Borrowing From Our Future: The Case for Cancelling Student Debt

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This Explainer features contributions from the following organizations:

Background

Around 45 million Americans now hold student loans, an increase of over 10 million since the Great Recession.\(^1\) As of mid July, a staggering 51 million Americans have filed for unemployment due to COVID-19.\(^2\) The current recession has also disproportionately affected Black and Brown families\(^3\) who were already facing disparities in student loan debt.\(^4\) Student debt cancellation is crucial to providing immediate relief to millions of Americans and boosting the economy.

Student Loan Debt Crisis

*Student Debt is a Crisis for Our Economy.* Americans now owe more in student loan debt than they do for auto loans, credit cards, or any other non-mortgage debt.\(^5\) Roughly 45

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\(^1\) Federal Reserve Bank of New York, Student Loan Data and Demographics, 2018


\(^4\) Elise Gould and Valerie Wilson. "Black workers face two of the most lethal preexisting conditions for coronavirus—racism and economic inequality."

million Americans hold federal student loan debt, and over a quarter are behind on their loans.\textsuperscript{6} Borrowers typically make payments ranging between $300 and $400 a month.\textsuperscript{7} Small Businesses and Homeownership. Student debt hampered both families' and the nation’s economic stability before the current crisis. Small businesses account for roughly 60 percent of employment activity in the U.S, and the housing market is a driving force in the economy -- accounting for over 12 percent of GDP.\textsuperscript{8} Federal Reserve studies show that rising student debt levels help account for decreasing homeownership among young people.\textsuperscript{9} Additionally, these studies show that even small increases in student debt levels lead to a meaningful decrease in business formation.

Debt Collection. Current federal aid practices and policies hammer the approximately 9 million borrowers who are currently in default or delinquent on their loans. Draconian debt collection and default policies prevent individuals from getting a fresh start. Without obtaining a court order, the government can seize vital safety-net protections such as social security benefits, wages, and tax refunds (including the Earned Income Tax Credit and the Child Tax credit) from defaulted borrowers.\textsuperscript{10} Through these coercive collection powers, the federal government often siphons thousands of dollars each year from these borrowers, who are typically very low-income and already experiencing financial distress.

Defaulted borrowers disproportionately attended predatory for-profit institutions and experienced widespread illegal practices by student loan servicers. The government then relies on private debt collectors to use the full weight of the government to wreak havoc on borrowers.

Student Debt is a Crisis for Black and Brown Borrowers. Due to decades of structural and systemic racism, Black and Brown communities have been among the hardest hit populations by COVID-19. They are most vulnerable to the devastating health and economic consequences of this crisis, just as they were most impacted by the Great Recession a decade ago.\textsuperscript{11} Black students borrow student loans at higher rates, and take on thousands more in debt, due to a history of exclusionary policies that have resulted in persistent racial inequities in income and wealth.\textsuperscript{12} Students of color are often targeted by for-profit institutions that line their pockets with taxpayer dollars at students’ expense.

In particular, Black and Latinx students are more likely to borrow and accumulate student loan debt at higher rates. Black borrowers who entered college in 2004 have defaulted at a rate more than three times higher than similar White borrowers on their student debt.\textsuperscript{13}

\textsuperscript{6} U.S. Dep’t of Educ., Federal Student Aid, Data Center, Federal Student Loan Portfolio; see also, Consumer Fin. Prot. Bureau, Student Loan Servicing: Analysis of Public Input and Recommendations for Reform (Sept. 2015).
Within 12 years of starting school, over half of Black men default on their loans and the typical Black borrower owes more than they originally borrowed, while the average White borrower owes about 65 percent of their original loan balance. Of Latinx borrowers in repayment on their student loans, 15 percent were in default, and another 29 percent were seriously delinquent on their payments.

Finally, student debt is both a cause and consequence of our unconscionable racial wealth gap. Various studies have suggested that different levels of cancellation would begin to close the racial wealth divide. For Black borrowers in particular, cancelling student loans could ease the unequal burden of housing costs, childcare, and help boost household finances at a time when they are more likely to face unemployment and job loss, eviction, and housing insecurity.

