**We’re Frighteningly in the Dark About Student Debt - MANDATORY**

Imagine that a big, complicated company holds a huge portfolio of loans, many of which are in default or delinquency. The company’s leadership and some vocal shareholders demand a detailed review but receive a thin and incomplete report from the loan division.

Financial analysts at headquarters want to scrutinize the data. But the loan division doesn’t turn it over. Without better data, the firm can’t move forward.

This dysfunctional enterprise is fictional, but in at least some respects it bears more than a passing resemblance to the United States government, which has a portfolio of roughly $1 trillion in student loans, many of which appear to be troubled. The Education Department, which oversees the portfolio, is playing the part of the loan division — neither analyzing the portfolio adequately nor allowing other agencies to do so.

These loans are no trivial matter — not for the borrowers responsible for them or for the country as a whole. Student loans are now the [second-largest source of consumer debt](http://www.newyorkfed.org/newsevents/mediaadvisory/2013/Lee022813.pdf) in the United States, surpassed only by home mortgages. In a major reversal, they now constitute a larger portion of household debt than credit cards or car loans.

Student debt has grabbed the attention of the Federal Reserve, the Treasury and the Consumer Financial Protection Bureau. Officials in these organizations worry that student debt threatens the well-being of households and the federal budget, since taxpayers are liable if student loans go unpaid.

Several years ago, the mortgage crisis caught policy makers flat-footed, and they are determined not to be surprised by a possible future collapse rooted in household debt. “While regulators have beefed up monitoring of the mortgage market, similar efforts are needed to better understand and address the drivers of the millions of student loan defaults that have piled up in recent years,” said Rohit Chopra, the consumer bureau’s student loan ombudsman.

The frightening reality, however, is that we are remarkably ignorant about student debt. How many borrowers are delinquent on their federal loans? How does delinquency differ by amount of debt, income and education? Which colleges leave students underwater, with low earnings and large debts they can’t pay?

That’s just a start. We also don’t know how many borrowers are eligible for federal debt relief, which caps payments and forgives balances, or how many have tried, but failed, to get such relief.

Because we can’t answer these questions, we can’t quantify the risks that student debt places on individual households and the economy as a whole. This limits our ability to help borrowers before they spiral into default.

[During a recent meeting](http://www.ny.frb.org/newsevents/speeches/2015/dud150304.html) at the Federal Reserve Bank of New York, William Dudley, the bank’s president, noted that “there are many important questions still left unanswered” about student loans, adding, “but it is very hard to answer these questions with existing data.”

Why can’t we answer these basic questions about student debt? The Education Department runs the federal loan program, but it has not released detailed analyses or handed the data to those who could do the necessary number-crunching.

The Federal Reserve, which tries to keep a close eye on household debt, has purchased credit records from Equifax that let it track trends in student debt. That’s right: The central bank relies on a private firm for data about student loans, when much of the data it needs is held by a federal agency. The credit records are better than nothing, but they lack crucial details like the type of loan and the college the borrower attended.

Of course, the Education Department publishes some information about its $1 trillion student loan portfolio. Several spreadsheets sit on a department [website](https://studentaid.ed.gov/data-center), and that is where Denise Horn, a department spokeswoman, directed me when I asked about the loans.

But this data doesn’t say much. It does not provide delinquency rates for all loans, for example, or information about how many borrowers have managed to renew their debt relief. To get such additional information, Ms. Horn suggested, a Freedom of Information Act request would be appropriate.

David A. Bergeron spent 34 years at the Education Department, ending up as an assistant secretary for postsecondary education. He left in 2013 and is now vice president for postsecondary education at the Center for American Progress, a Washington research organization. Mr. Bergeron says he is frustrated by the incomplete data. “The department releases only very high-level summary statistics, which do not allow us to understand the problems facing individual student borrowers,” he said. “Trying to solve a problem with incomplete information leads you to the wrong solutions.”

