Student Debt Update: What are the Policy Options?

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June 2022
Forgive student debt OR…..

• The payment pause: Will it end?

• Broad forgiveness or targeted forgiveness?

• Executive action or Congressional action?

• Helping students cover expenses, complete college in a timely way.
Outstanding student debt has leveled off in recent years.

Student debt as share of all household debt.

<table>
<thead>
<tr>
<th>Year</th>
<th>04:Q1</th>
<th>06:Q1</th>
<th>08:Q1</th>
<th>10:Q1</th>
<th>12:Q1</th>
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<td>3.1%</td>
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Source: Federal Reserve Bank of New York Quarterly Report on Household Debt and Credit, First Quarter 2022
Overview of trends

• Borrowing per undergraduate student has been declining since 2010-11

• Average total debt for public four-year college graduates is declining.

• Graduate borrowing is an increasing share of the total (53% of student loans in 2020-21).
Current policy conversations

• Ending the payment pause

• Broad student debt forgiveness

• Reform of income-driven repayment

• Momentum for “free college” has shifted to the states

• Focus of state legislators: what colleges teach (CRT), who has responsibility for hiring faculty (FL)?
Who holds student debt? Who makes payments?

*Education debt is concentrated in the upper half of the income distribution.*

<table>
<thead>
<tr>
<th>Share of outstanding debt</th>
<th>0%</th>
<th>10%</th>
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Notes: Households ages 25 and older.
Source: Baum and Looney (2020) "Who owes the most in student loans? New data from the Fed" *Brookings.*
Payment pause

• Washington Post editorial, April 8, 2022
• Unemployment rate for college graduates—and even people with some college—is very low.
• Benefits go disproportionately to higher-income households.
• No help to people who didn’t go to college, or didn’t borrow, or have paid off their loans.
The payment pause will not end before August 31

• Costs over $50 billion/year (Committee for a Responsible Federal Budget)
• The pause itself costs almost twice as much as the entire Pell Grant program ($26 b in 2020-21).
• Benefits most:
  Those who borrowed more, who tend to be more highly-educated, have higher incomes, are least likely to have lost their jobs for an extended period during the pandemic.
The moratorium is more expensive than alternatives.
Debt *can* interfere with the benefits of higher education.

- Moderate (typical) debt levels don’t come close to eliminating financial benefits of postsecondary education. BUT:

- Not completing postsecondary programs is a big problem.

- Students from low-SES backgrounds start out behind even if they finish their programs:
  --Family financial support
  --Connections/ information / social capital
  --Labor market discrimination
  --Student debt adds to the problems!
Should we seek targeted forgiveness?

• Students who were victims of fraud or closed schools
• Poor parents with PLUS loans
• Students with very low debts and very low incomes
The 7% of borrowers owing $100,000 or more hold 37% of the debt. The 33% owing less than $10,000 hold 4% of the debt.

Distribution of borrowers and debt by outstanding balance, 2021

Source: US Department of Education, Federal Student Aid Data Center, Federal Student Loan Portfolio
Improving income-driven repayment would solve a lot of problems.

- Automatic enrollment
- Payroll deductions
- Time to forgiveness should depend on amount borrowed.
- Limit graduate borrowing for IDR.
We do need to take action.

• Lending money for low-quality programs must stop.

• Unlimited graduate borrowing creates problems.

• Implementation of income-contingent loans have not gone well.

• Income-contingent repayment has become too generous
Limiting future debt

- Better funding of public higher education.
- More equitable allocation of state funding
- Larger Pell Grants
- Access to income support programs for students
- Better college preparation: focus on students before college
- Reduce time to degree
- Increase completion rates