Are Student Loans Really Hurting Consumers? The Impact of Student Debt on Consumer Lending

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The burden of student loans on younger consumers has been a major topic in both the media and among government policymakers

Young Student Loan Borrowers Retreat from Housing and Auto Markets

College debt is still keeping grads from buying homes

Student loan debt swamping millennials

The Hefty Yoke of Student Loan Debt

Just Released: Young Student Loan Borrowers Remained on the Sidelines of Housing Market in 2013

Warren sees popular momentum for student loan bill

For many 20- and 30-somethings, paying off the cost of college takes priority. Marriage, a house and family will have to wait.

Americans are having more trouble paying off their student debt than their houses

Millennials' ball-and-chain: Student loan debt

Millennials need help conquering mountains of student loan debt

We're Frighteningly in the Dark About Student Debt

Senate bill would waive student loans in bankruptcy

Source: Headlines from Federal Reserve Bank of New York, The New York Times, The Washington Post, The Boston Globe, Chicago Tribune, The Christian Science Monitor, USA Today, Bankrate.com

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Session overview

- Review the recent growth in student loan obligations by younger consumers
- Define a research study focused on understanding the impact of student debt on younger consumers’ credit access, origination activity and performance
- Share research results and the implications for younger consumers and their ability to access credit
- Discuss practical applications for lenders in using these insights to improve lending strategies and identify profitable growth opportunities

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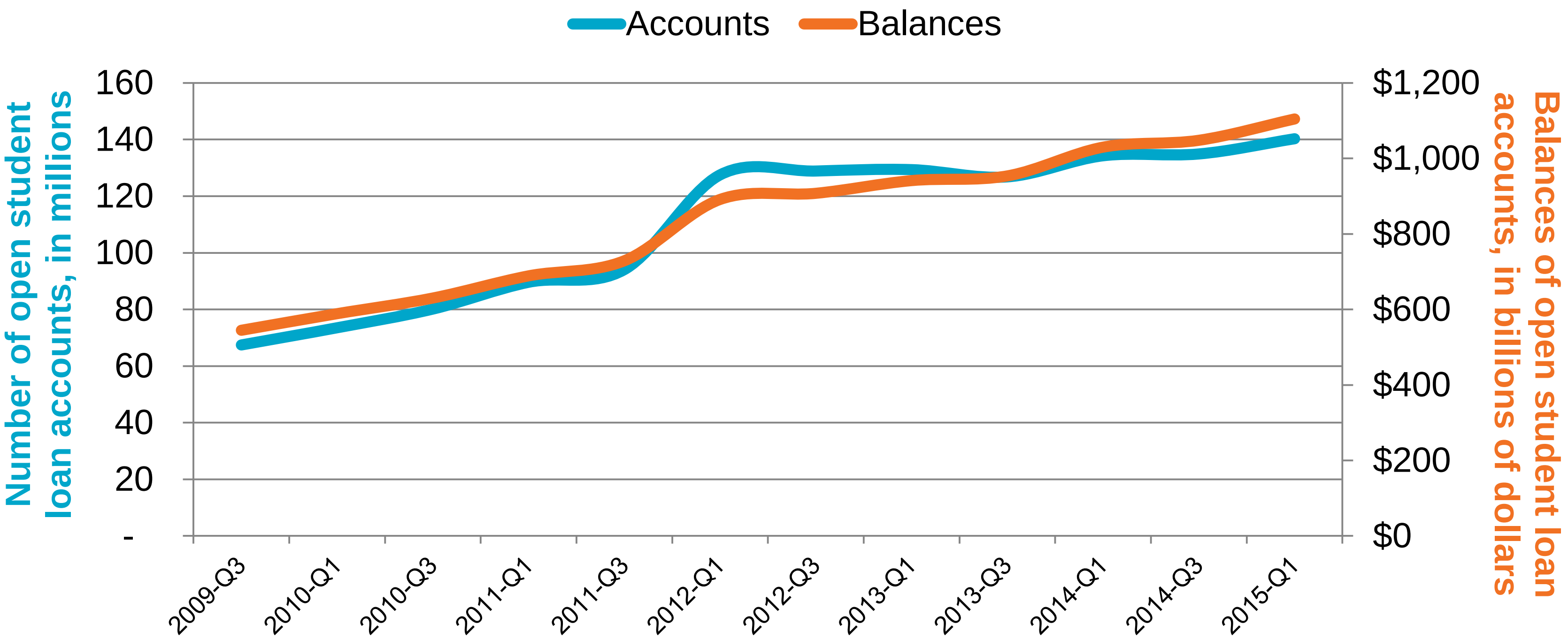
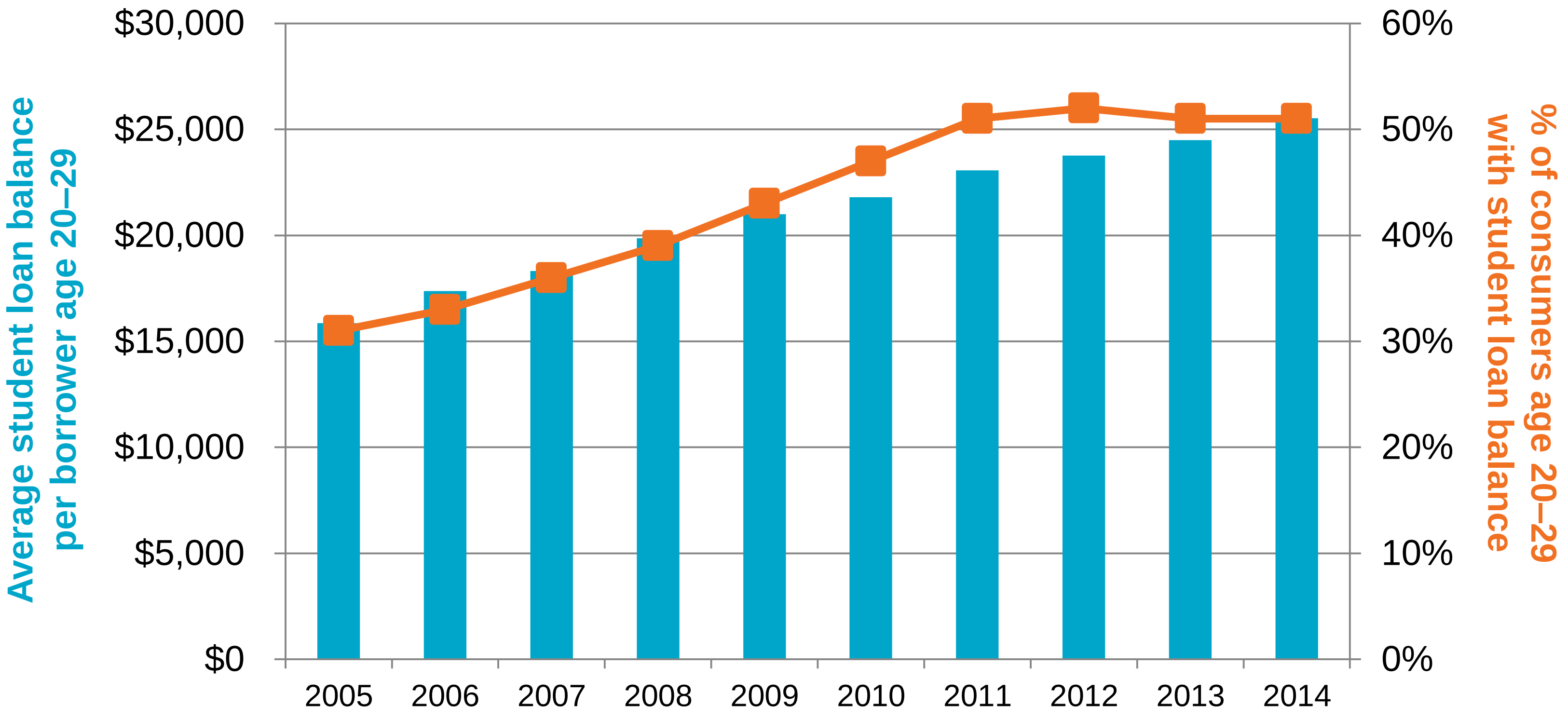
The number and outstanding balances of student loan accounts have doubled since the end of the Great Recession



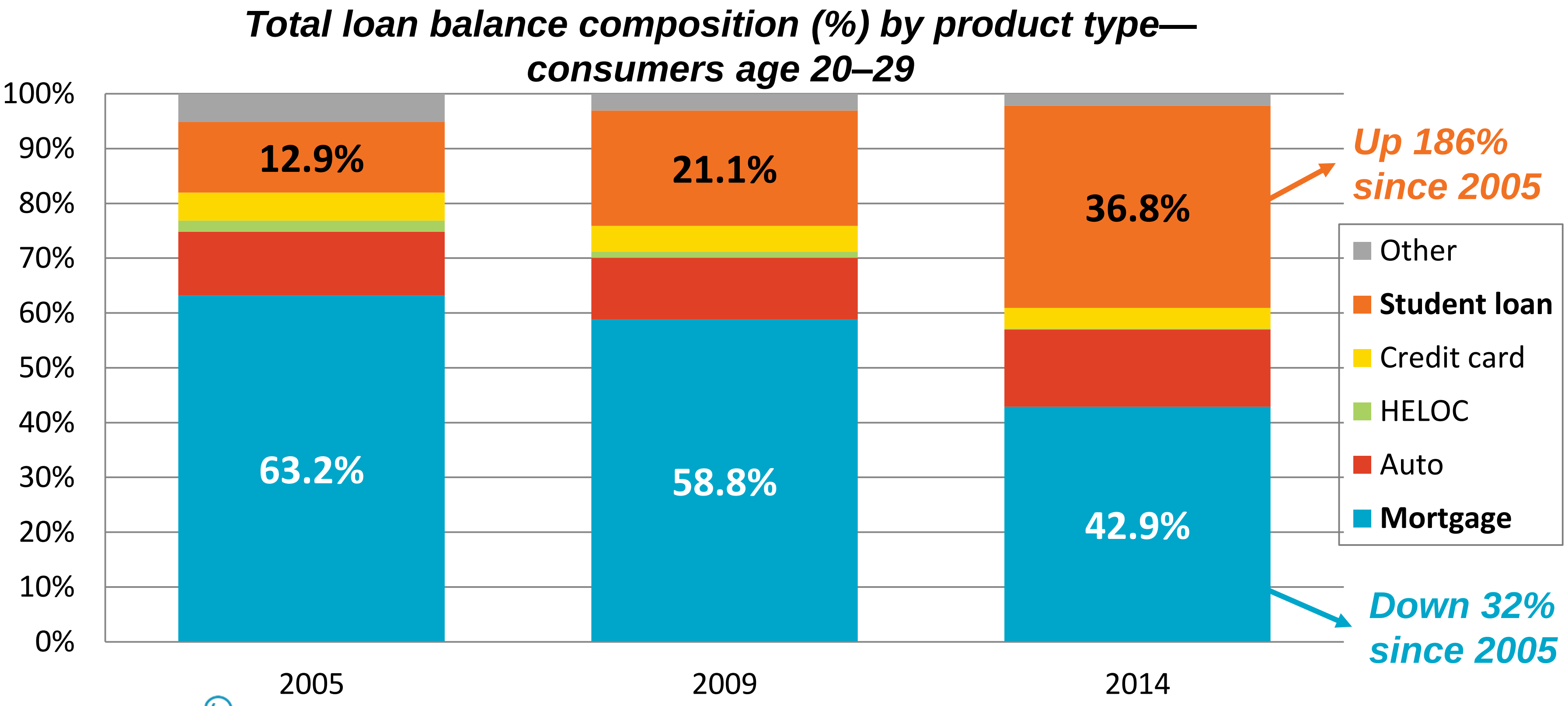
Source: TransUnion Consumer Credit Database

At a consumer level, average balances and percentage of age 20–29 consumers with a student loan have skyrocketed since 2005



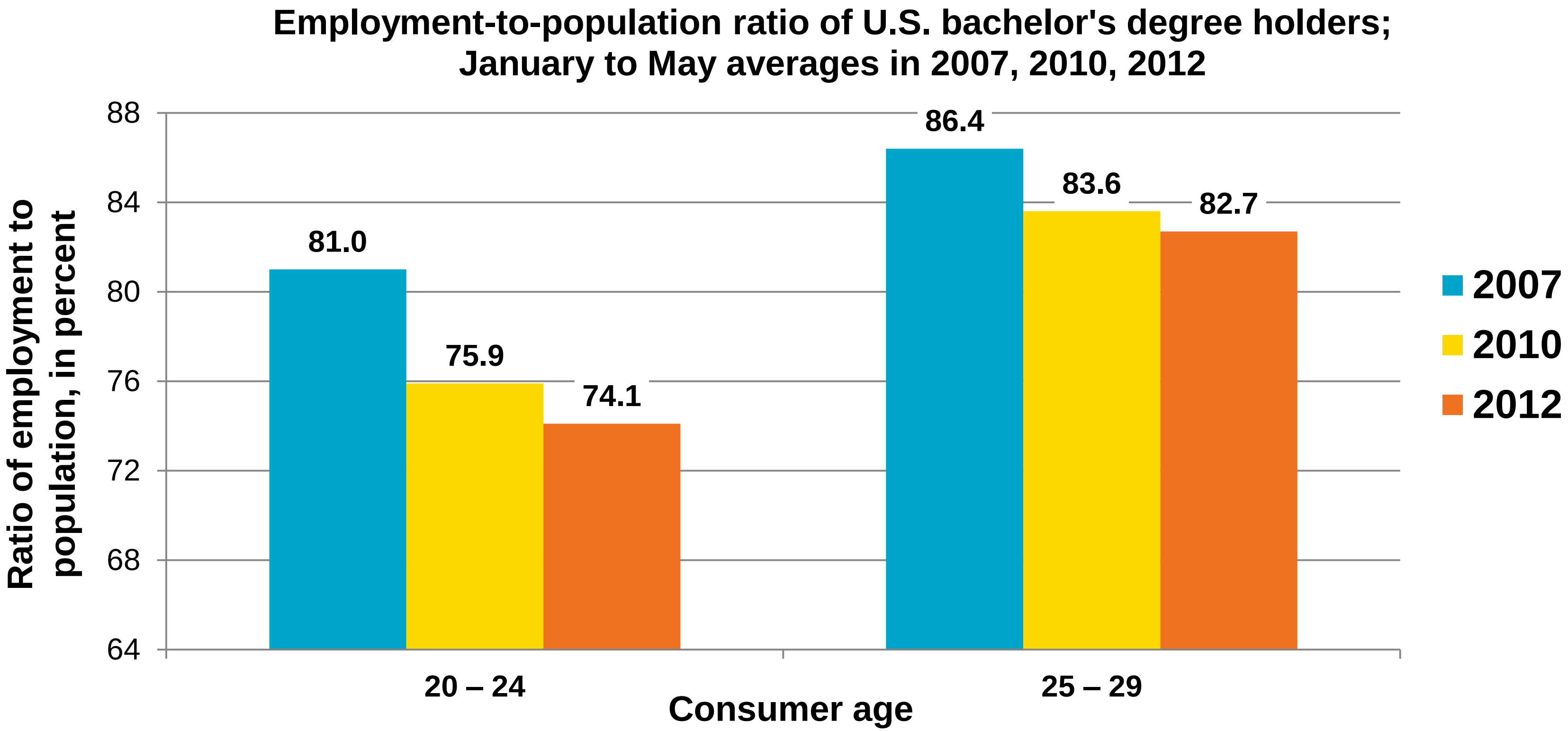
Source: TransUnion Consumer Credit Database