By contrast, we know far more about the mortgage market. The consumer bureau, along with other agencies, publishes [extensive, detailed information](http://www.consumerfinance.gov/hmda/) about mortgages, lenders and borrowers. Government and private analysts use this information to gauge, in real time, [the mortgage market](http://www.occ.gov/publications/publications-by-type/other-publications-reports/mortgage-metrics/mortgage-metrics-q3-2014.pdf)’s health. Along with the Federal Housing Finance Agency, the consumer bureau is taking this already detailed data further, creating a [national database](http://www.consumerfinance.gov/newsroom/federal-housing-finance-agency-and-consumer-financial-protection-bureau-to-partner-on-development-of-national-mortgage-database/) that will track home loans from origination through payment.

This close oversight is critical for preventing another mortgage crisis. And it’s a terrific model for what we should be doing with student loans. But at the moment, the federal student loan data remains locked within the walls of the Education Department, with limited metrics trickling out.

There are many possible explanations for the continuing data blackout: legal restrictions, budgetary constraints, clunky software. Federal Student Aid, which holds the loan data, is an operational unit of the Education Department, not a statistical office geared for analysis. In fact, that office [outsources the operation of the loan database](https://www.fbo.gov/?s=opportunity&mode=form&id=ffccf1c06b3101186a22c86f38e01135&tab=core&_cview=0) to a small business, leaving the data difficult to retrieve for its own staff researchers who need to quickly answer a question.

When asked why the loan data is not being shared with analysts within and outside the government, Ms. Horn cited privacy concerns. Yet the federal department [urges](http://nces.ed.gov/programs/slds/) state departments of education to develop detailed databases and helps them work through privacy issues so that the data can be shared with researchers.

Other federal agencies, including the Internal Revenue Service, have made data available to researchers while safeguarding privacy. Thomas Weko, who left the Education Department last year and is now a research manager at the American Institutes for Research, says that while he was an associate commissioner of education statistics, he tried to develop secure methods for sharing loan data. “The effort was doomed,” he said, “not by financial or legal constraints but by a lack of will at Federal Student Aid and the reluctance of senior political leadership at the Department of Education to press for action.”

Asked for a response to this criticism, Ms. Horn declined to comment.

Over at the Federal Reserve and consumer bureau, as well as outside the government, highly trained analysts are eager for data. One solution might be for the Education Department to put it in their hands and let them get to work.

A longer-term solution could be to move the loan program out of the Education Department entirely — either into an existing agency that has the statistical expertise or a new student-loan authority. In Britain, an independent public agency has been devoted to student loans for 25 years.

Analyzing the complicated student loan market may not be a job for the current Education Department, which lacks a chief economist. Another agency might be better equipped to handle it, allowing the department to focus on its central goal: improving education.

<http://www.nytimes.com/2015/03/22/upshot/were-frighteningly-in-the-dark-about-student-debt.html?ref=economy&_r=0&abt=0002&abg=0>

1. Do you think it would be advisable for the U.S. government to pass the agenda of student loans wholly on private companies?
2. If any, what measures should be taken to regulate the amount of student debts?

**U.S. Federal Reserve ends pledge to be ‘patient,’ opens door to June rate hike**

WASHINGTON — The Federal Reserve on Wednesday moved a step closer to a much anticipated first rate hike since 2006 by removing “patient” from its language, although markets bet on a September hike after it downgraded the expected pace of growth and inflation.

[Stock markets rallied](http://business.financialpost.com/2015/03/18/tsx-falls-amid-oil-price-slide-as-traders-await-feds-rate-call/) after the Fed statement, while the U.S. 10-year Treasury yield dipped below 2% for the first time since March 2 and the euro rose against the dollar on the more dovish forecasts that appeared to argue against a June move.

Federal Reserve Chair Janet Yellen said dropping a pledge to be “patient” in raising interest rates doesn’t necessarily mean the central bank will tighten policy in June.

“Today’s modification of the forward guidance should not be read as indicating that the committee has decided on the timing of the initial increase in the target range for the federal funds rate,” Yellen said at a press conference following Wednesday’s Federal Open Market Committee meeting. “This change does not mean an increase will necessarily occur in June, although we cannot rule that out.”

