based on the March 2017 Federal Reserve Bank of New York Consumer Credit Panel/Equifax (CCP/Equifax) data. Loans that are 90 days late, 120 days late or severely derogatory are considered seriously delinquent. Severely derogatory loans are defined as loans that are in any stage of delinquency combined with reports of repossession or charge off.

[4] See note 3.

[5] The trade-line data in Federal Reserve Bank of New York Consumer Credit Panel (CCP)/Equifax allow various measures of student loan delinquencies; see note 2.

[6] The majority of student loan borrowers do not need to make payment while in school and during a grace period (six or nine months) after graduation. Loan servicers can also grant deferment and forbearance to borrowers to post or reduce payment.

[7] Loan balance is measured at the time the borrower entered repayment in 2010–11. Investing in Higher Education: Benefits, Challenges and the State of Student Debt, Figure 27, White House Council of Economic Advisers, 2016.

[8] "Is a Student Loan Crisis on the Horizon?" by Beth Akers and Matthew M. Chingos, Brown Center on Education Policy, The Brookings Institution, June 24, 2014.

[9] "Trends in Student Aid 2016," by Sandy Baum, Jennifer Ma, Matea Pender and Meredith Welsh, The College Board, 2016.

[10] Texas Higher Education Coordinating Board, www.txhighereddata.org/Interactive/Accountability/UNIV_Success.cfm?FICE=445566.

[11] "Young, Uninsured and in Debt: Why Young Adults Lack Health Insurance and How the Affordable Care Act Is Helping," by Sara R. Collins, Ruth Robertson, Tracy Garber and Michelle M. Doty, The Commonwealth Fund, June 2012, www.commonwealthfund.org/~/media/files/publications/issue-brief/2012/jun/1604_collins_young_uninsured_in_debt_v4.pdf.

[12] "Trends in Community Colleges: Enrollment, Prices, Student Debt and Completion," by Jennifer Ma and Sandy Baum, Research Brief, College Board, April 2016.

[13] Undergraduate students with financial need can borrow via direct subsidized loans. Both undergraduate and graduate students can borrow unsubsidized direct loans. Those with exceptional financial need can get Perkins loans from schools. Parents can borrow PLUS loans for undergraduate students, and graduate students can borrow PLUS loans for themselves. See more details at https://studentaid.ed.gov/sa. For other loans available for Texas students, see "Student Loans Part 2: Borrowing for a Future," Wenhua Di and Emily Ryder Perlmeter, August 2015, www.dallasfed.org/cd/FinAccess/ConsumerCredit/2015/0801.aspx.

[14] Borrowers in the income-driven plans can have the remaining balance forgiven after 20–25 years of payment. Some of them can also apply for the Public Service Loan Forgiveness if they work in qualified public service jobs and have the remaining balance forgiven after 10 years of on-time payment.

[15] "Annual Report of the CFPB Student Loan Ombudsman," Consumer Finance Protection Bureau, 2016, https://s3.amazonaws.com/files.consumerfinance.gov/f/documents/102016_cfpb_Transmittal_DFA_1035_Student_Loan_Ombudsman_Report.pdf.

[16] "Student Loan Relief Programs: Implications for Borrowers and the Federal Government," by Wenhua Di and Kelly Edmiston, *The ANNALS of the American Academy of Political and Social Science*, vol. 671, no.1, 2017, pp. 224–48.

[17] Based on a unique dataset matching the Equifax data and the Home Mortgage Disclosure Act (HMDA) data. The match is done in two steps: a match of Equifax with Black Knight Financial Services (formerly known as Lending Processing Services and McDash) by Equifax and a match of confidential HMDA with McDash by the Federal Reserve Board.

[18] Roughly 74 percent of the sample with student loans were white, 11 percent were black, 4 percent were Asian, less than 0.5 percent were Native American, less than 0.5 percent were multiracial, and 10 percent did not report race.

[19] "Student Aversion to Borrowing: Who Borrows and Who Doesn't," by Alisa F. Cunningham and Deborah A. Santiago, Institute for Higher Education Policy, December 2008.

[20] See note 1.