As we shared in the 2014 Wallet Share study, student loans have grown dramatically as a share of younger consumers' loan wallets



Source: TransUnion Consumer Credit Database

Recent college graduates have been challenged in post-recession job market, fueling concerns about ability to access and manage credit



Source: U.S. Bureau of the Census, Current Population Survey, Public Use Data Files, various years. Tabulations by the Center for Labor Markets and Policy, Drexel University

In order to separate the facts from the hype and understand the true impact of student loans, TransUnion conducted a research study

- Has the impact of student loans on younger consumers materially changed over the past decade?
- Are student loans in fact keeping younger consumers from accessing other types of consumer credit?
- Does the presence of student loan debt impact future performance and delinquency rates on newly opened consumer credit?
- Are any impacts observed temporary, or are they likely to persist for many years?

Study overview

TransUnion conducted a depersonalized study of student loan borrowers entering repayment compared to control groups

- Identified **student loan** borrowers age 18–29 that entered repayment in three different time periods and stayed in repayment in the following 24 months:
  - Q4 **2005**: approximately 570,000 consumers
  - Q4 **2009**: approximately 1.25 million consumers
  - Q4 **2012:** approximately 1.56 million consumers
- Identified **control groups** of consumers 18–29 with no student loans in the same time periods
  - Total populations between 16–18 million consumers in each time period
- Tracked and analyzed the following activities over the following 24-month periods:
  - Overall participation rates for mortgages, auto and bankcards
  - New account openings for mortgages, auto and bankcards
  - Account performance (delinquency rates) on newly opened bankcard and auto accounts

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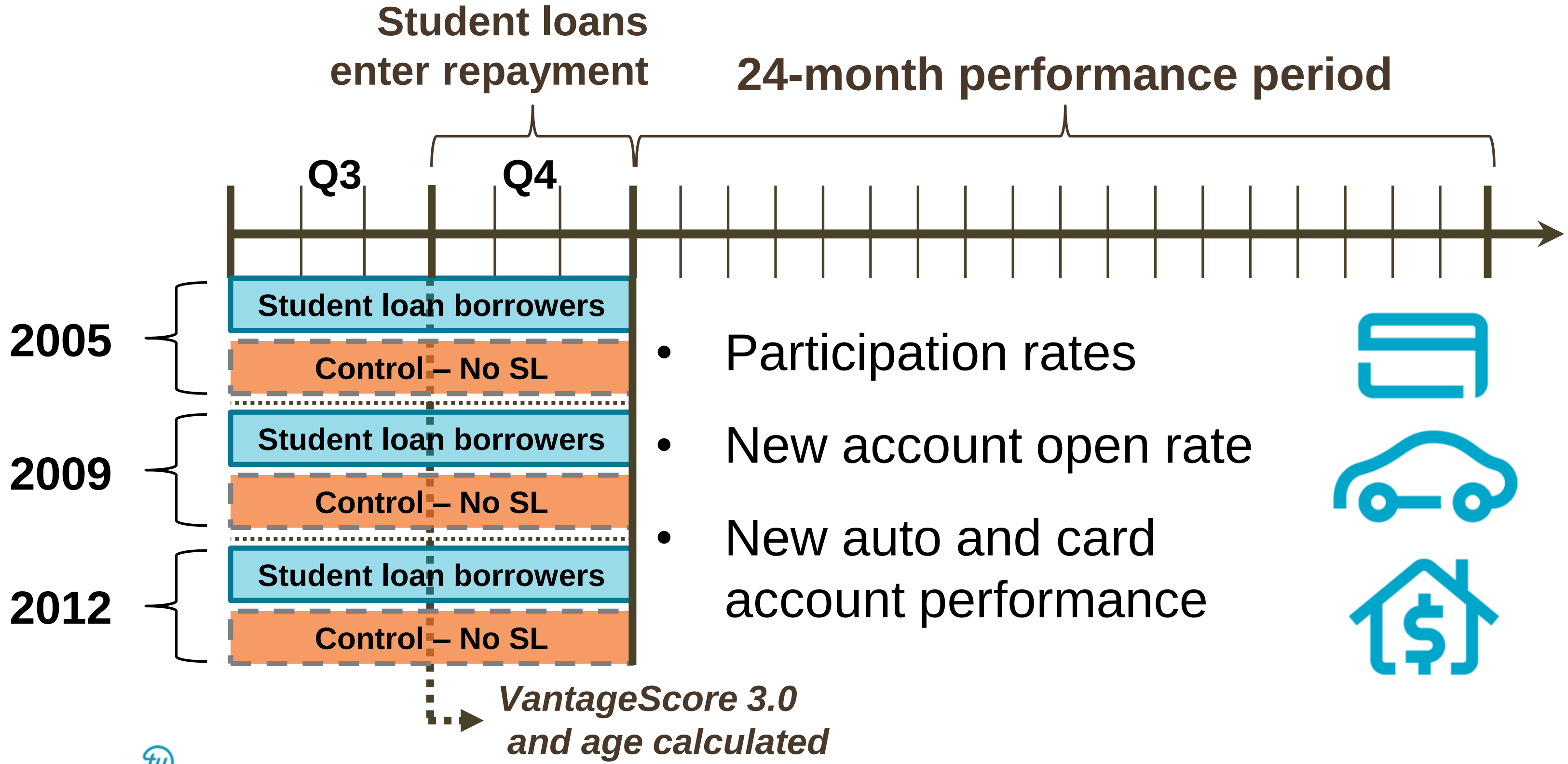
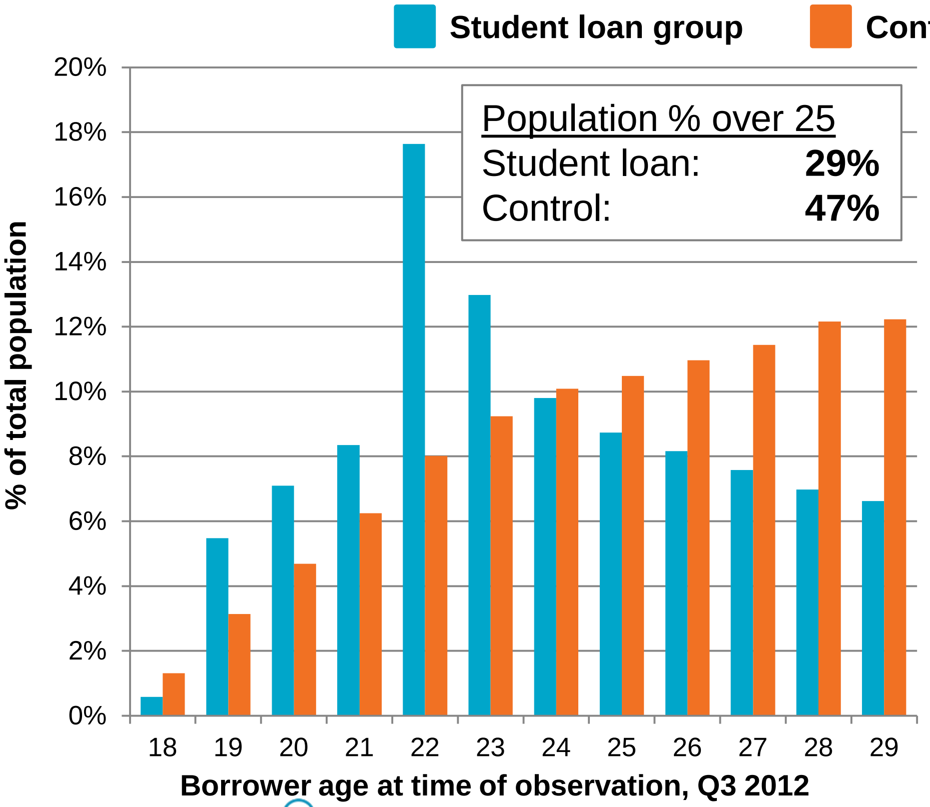
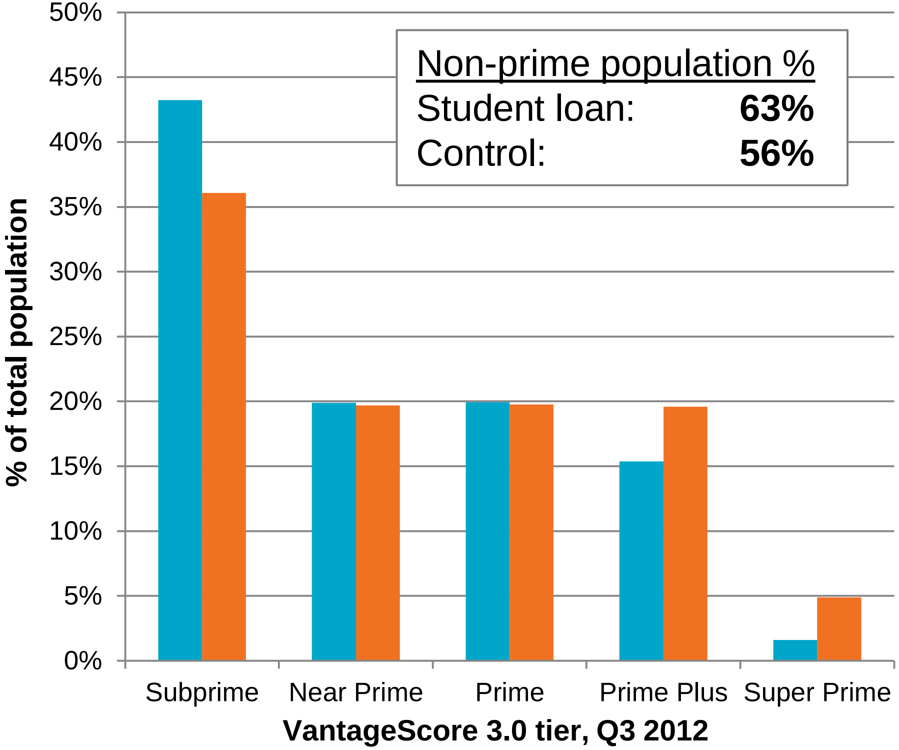
Summary of study timelines



- Participation rates
- New account open rate
- New auto and card account performance

Looking at entire populations from 2012, the student loan group profile was generally younger and riskier than the control group



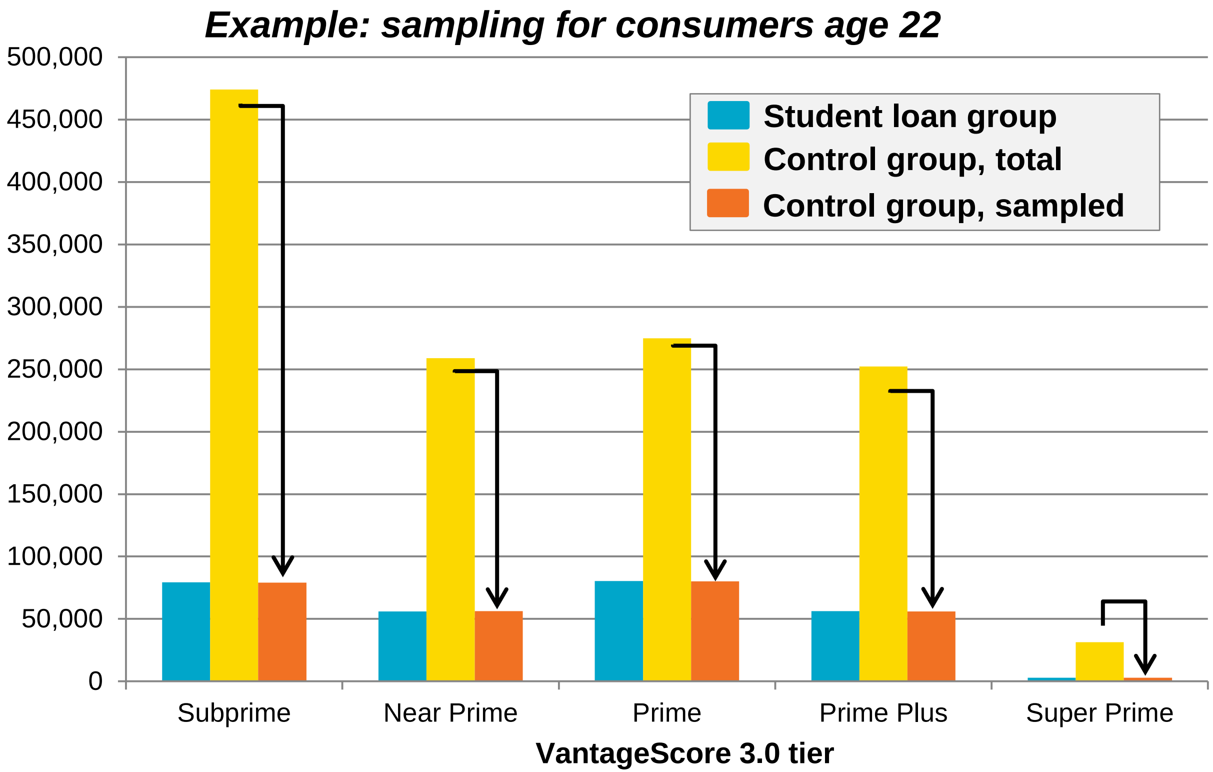


Source: TransUnion Consumer Credit Database

In order to adjust for these population differences, we sampled the control population to resemble the student loan population

