

# Average US student debt tops \$20,000

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In the last decade, the percentage of US 25-year-olds with student debt has grown by nearly one third, and the average amount owed by them has risen by a staggering 91 percent. These are two key findings of a report published April 17 by the Federal Reserve Bank of New York (FRBNY).

This explosion of youth indebtedness has correlated with other economic trends—especially since the recession triggered in 2008—to indenture a huge section of a generation of workers and drastically reduce their expected quality of life.

In the period from 2003 to 2012, the portion of all 25-year-olds with student debt rose steadily from 25 percent to 43 percent, an increase of almost one third. In the same period, the average amount of student debt owed by them also rose from \$10,649 to \$20,326. Total student loan debt reached \$966 billion at the beginning of this year, making it the nation's second largest category of household debt, behind mortgages but exceeding auto loan, credit card, and home-equity debt.

The FRBNY report emphasizes the effect this indebtedness has had on “post-schooling economic activity” by examining the former's correlation to other borrowing trends. In one striking illustration, it found that since 2008, just before the recession, the rate of home ownership for 30-year-olds has dropped twice as fast for those with student debt compared to those without.

Before the recession, 34 percent of 30-year-olds with student debt owned their homes, compared to about 30 percent of those with no student debt. Between 2009 and 2012, the rate of home ownership dropped for both groups, but by twice as much for the student debtors. Their home ownership rate fell almost 12 percentage points, compared to those free from student debt, which fell slightly less than 6 percentage points. In 2011 the trend-lines crossed, resulting in today's figure, where 24 percent of 30-year-olds with no student debt own

homes, compared to less than 23 percent of those with student debt.

Auto loan activity has trended similarly. In 2008, just before the recession, about 38 percent of 25-year-olds with student debt also borrowed money to purchase a vehicle, compared with about 35 percent of those without student debt. Auto loan borrowing rates dropped precipitously for both groups from 2009 onwards, but much faster for the student debtors. Again, in 2011 the trend-lines crossed and today auto borrowing rates for 25-year-olds stand at just under 30 percent for student debtors, and just over 30 percent for those with no student debt.

Over the same period, the percentage of all student debtors who are more than 90 days delinquent had risen to an historic high of 11.7 percent in the fourth quarter of 2012. A separate FRBNY presentation explains that this delinquency rate likely underestimates the problem, as an estimated 44 percent of borrowers are in deferment or otherwise temporarily out of the repayment cycle. They estimate that the actual student loan delinquency rate is about twice as high.

The findings make clear that a growing number of young people are being crushed under student loan debt. Their expectations of a prosperous future are evaporating as they face a worsening job market saddled with tens of thousands of dollars in debt, and they are no longer able to afford homes and vehicles.

While average student debt for 25-year-old borrowers has risen by \$9,677 over the last decade, the same group has on average taken on \$15,364 less debt from all other categories over the same period, resulting in a net decrease of \$5,687 in their overall leveraging. This coincides with a tightening of consumer credit by lenders since the recession. Those with substantial student debt may be unable to meet the new stricter debt-to-income ratio standards being applied by lenders.

The FRBNY report also shows a drastic divergence between the credit scores for student loan borrowers and non-borrowers since the recession began. In 2008, 30-year-olds with student debt had a slightly higher average credit score than their counterparts with no student debt. By 2012, the same groups saw their average scores separated by 25 points, with the non-borrowers at 658 and the borrowers at just 633. Average scores for 25-year-old borrowers and non-borrowers trended similarly, going from a 4-point spread in favor of borrowers in 2008 to a 15-point spread in favor of non-borrowers by 2012.

Other economic factors coincide with these developments to create a bleak outlook for a huge section of young people. Last month's dismal jobs report, the first since the beginning of the sequester cuts, shows that only 88,000 jobs were added in March, which is just 59 percent of the 150,000 jobs needed to simply keep up with population growth. Almost half a million people gave up looking for work in March and left the labor force altogether.

Sequestration has also reduced unemployment benefits by 11 percent. Median household income is down 8 percent since the beginning of the recession. Social programs that keep millions of older people out of poverty, like Medicare and Social Security, are under direct attack. The Obama administration's recent budget proposal would slash these programs by more than \$500 billion, reducing the likelihood that young people will be able to rely on relatives for financial help.



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