Yellen said that although it’s “unlikely” a rate increase would occur at the April meeting, “such an increase could be warranted at any later meeting depending on how the economy evolves.”

“This was largely what was expected, though some may have been fearing a more hawkish Fed, and that explains the rally we’re seeing right now, that it didn’t state a precise time for raising rates,” said John Carey, portfolio manager at Pioneer Investment Management in Boston.

In its statement following a two-day meeting, the Fed’s policy-setting committee repeated its view that job market conditions had improved. While the statement put a June rate increase on the table it also allowed the Fed enough flexibility to move later in the year, stressing that any decision would depend on incoming data.

“The committee anticipates that it will be appropriate to raise the target range for the federal funds rate when it has seen further improvement in the labour market and is reasonably confident that inflation will move back to its 2% objective over the medium-term,” the Fed said in its statement.

The Fed said a rate increase remained “unlikely” at its April meeting and said its change in rate guidance did not mean the central bank has decided on the timing of a rate hike.

It had previously said it would be patient in considering when to bring monetary policy back to normal.

While the Fed showed that it’s nearing a hike, fresh forecasts from the central bank revealed a more cautious view of the economic outlook.

“The Fed is still on track but the pace of that increase has been scaled back relative to market expectations,” said John Derrick, Director of research at U.S. Global Investors in San Antonio, Texas.

The Fed’s quarterly summary of economic projections cut its inflation outlook for 2015 and dramatically lowered its projected interest rate path, data known as the Fed’s “dot plots.”

The Fed continued to acknowledge that inflation was running below expectations, weighed down in part by falling energy prices.

“Inflation has declined further below the committee’s longer-run objective,” the Fed said.
Fed Chair Janet Yellen has kept rates at near zero since taking over as head of the central bank in February, 2014, though she has also overseen a steady whittling of loose money promises.

And while Yellen lays the ground for the rate “lift-off,” the Fed continues to grapple with muddy economic data: strong job creation, continued growth, and healthy consumer demand in the United States, but a global collapse in oil prices and a rapid run-up in the dollar that could mean the Fed remains far from its 2 percent inflation target.

The Fed on Wednesday downgraded its view of economic activity, saying growth has “moderated somewhat,” a departure from December, when it cited economic activity expanding at a solid pace.

The federal funds rate has been at its low point since December 2008. The last time the Fed raised rates was in June 2006, when a roaring housing market and strong economic growth prompted it to push its target rate to 5.25%.

Investors and economists are split over whether the initial hike will come in June, or in September. Trading in federal funds futures contracts point to a September hike, while a recent Reuters poll of 70 economists indicated an even split between June and later in the year.

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<http://business.financialpost.com/2015/03/18/federal-reserve-ends-pledge-to-be-patient-opens-door-to-june-rate-hike/>

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## The mighty dollar Feeling green

## Debt-ridden emerging markets are heading for a nasty dollar hangover

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IN THE world of economics, one policymaker towers above all others. The head of America’s central bank, Janet Yellen, presides over a $17 trillion economy. The empire of her nearest competitor, Mario Draghi, amounts to a relatively puny $10 trillion. On top of this, the dollar’s global role means Ms Yellen has a huge impact abroad, influencing more than $9 trillion in borrowing in dollars by non-financial companies outside America—more than enough to buy all the firms listed on the stock exchanges of Shanghai and Tokyo (see chart 1). As the dollar strengthens both in response to healthier growth in America and in the expectation that the Federal Reserve is getting ready to raise rates, this burden is becoming harder to bear.

Dollar borrowing is everywhere, but the biggest growth has been in emerging markets. Between 2009 and 2014 the dollar-denominated debts of the developing world, in the form of both bank loans and bonds, more than doubled, from around $2 trillion to some $4.5 trillion, according to the Bank for International Settlements (BIS). Places like Brazil, South Africa and Turkey, whose exports fall far short of imports, finance their current-account gaps by building up debts to foreigners.