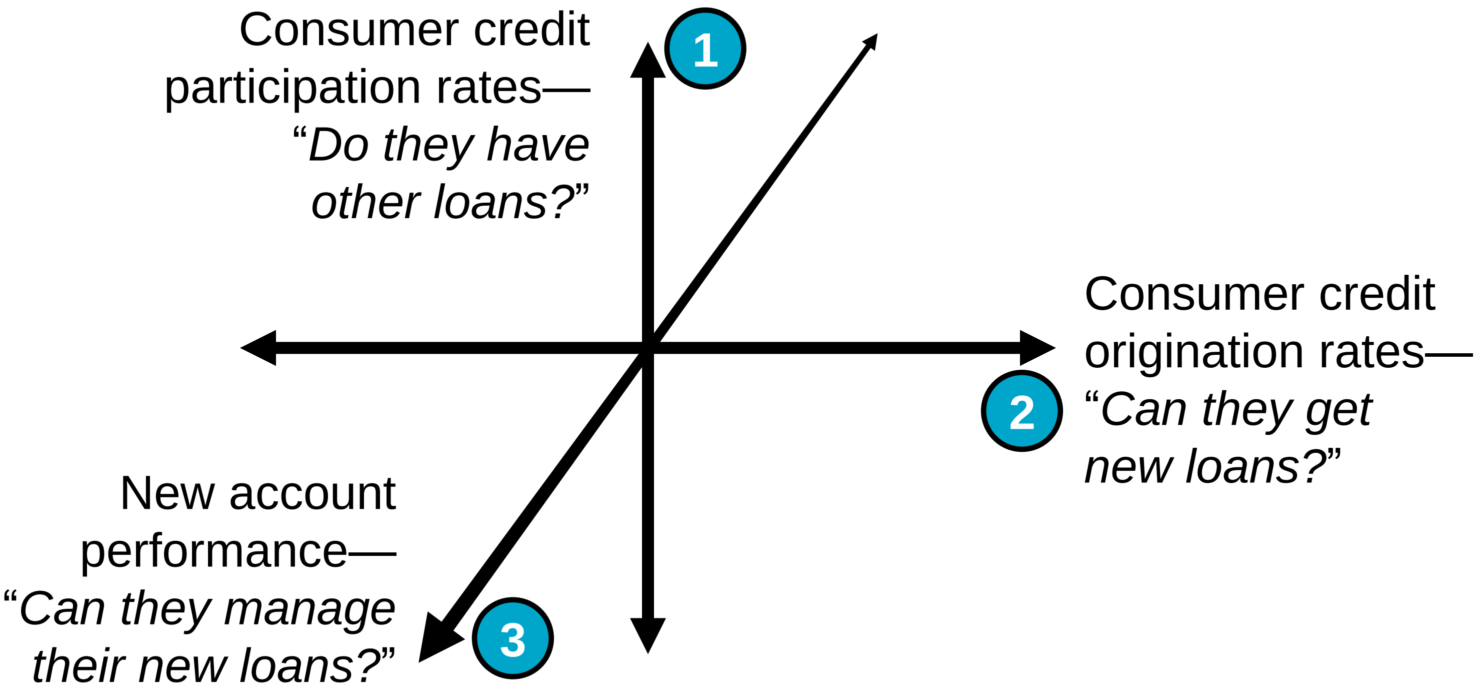
- For each age and credit tier, we sampled the control (no student loan) population so that the number of consumers would be roughly equal to the student loan group

- This ensured that each age group and credit tier represents the same proportions for the student loan and control groups



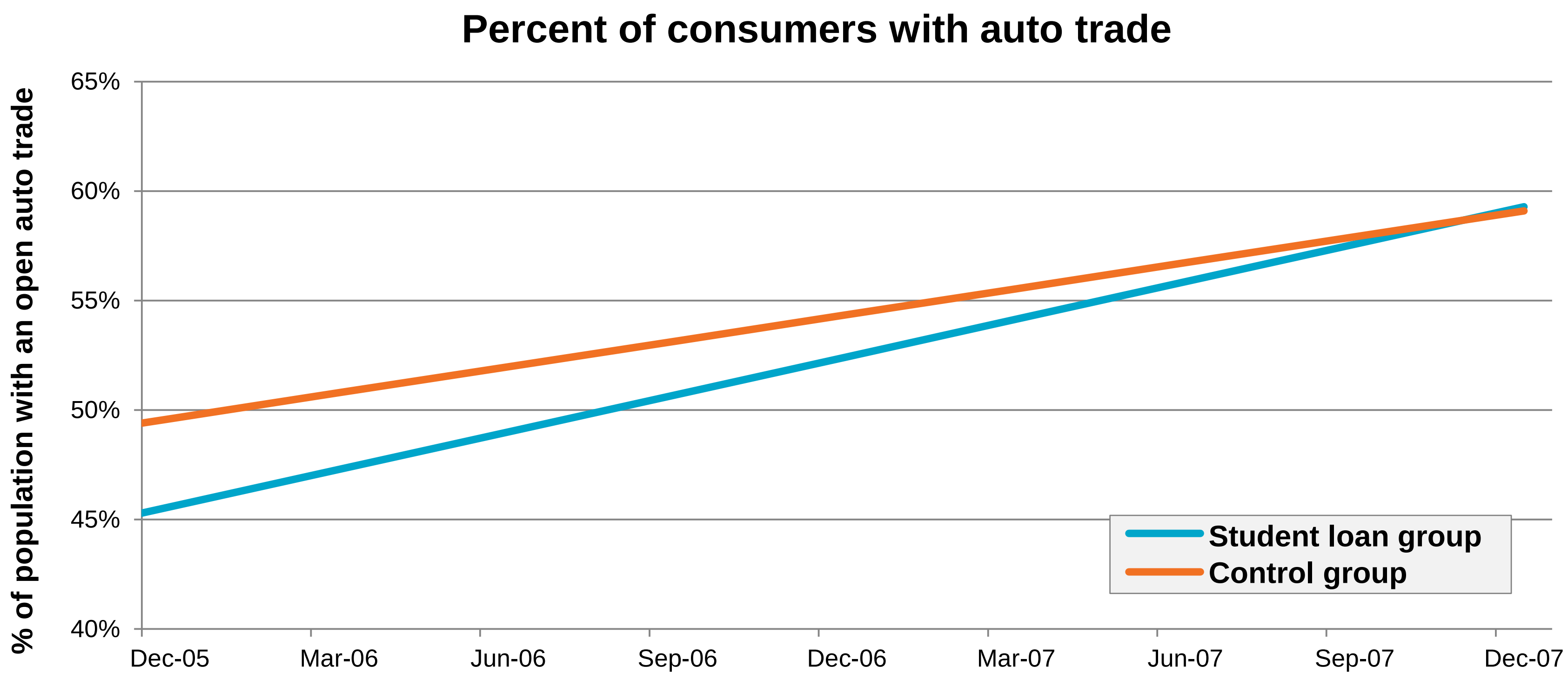
Source: TransUnion Consumer Credit Database

To determine whether younger consumers are in fact impacted by student loans, we examined "impact" across three dimensions



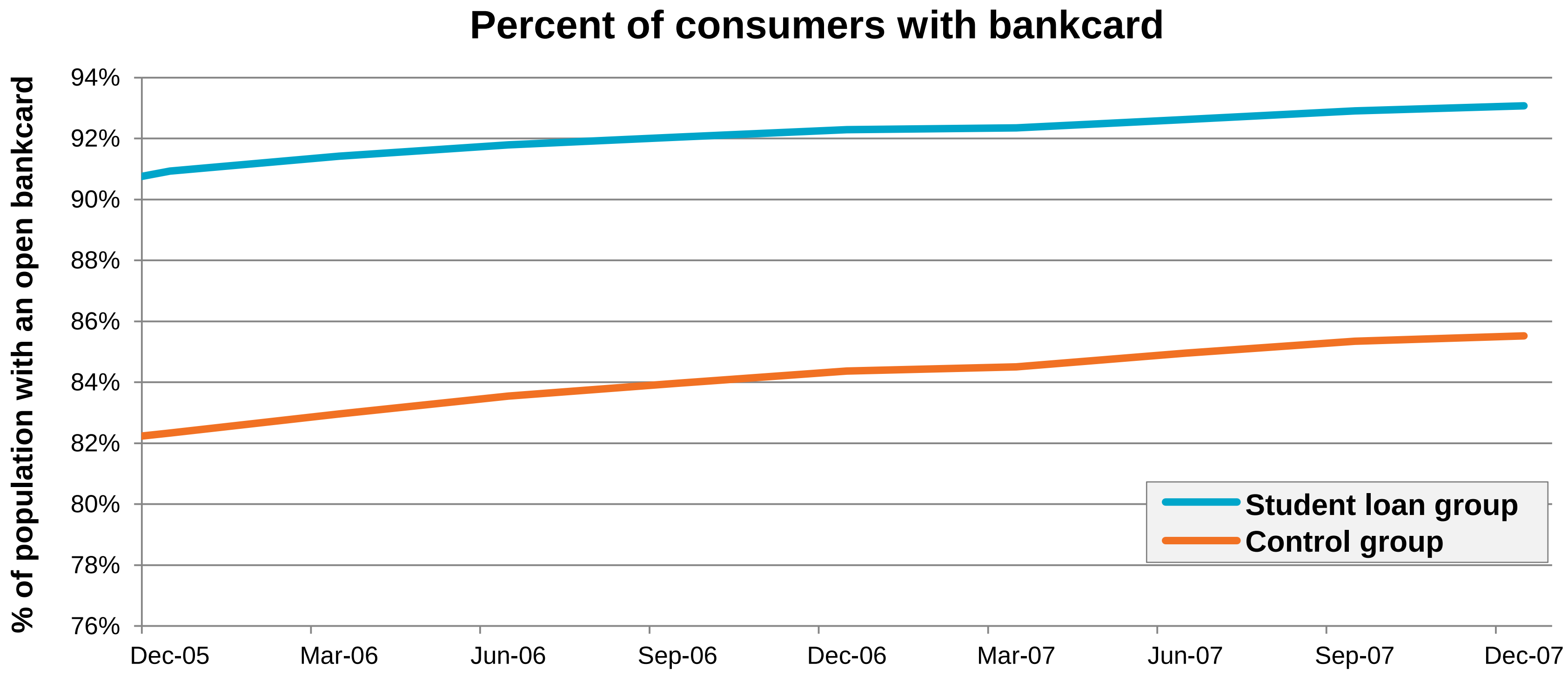
Analysis of 2005 (baseline) participation rates and new account origination rates for auto, bankcard and mortgage—student loan group versus control

2005 auto participation rates: After two years, student loan and control groups had identical rates of auto borrowing



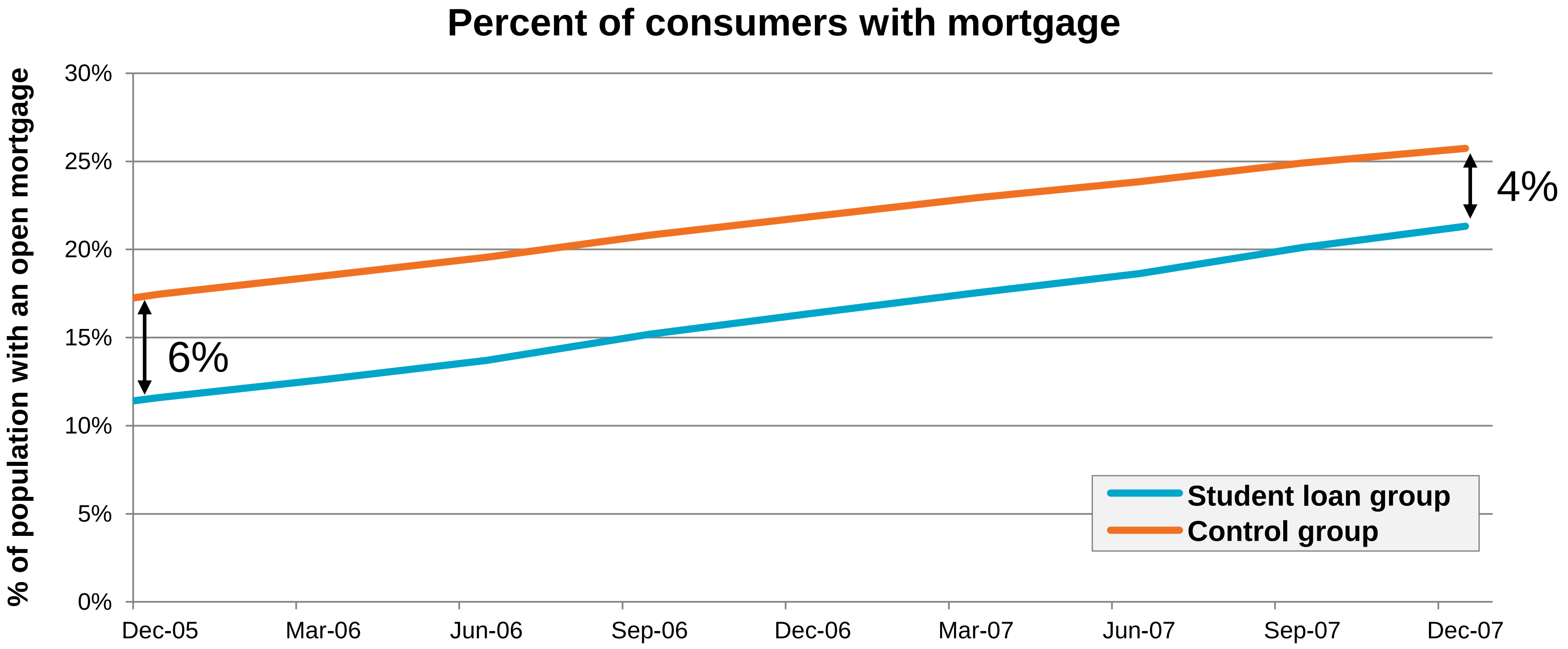
Source: TransUnion Consumer Credit Database

2005 bankcard participation rates: The student loan group started and remained well above the control group



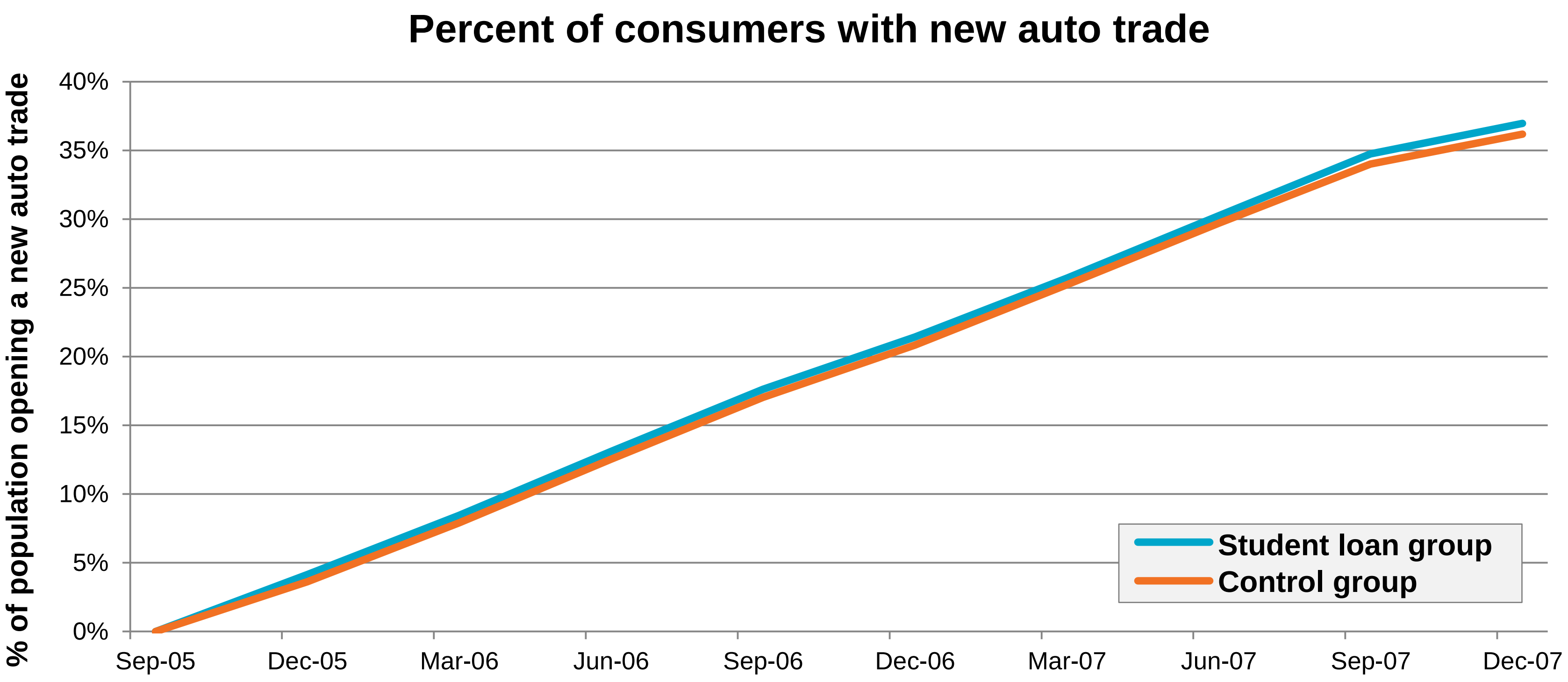
Source: TransUnion Consumer Credit Database

2005 mortgage participation rates: Student loan group started behind control, but narrowed the gap over the following two years



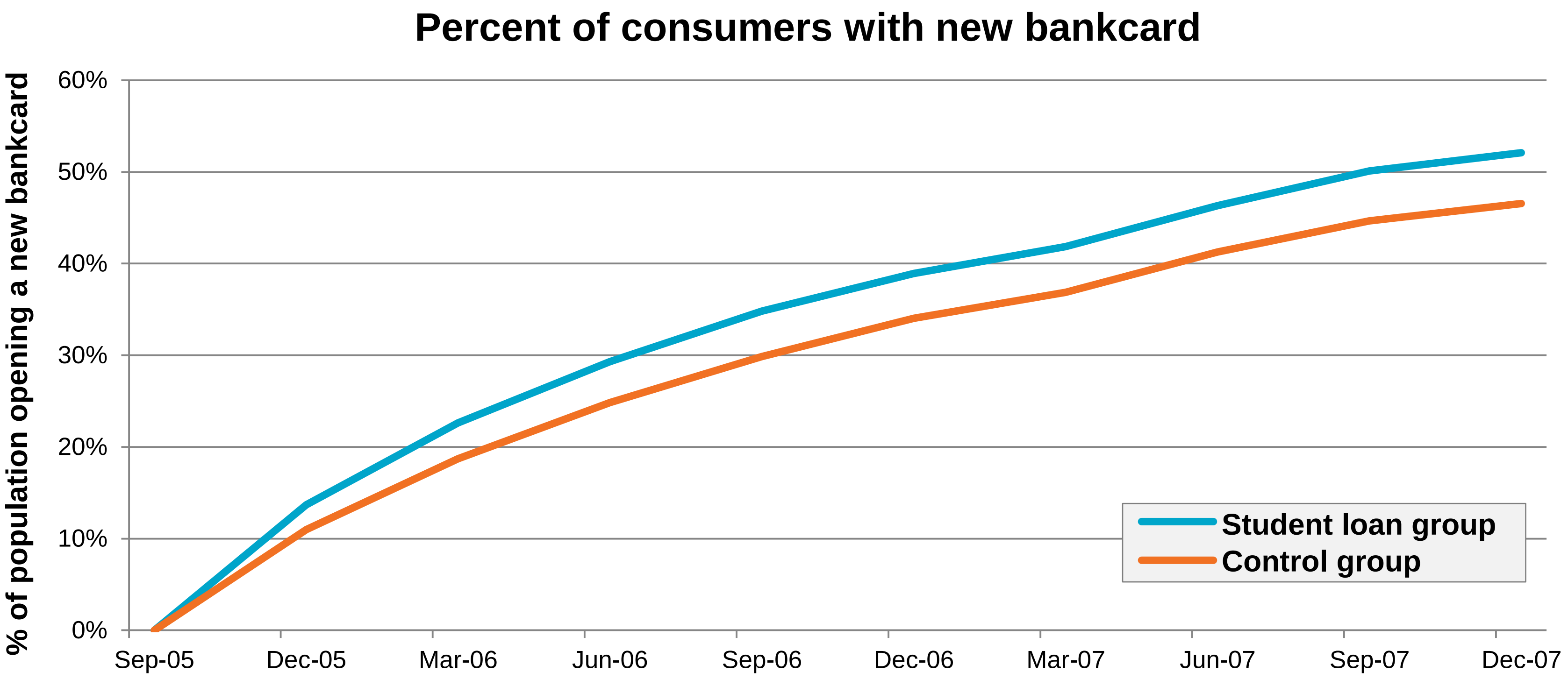
Source: TransUnion Consumer Credit Database

2005 new auto account openings: The student loan population was slightly more credit active than the control group for new auto



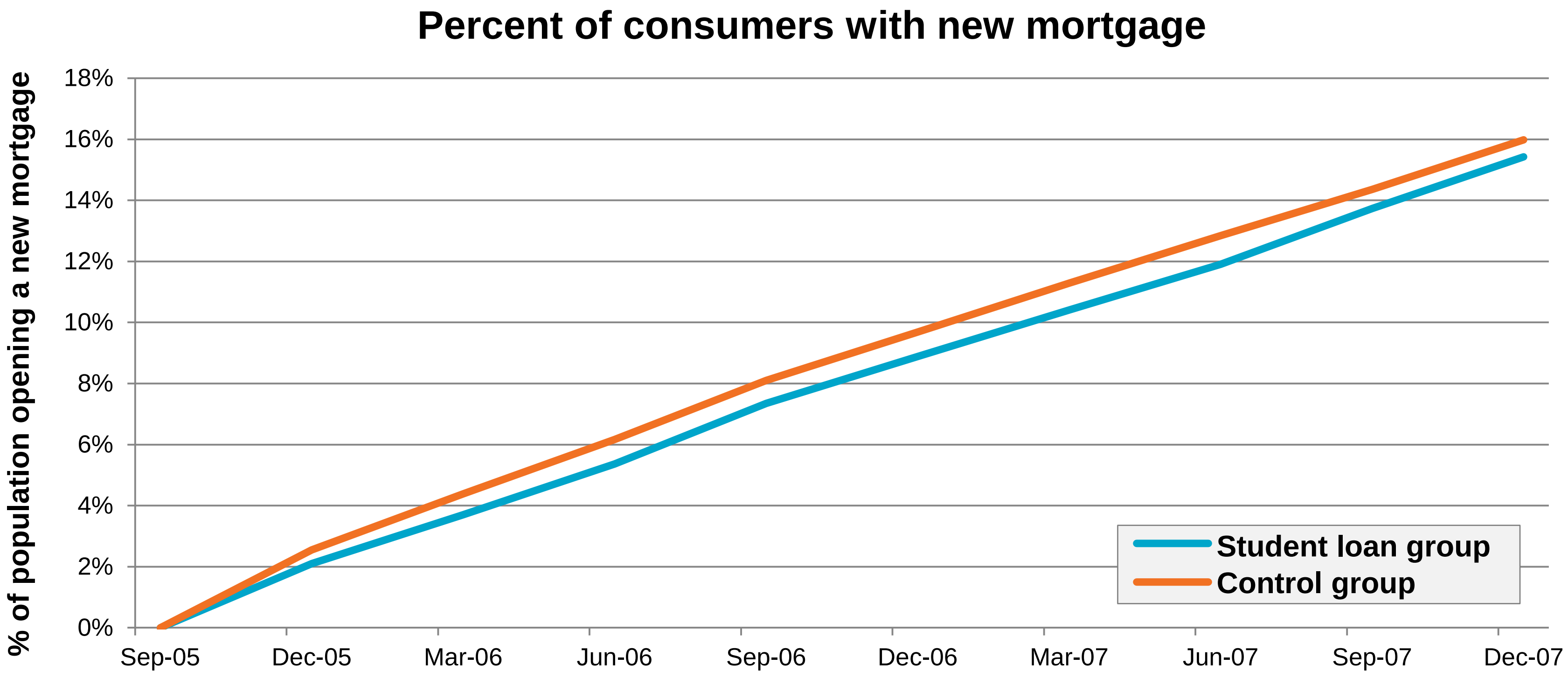
Source: TransUnion Consumer Credit Database

2005 new bankcard openings: The student loan population was significantly more credit active for bankcard than the control group



Source: TransUnion Consumer Credit Database

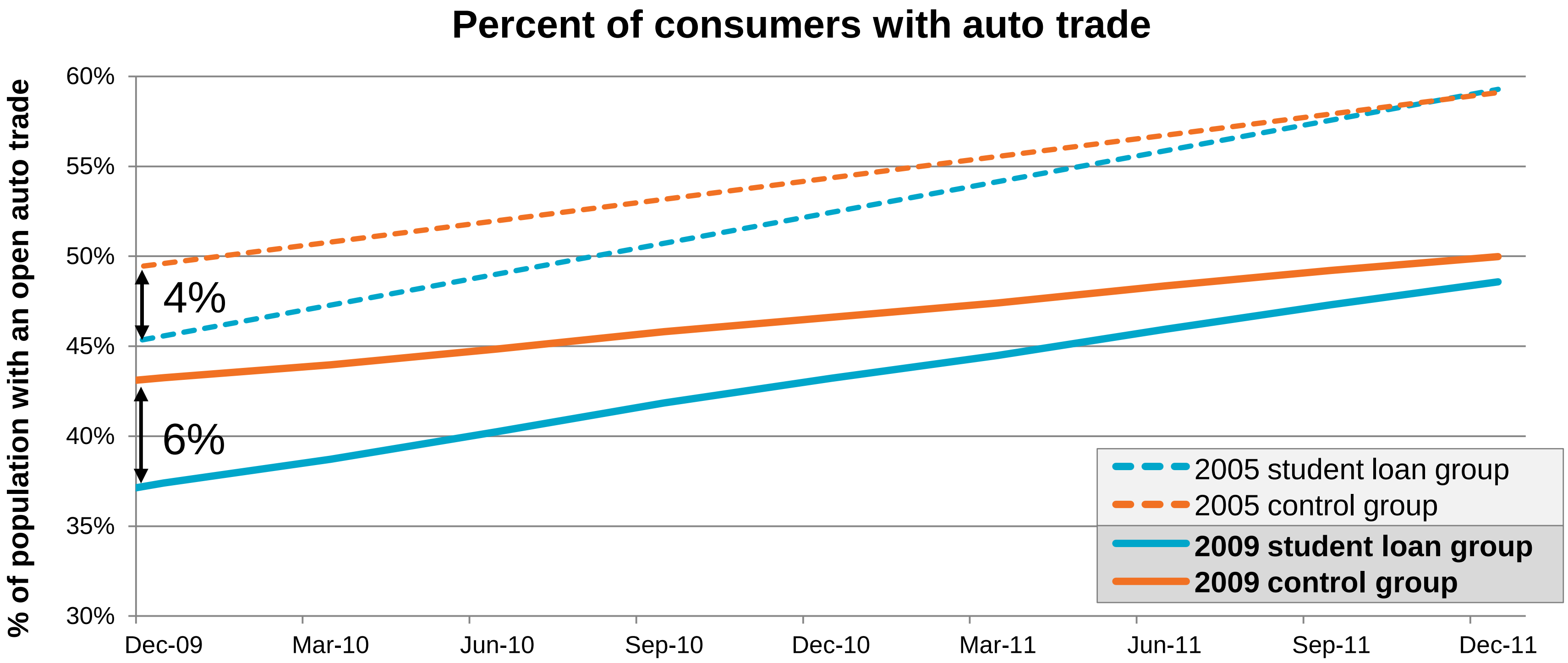
2005 new mortgage openings: The student loan population nearly matched the control group in new mortgage open rates