Even countries without trade gaps have been borrowing heavily. With interest rates on American assets so meagre—a five-year Treasury bond pays just 1.5%—those with dollars to invest have sought out more rewarding opportunities. Firms based in emerging markets seemed to fit the bill. Some are big names: state-owned energy giants like Russia’s Gazprom and Brazil’s Petrobras have been issuing dollar bonds via subsidiaries based in Luxembourg and the Cayman Islands. Others are smaller. Recent months have seen Lodha group, an Indian property developer, Eskom, a South African power generator, and Yasar, a Turkish firm that makes TV dinners, sell dollar-denominated bonds. By borrowing dollars at several percentage points below the prevailing interest rate in their domestic currency, CEOs have pepped up profits in the short term.

But finance rarely offers a free lunch. The worry is that tumbling energy prices mean firms like Gazprom and Petrobras now have much lower dollar income than expected when they took on debts. Others, such as Lodha, Eskom and Yasar, have few dollar earnings. Taking on debt just before a shift in exchange rates can be painful. In 2010 a Turkish firm borrowing $10m via a ten-year bond with a 5% coupon could expect to pay 22.5m lira ($15m) over the life of the bond. But the lira is down 43% against the dollar since then (see chart 2); the payments are now over 39m lira.

Where foreign debts and earnings line up there is little reason to worry. Asian firms’ foreign-currency debts tripled from $700 billion to $2.1 trillion between 2008 and 2014, going from 7.9% of regional GDP to 12.3%, according to economists at Morgan Stanley, a bank. To see whether the surge was bearable, the economists looked at the accounts of 762 firms across Asia. The findings were reassuring: on average 22% of their debt is dollar-denominated, but so are 21% of earnings. Although Asian firms are a big part of the emerging-markets’ borrowing binge, on the whole they seem well placed to cope with a rising dollar.

Yet there are still two reasons to worry. First, the outlook for China is a puzzle. The country holds $1.2 trillion in Treasury bills, many of which are sitting in its sovereign-wealth fund. When the dollar rises, the fund gets richer. But even in a dollar-rich country, there can be pockets of pain. China’s firms have built up a nasty currency mismatch. Almost 25% of corporate debt is dollar-denominated, but only 8.5% of corporate earnings are. Worse, this debt is concentrated, according to Morgan Stanley, with 5% of firms holding 50% of it.

Chinese property developers are the most obviously vulnerable. Companies like Evergrande, China Vanke and Wanda build and sell offices and houses, so most of their earnings are in yuan. Banned from borrowing directly from banks, they have been active issuers of dollar bonds. They have also borrowed from trust companies, according to Fitch, a rating agency. The trusts are themselves highly leveraged and have borrowed dollars via subsidiaries in Hong Kong. This arrangement will amplify the economic pain if property prices in China continue to decline, as they have been doing for several months.

The second problem is that whole economies, rather than just the corporate sector, look short of dollars. In Brazil and Russia, for instance, bail-outs of firms lacking greenbacks are blurring the lines between the state, banks and big companies. The general scramble for dollars has contributed to the plunge of the real and the rouble. Others could follow this path. Turkey’s dollar borrowing has grown rapidly since 2009: in addition to the debts Turkish firms have taken on, the state’s external debt has grown to almost 50% of GDP, far above the average for middle-income countries (23%). South Africa looks worrying too: its current-account deficit is the widest of any big emerging market, and the government’s external debt is 40% of GDP.

A wave of defaults would be unlikely to cause problems as widespread as the subprime crisis of 2008. Most bonds are owned by deep-pocketed institutional investors such as pension funds and insurers. The banks that have made loans face far tougher regulation than they did eight years ago and are generally far better capitalised. An emerging-market rout would not cause another Lehman moment. But it would mean big job losses at stricken firms. As investors reprice risk it would probably also lead to a sudden tightening of credit. In countries like South Africa or Turkey, where growth is evaporating fast, that could still be very painful.

<http://www.economist.com/news/finance-and-economics/21646803-debt-ridden-emerging-markets-are-heading-nasty-dollar-hangover-feeling-green>