Source: TransUnion Consumer Credit Database

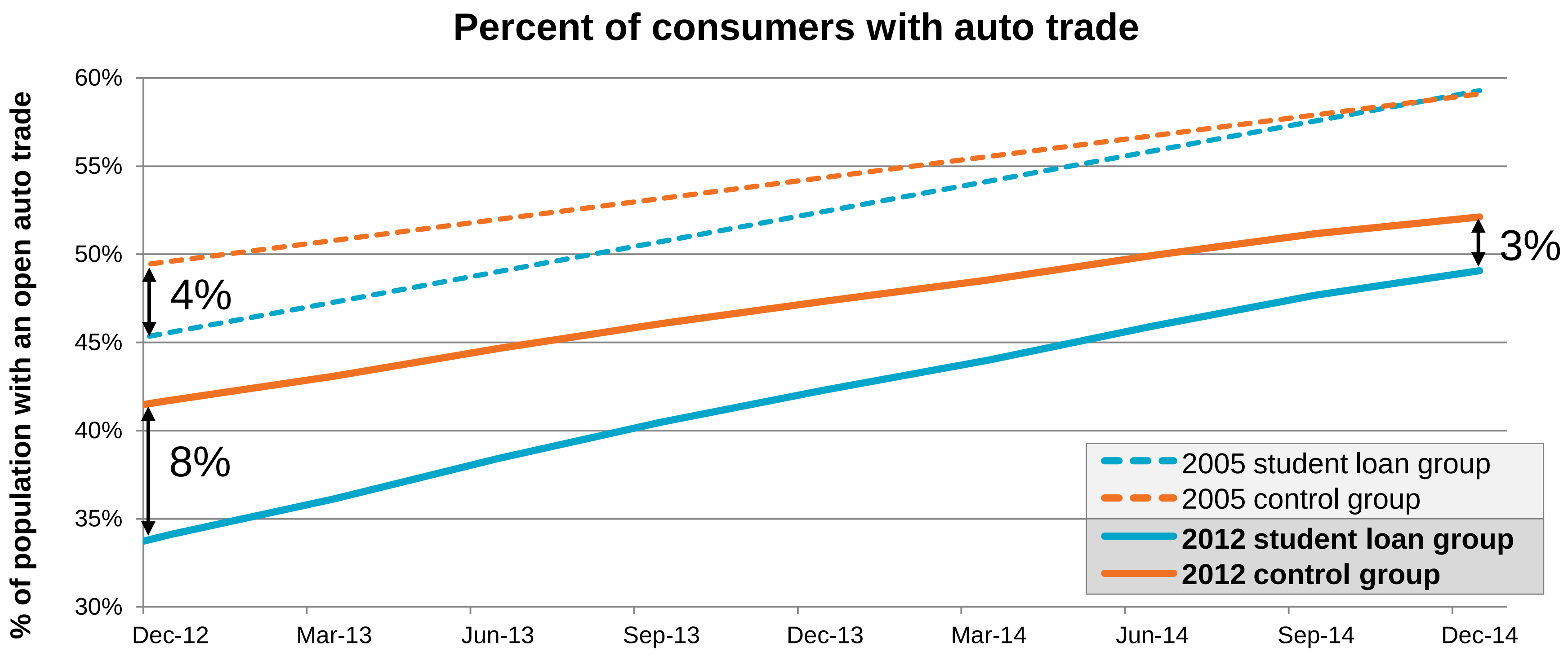
Have participation and origination rates for auto, bankcards and mortgages for student loan borrowers been impacted since the end of the recession?

2009 auto participation rates: As in 2005, student loan borrowers started behind control, but were nearly identical after two years



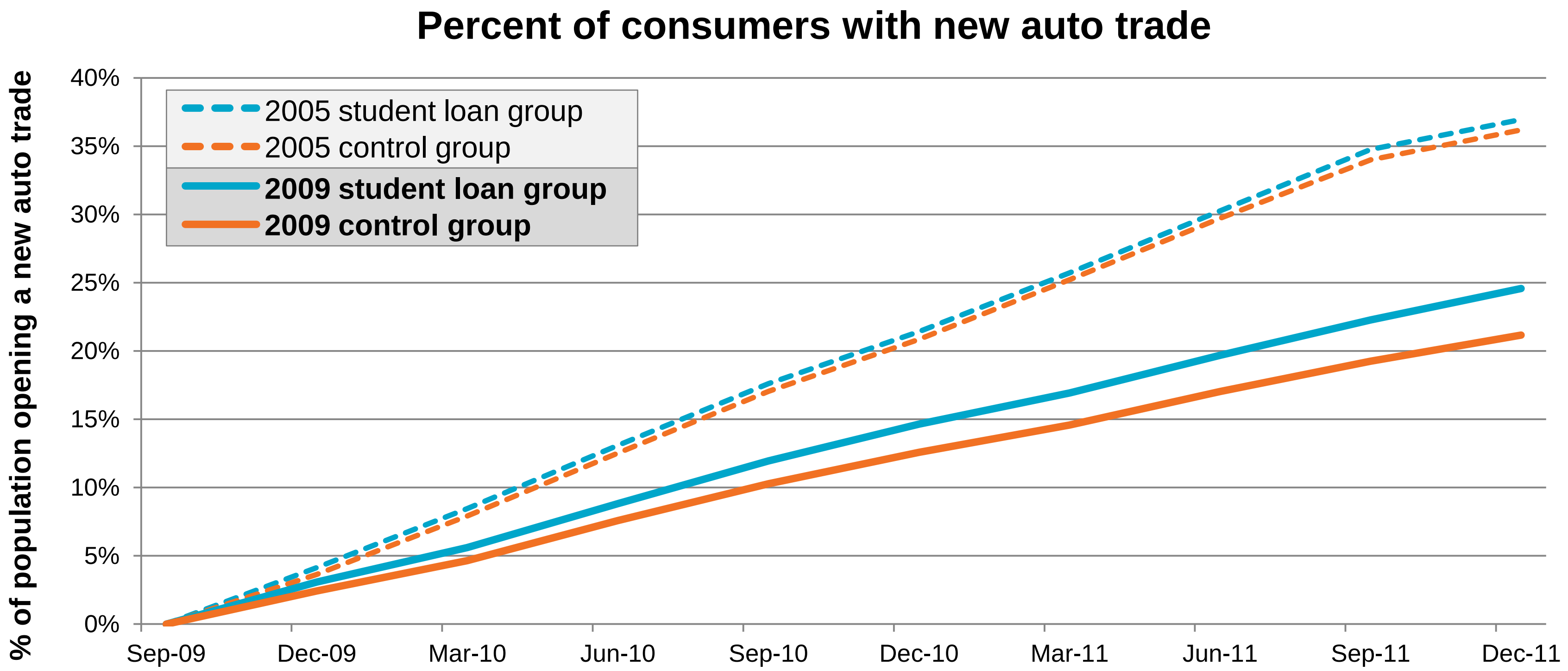
Source: TransUnion Consumer Credit Database

2012 auto participation rates: The student loan group began much further behind, but significantly narrowed the gap over two years



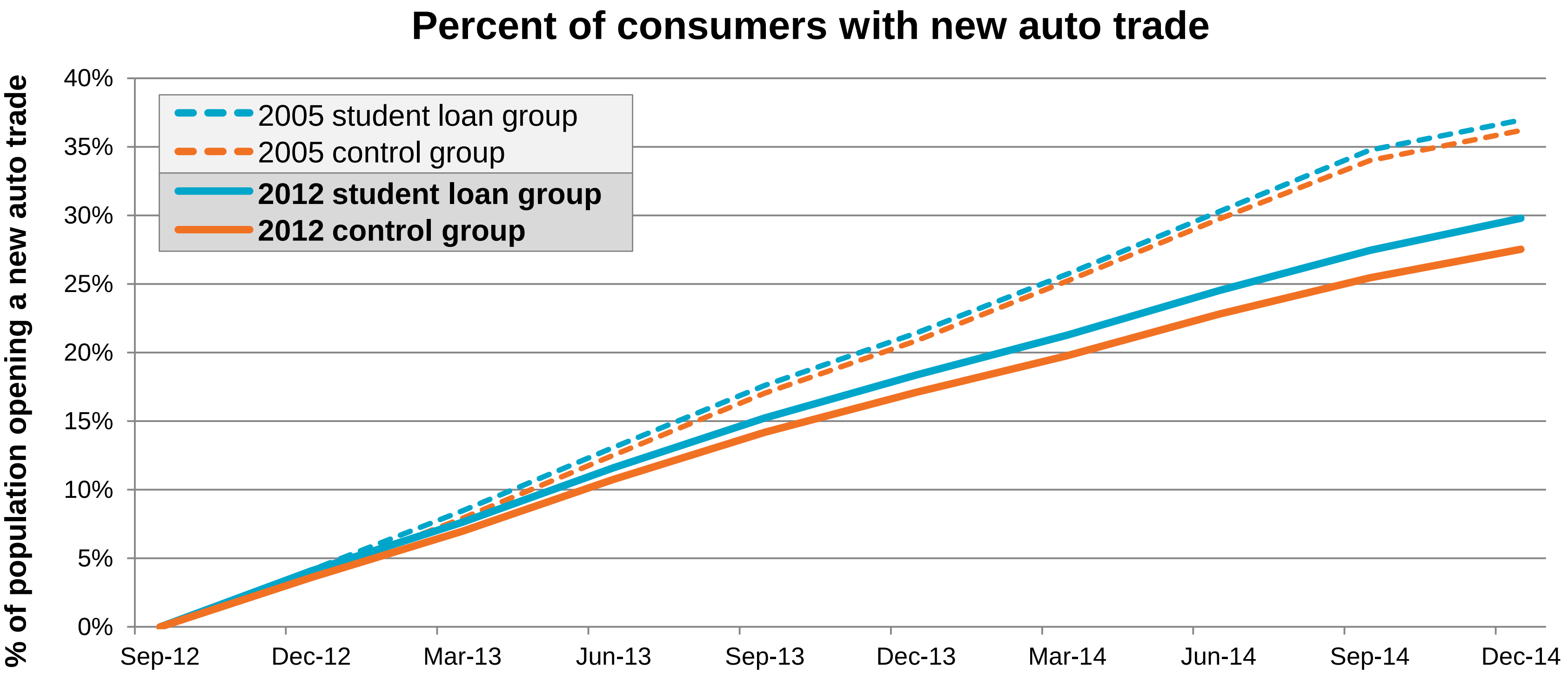
Source: TransUnion Consumer Credit Database

2009 new auto accounts: The 2009 student loan group was the significantly more credit active group for new auto accounts



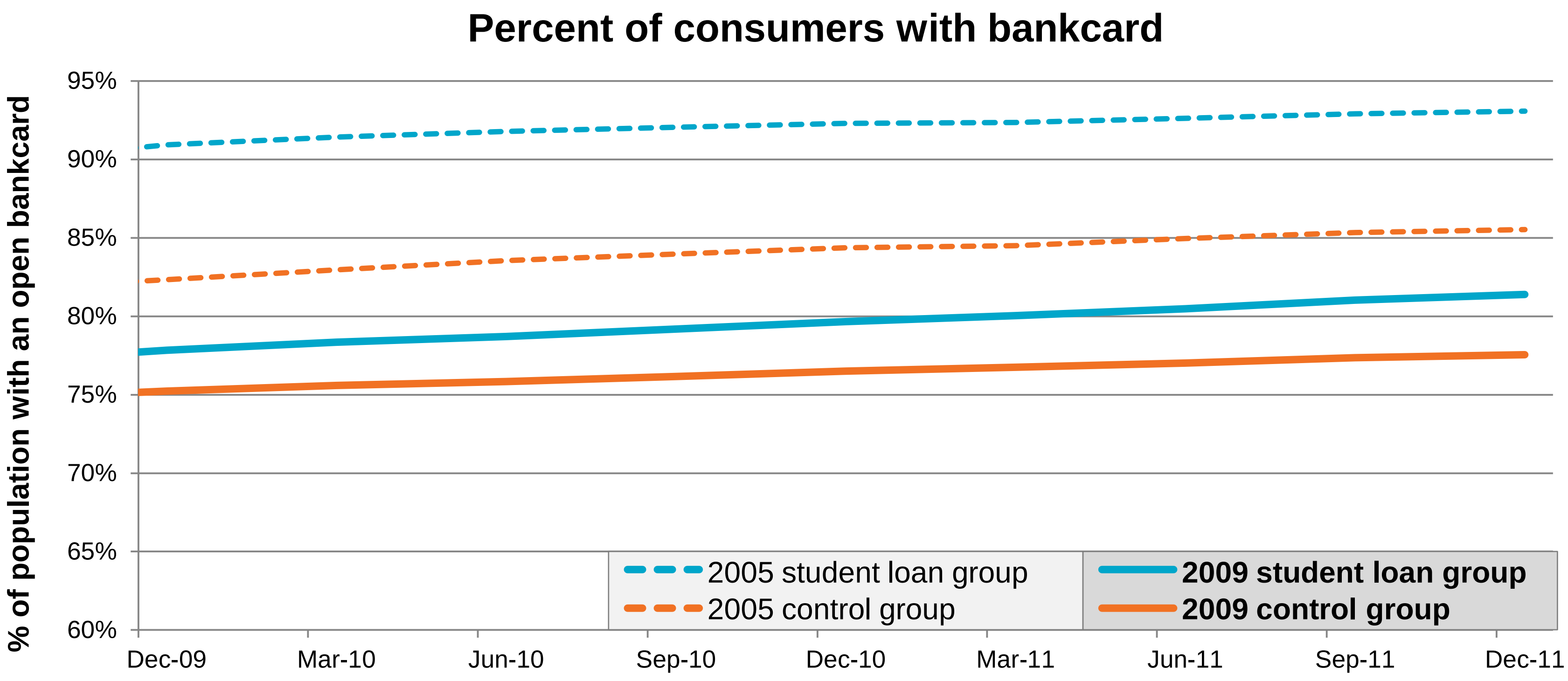
Source: TransUnion Consumer Credit Database

2012 new auto accounts: Student loan borrowers continued to be more active in new auto, while overall originations were up vs. 2009



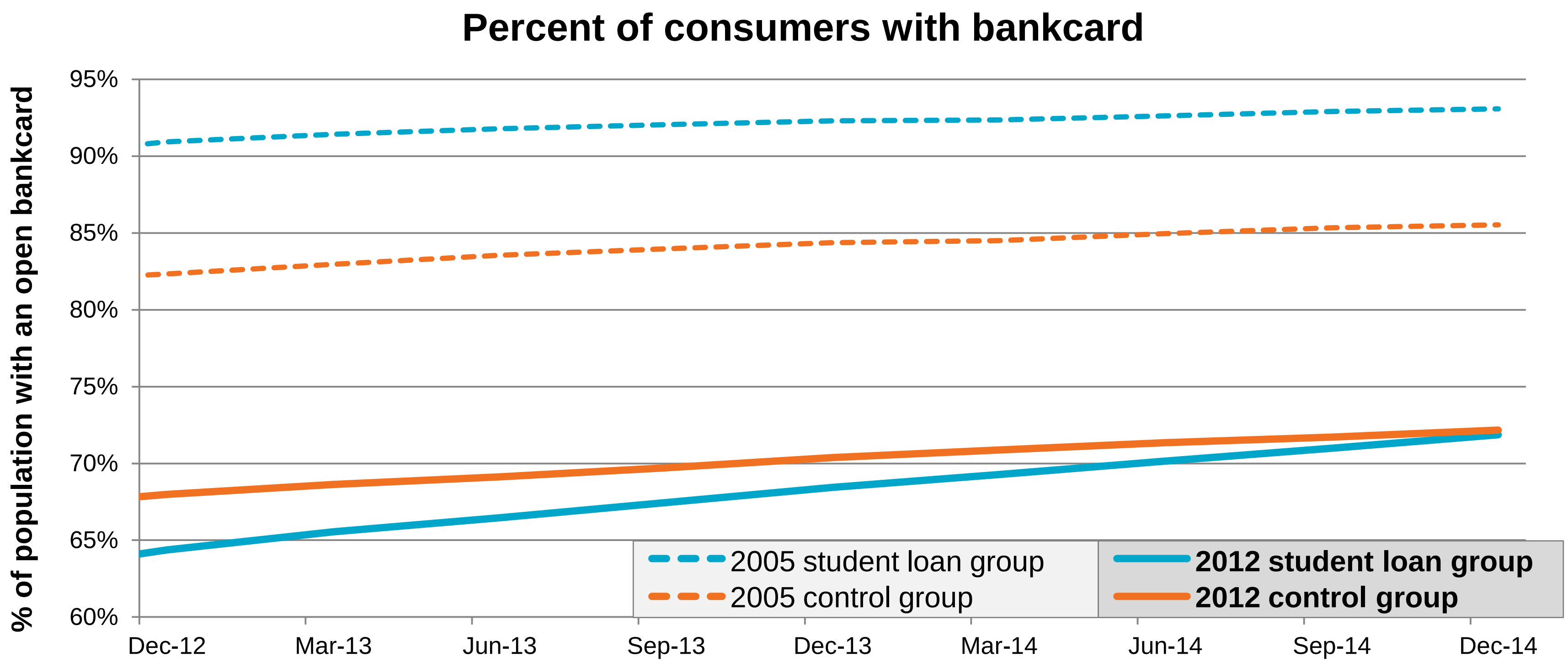
Source: TransUnion Consumer Credit Database

2009 Bankcard participation rates: While overall levels were down from 2005, student loan borrowers remained ahead of control group



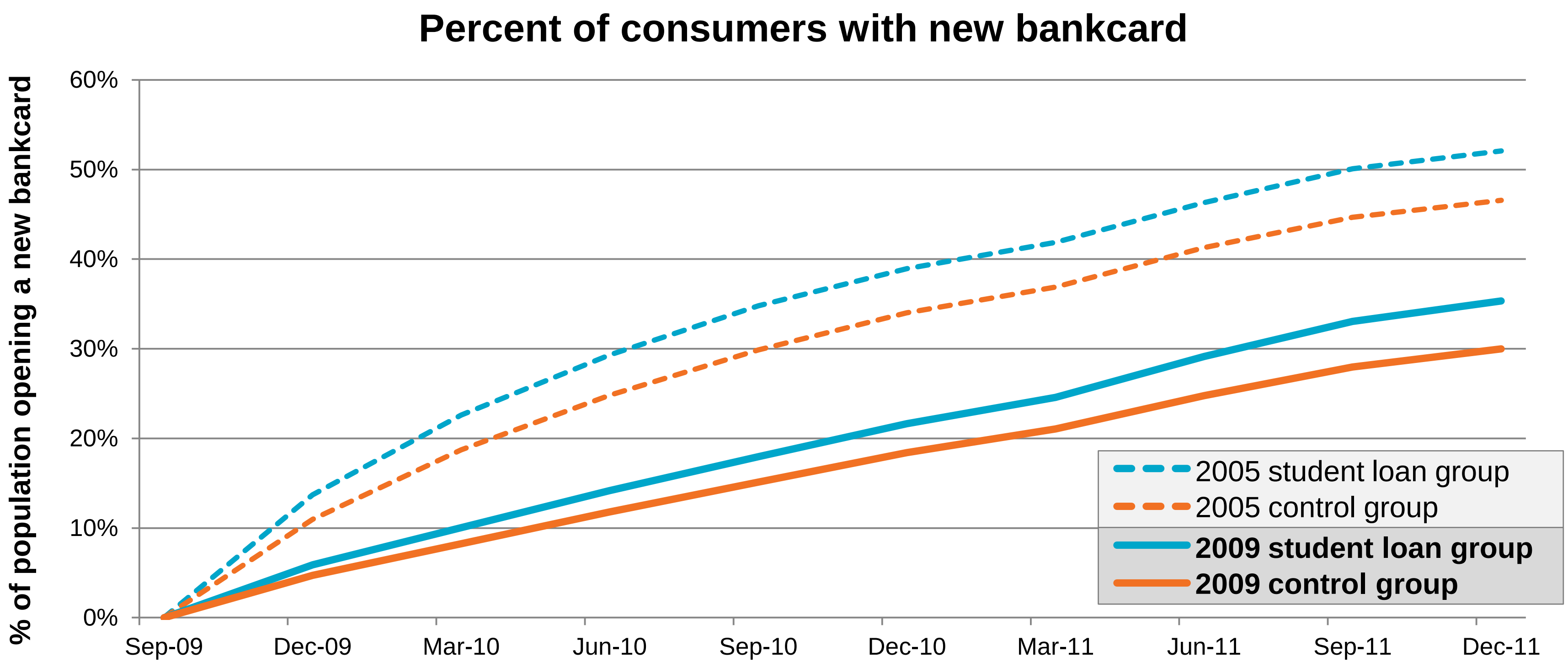
Source: TransUnion Consumer Credit Database

2012 bankcard participation rates: Likely as a result of CARD Act, student loan group began below control, but caught up over 2 years



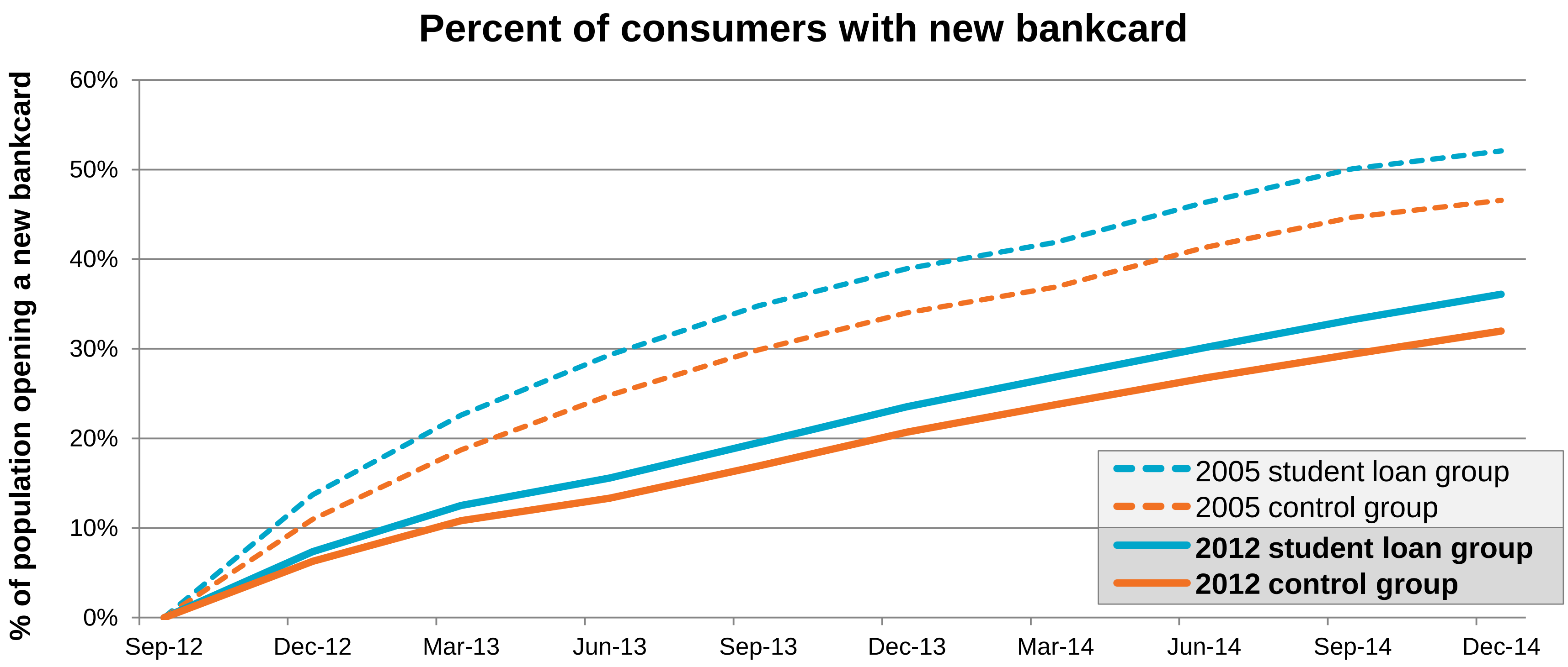
Source: TransUnion Consumer Credit Database

2009 new bankcards: The student loan group remained significantly more credit active than control for new bankcards



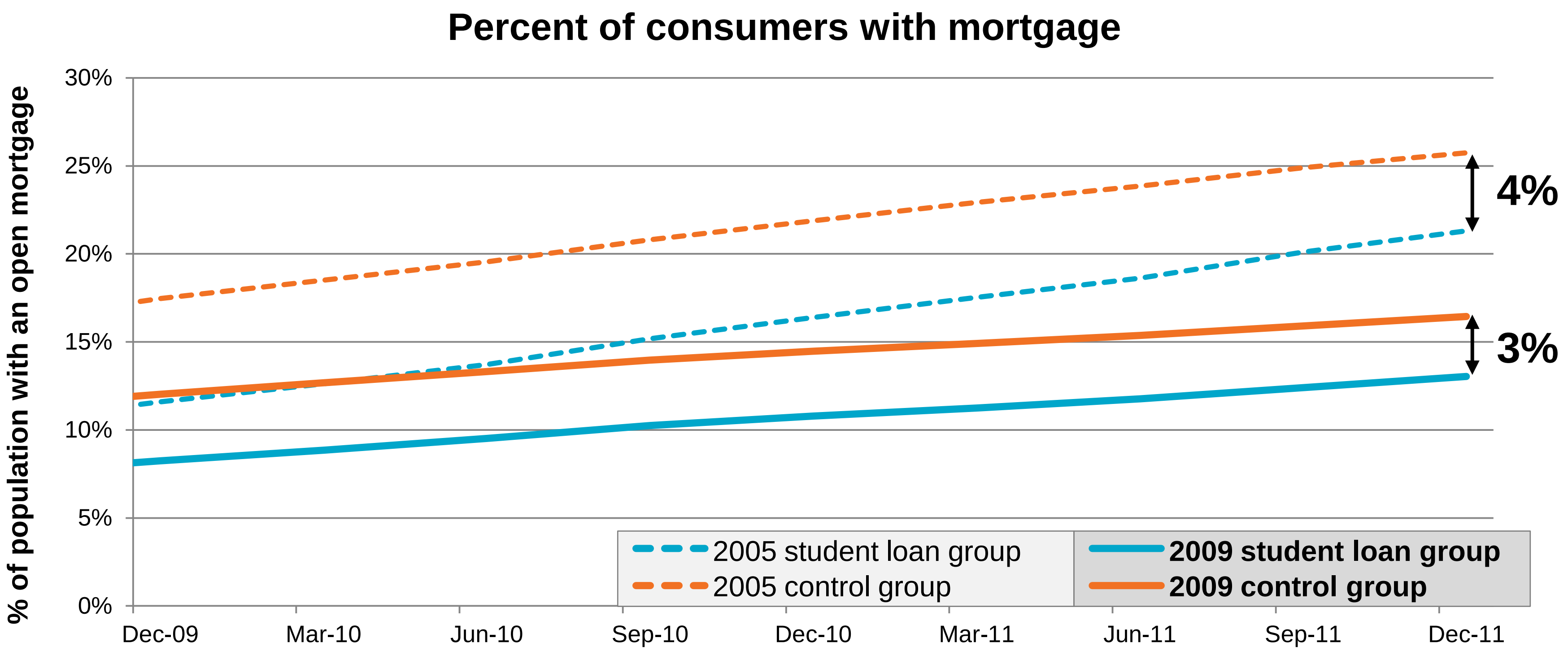
Source: TransUnion Consumer Credit Database

2012 new bankcards: 2012 closely resembled 2009, with the student loan group more credit active for new bankcard originations



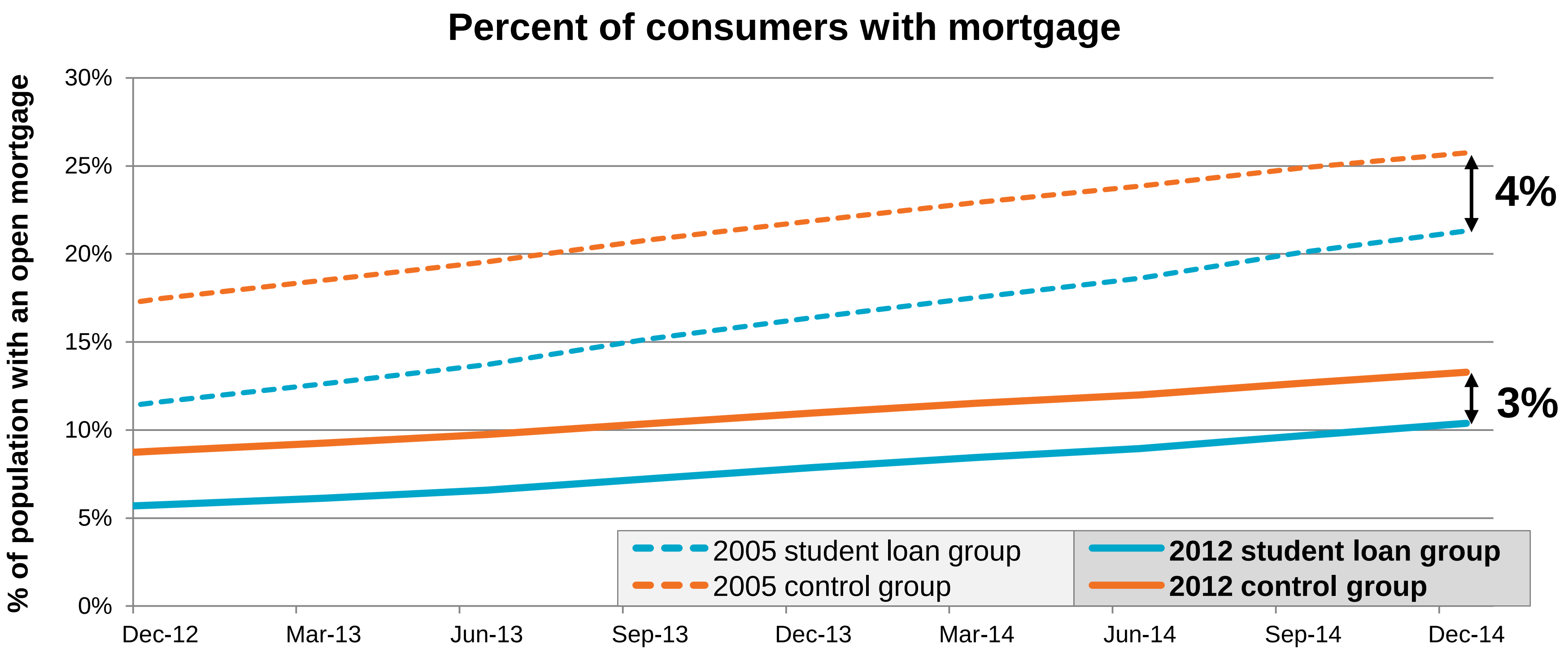
Source: TransUnion Consumer Credit Database

2009 mortgage participation rates: As in 2005, student loan borrowers started lower but the gap was almost identical after two years



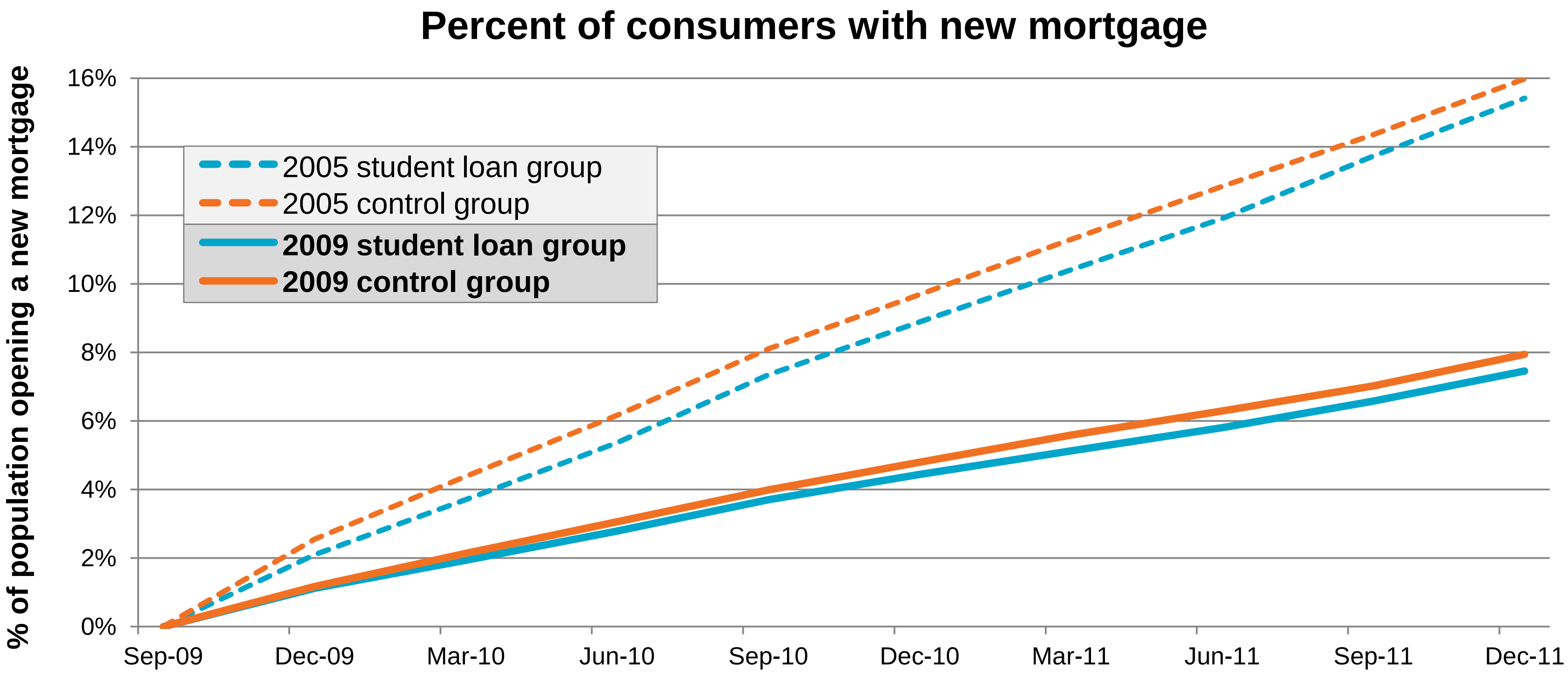
Source: TransUnion Consumer Credit Database

2012 mortgage participation rates: Mortgage participation for both groups continues to be depressed; the trend since 2005 is unchanged



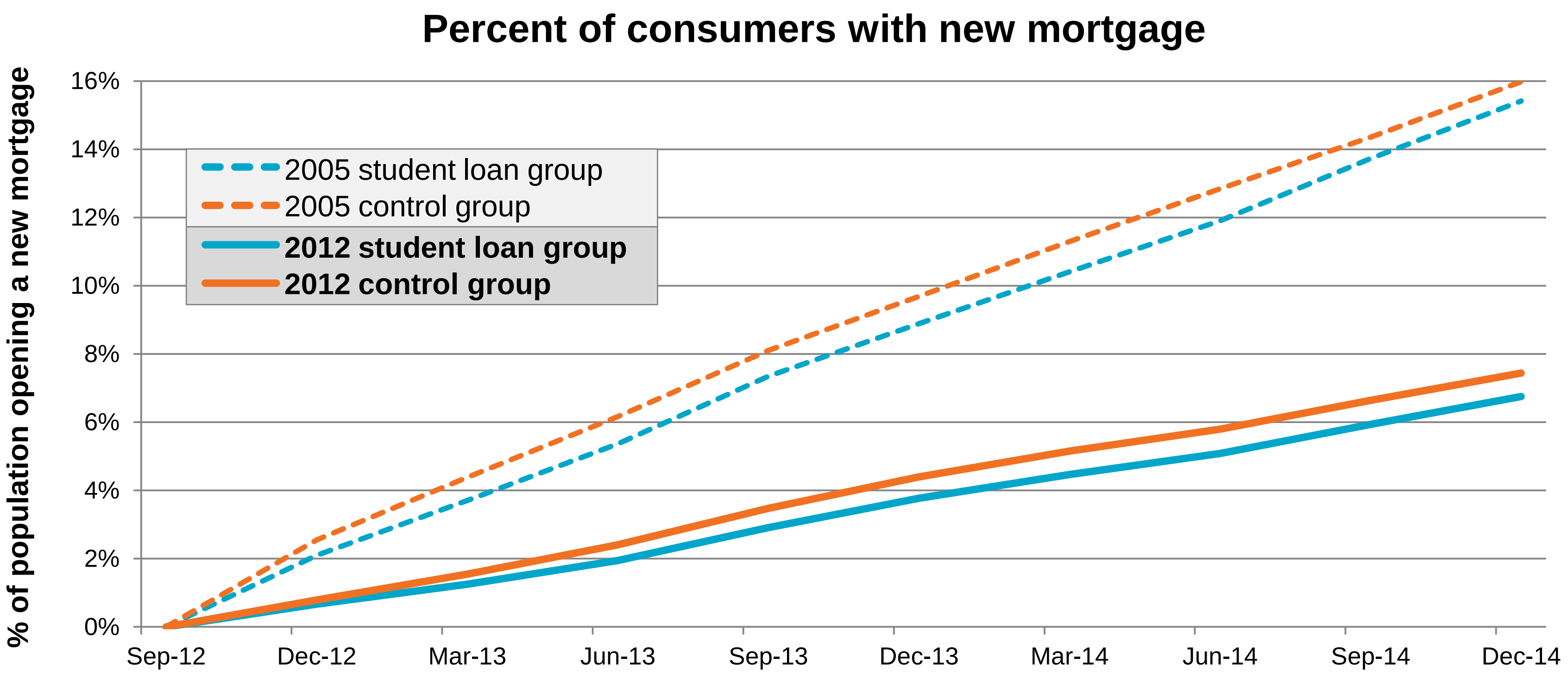
Source: TransUnion Consumer Credit Database

2009 new mortgages: As in 2005, student loan group nearly matched control; however, both groups were significantly lower



Source: TransUnion Consumer Credit Database

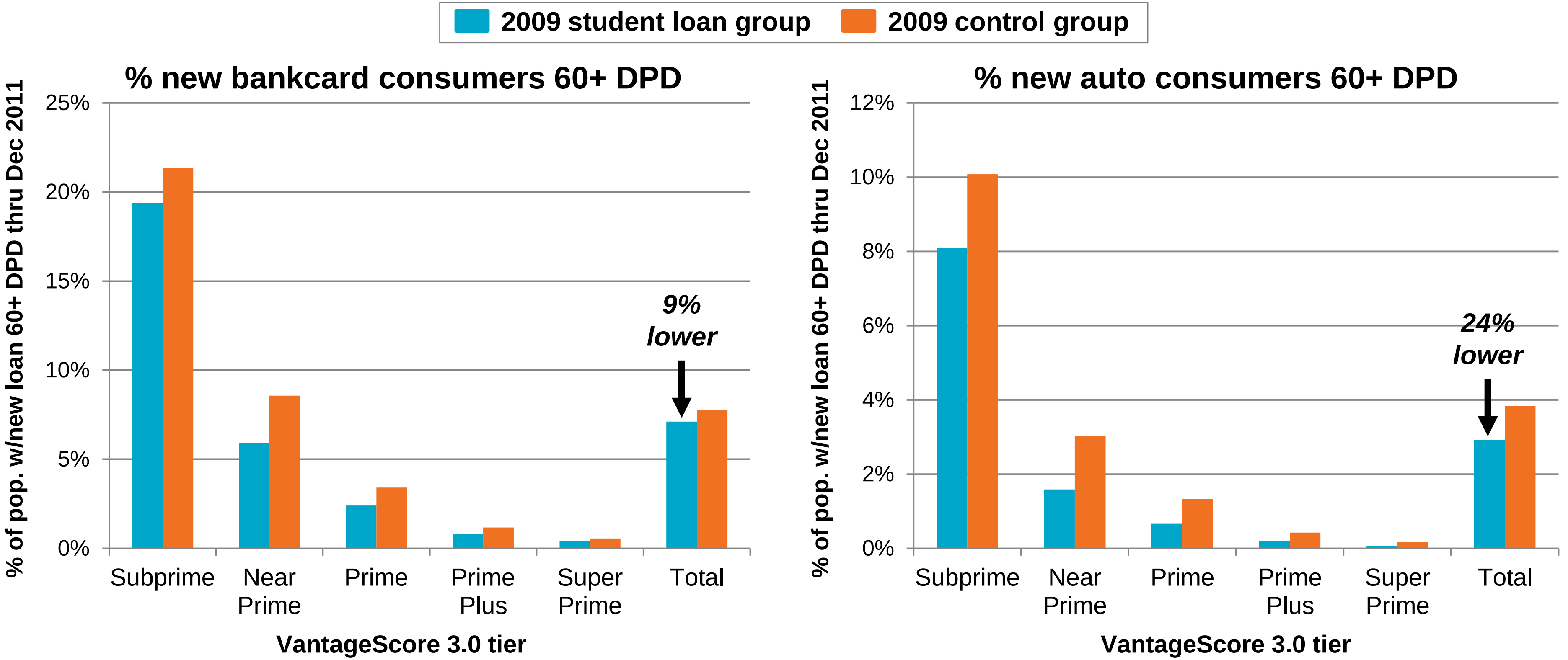
2012 new mortgages: Student loan group continued to closely trail the control group in originations, a trend seen since 2005



Source: TransUnion Consumer Credit Database

Do student loan borrowers experience higher delinquency rates on new auto, bankcards and mortgages compared to the control group?

2009 new loan performance: Student loan borrowers had lower bad rates on new auto and bankcard loans than the control group



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Source: TransUnion Consumer Credit Database

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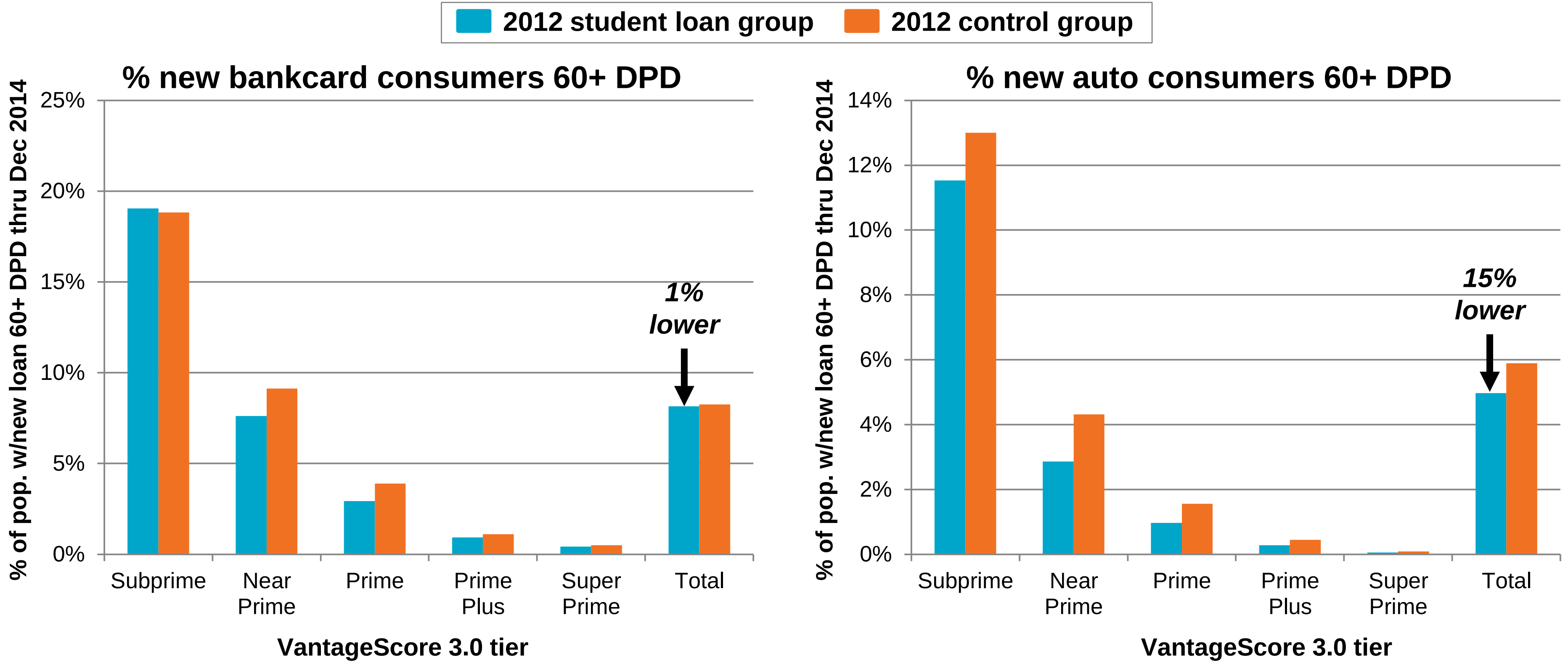
2012 new loan performance: The trend of lower new loan delinquency rates for student loan borrowers continued in 2012



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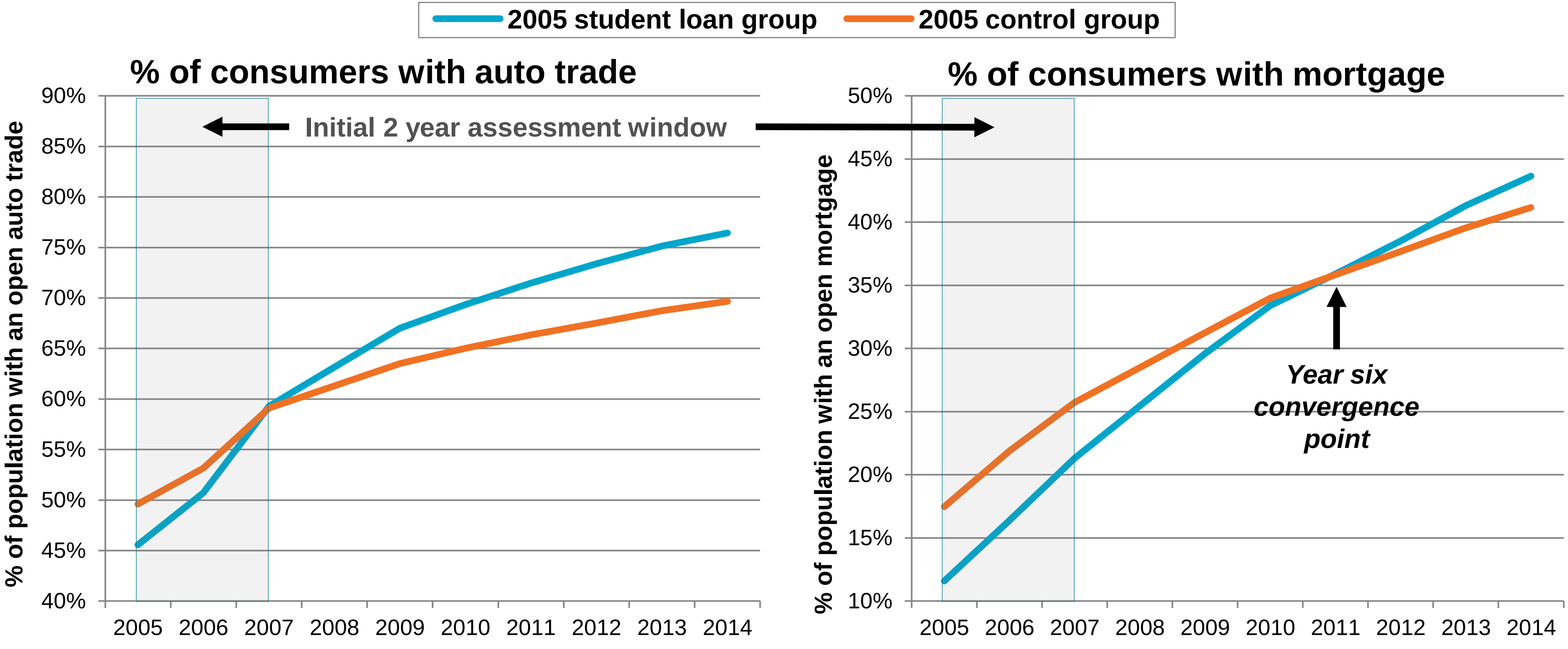
Source: TransUnion Consumer Credit Database

Bonus question:

Over longer time periods, does the student loan group catch up to the control group in loan originations and participation?

Current look at 2005 consumers: The student loan group is well ahead of control group in auto and mortgage participation in Q4 2014



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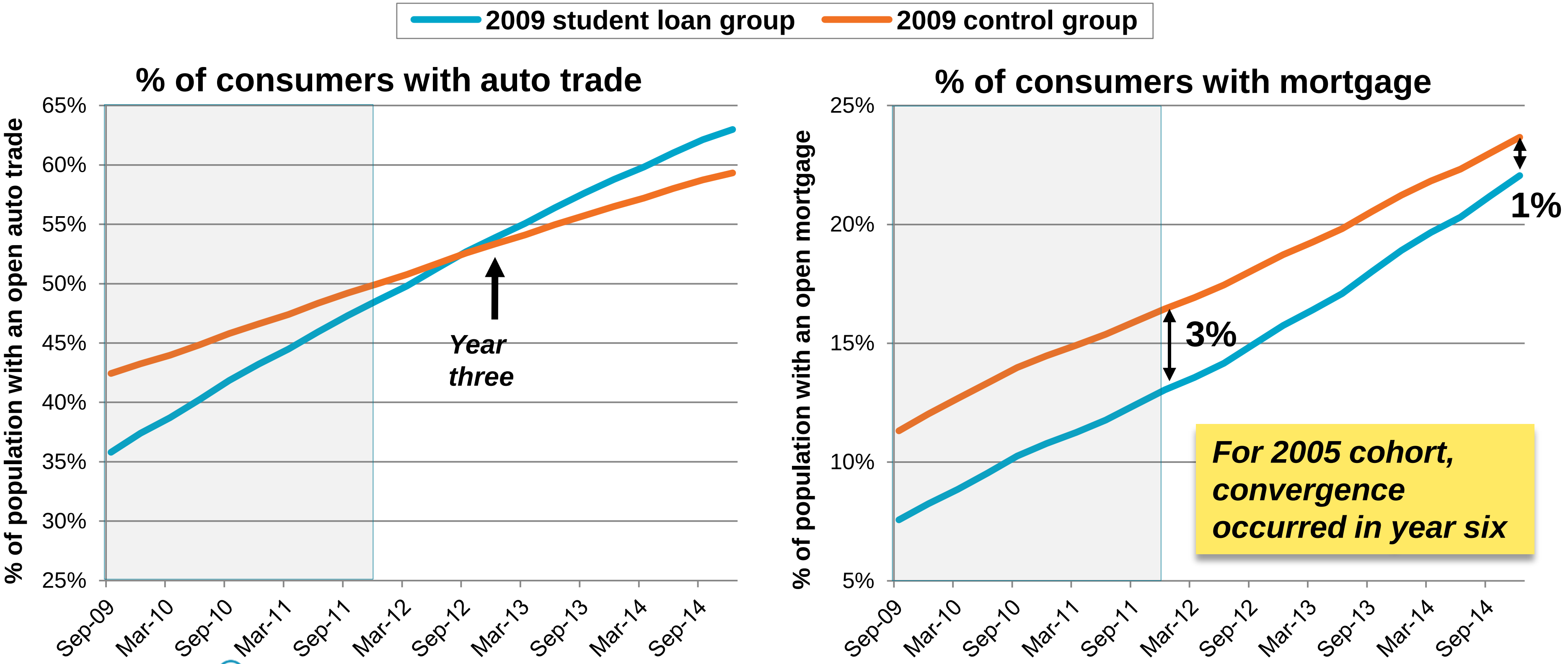
Source: TransUnion Consumer Credit Database

Current look at 2009 consumers: Student loan group has passed control in auto and nearly matched them in mortgages in Q4 2014



Bringing it all together

- The presence of student loans does have an impact on a consumer's credit profile; however, this impact is a longstanding one that existed before the recent recession
- We did <u>not</u> observe a negative change for student loan borrowers over time relative to the control group
  - Participation rates for other loan types maintained the same trends observed before the recession; any changes impacted both groups similarly
  - New loan origination rates for student loan borrowers are the same as or higher than control group consumers of similar age and risk profiles
  - Performance on new accounts by student loan borrowers is as good as or better than consumers without student loans

Implications and opportunities for lenders

Opportunity #1: Capitalize on increased loan demand by consumers who have recently entered student loan repayment

- Younger consumers with student loans who have recently entered repayment have demonstrated higher demand for new credit, particularly bankcards and auto loans

- Performance on these new loans is as good as, and often better than, consumers with no student loans, controlling for borrower risk tier

- Lenders can refine targeting tools to identify consumers with student loans that have recently entered repayment—consumers with strong credit demand and likely higher responders

- Develop campaigns to market relevant offers to these consumers

Opportunity #2: Take advantage of emerging risk management tools to better assess higher risk, new-to-credit and thin-file consumers

Consumers age 18–29 remain difficult to target due to their higher risk credit profiles

- Over 50% of consumers under 30 are considered non-prime using traditional credit scores
- Many younger consumers fall into thin-file and unscoreable credit profiles

New risk management tools and scores are now available that enable lenders to better assess risk in non-prime and unscoreable consumer segments

- **CreditVision®**: Leverages new credit bureau data elements—time-series account history and payment amount data
  - Accurately score millions more consumers than traditional risk scores
  - Identify lower risk borrowers that traditional scores classify as "non-prime"
- **Alternative Data**: Multi-sourced data models and attributes
  - Assess and decision consumers with thin or no traditional credit files

Session summary and recap

- Reports of student loan burdens causing reduced access to credit by younger consumers in the aftermath of the recession are not supported by this analysis

- Controlling for age and risk profile, younger consumers with student loans appear to have the same or higher origination activity for bankcards and auto loans as consumers with no student loans

- Mortgage originations by student loan borrowers nearly match levels of non-SL consumers
  - Overall, trends are unchanged from what was observed before the recession
  - Both populations appear to have been equally impacted by tightening of mortgage lending

- There is evidence that mortgage originations by student loan borrowers may catch up and surpass the levels of consumers without student loans over a five- to seven-year time horizon

- Lenders looking to attract and build relationships with Millennials may be able to market to this student loan borrower segment with increased confidence and success