**Student Debt Cancellation: An Economic Boost that Improves Quality of Life**

**Boost the Economy.** In 2018 and 2019, two separate studies — one from the Levy Economics Institute and one from Moody’s — showed that cancellation would have a positive effect on the economy by serving as an immediate stimulus and, over the long-term, create jobs and increase homeownership and small business formation. The Levy Institute study found that full cancellation of student loan debt would increase the real GDP between $86 billion and $108 billion a year for 10 years as well as create 1.2 - 1.5 million jobs per year.

**Improves Lives.** From daily expenses, to living expenses, to auto loans, to credit cards, the stress of any debt can take a toll on one’s well-being and personal finances. A study by the National Bureau of Economic Research shows that federal student debt cancellation — even for borrowers who were not paying monthly — catalyzes significant improvement in a wide range of life outcomes. The study shows that cancelling student loans increased borrowers’ incomes by $3,000 over three years. It also enabled them to pay down other debts, and increased geographic mobility and their ability to pursue better jobs. Student debt cancellation will remove the stress and burden weighing on millions of Americans’ shoulders and create positive changes in their lives.

**Older Borrowers.** Student debt cancellation isn’t just a tool to help younger people. It would also provide crucial relief to the 40,000 older borrowers who had their Social Security

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23 Ibid.
garnished in 2015 due to student loans, and the 37 percent of U.S. residents over 65 that are in default on their student loans.

**Key Policy Recommendations**

In addition to the myriad economic benefits, there is bipartisan support for student debt cancellation. Sixty-three percent of Americans support permanently reducing student loan debt by at least $20,000. As millions of borrowers suffer from student loan debt, advocacy groups and lawmakers are working to find relief for borrowers, especially during this crisis. On March 27, 2020, the third coronavirus relief package, the CARES Act, was signed into law. The CARES Act suspended student loan payments for 6 months with no interest accrual and is set to expire on October 1, 2020. While the CARES Act paused payments on 80 percent of federal student loans through September 30, 2020, more than nine million borrowers with commercial Federal Family Education Loan (FFEL), Perkins loans, and private student loans were left out. Via a presidential memorandum signed on August 8, President Trump instructed Secretary DeVos to suspend student loan payments and interest charges through December 31, 2020 for borrowers with loans owned by the Department of Education. This executive action left unanswered important questions about the fate of protections for defaulted borrowers, borrowers working in public service, and borrowers experiencing financial hardship. Importantly, millions of federal student loan borrowers were once again left out of the relief package including those whose debt is held by private creditors, rather than the federal government.

Introduced by the House Democratic leadership, the Heroes Act, which passed in the House on May 15, 2020, provides borrowers with additional relief. It will extend suspension of payments and interest accrual to all federal student loan borrowers through September 30, 2021. While the Heroes Act took a step forward when it provided $10,000 in student debt cancellation, a last-minute change to the bill limited that assistance to only borrowers who were “economically distressed” before the pandemic. This limitation excludes 25 million Americans — more than half of all borrowers. It would also exclude struggling low-income borrowers who make small, non-zero payments on an Income Driven Repayment plan (IDR), such as those paying only $20 per month. Instead of the Senate Republicans voting on the Heroes Act and supporting the positive provisions to extend suspension of payments, on July 27, 2020, they released the Safely Back to School and Back to Work Act as part of their HEALS Act, which includes a proposal from Senator Lamar Alexander that will let the student loan suspension provided in the CARES Act expire.

Reps. Ayanna Pressley, Ilhan Omar, and Alma Adams are leading the effort in Congress to cancel student loan debt. In May, 2020, Reps. Pressley, Omar, and Adams, along with 28 other

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30 Defined as those in default, delinquent, in forbearance, under certain kinds of deferral, or who would qualify for a $0 payment in an income-driven repayment (IDR) plan as of March 12, 2020.
members of Congress, led a letter calling for the universal, one-time, student loan debt cancellation of at least $30,000 per borrower in the next COVID-19 relief package. Additionally, on July 20, 2020, Rep. Madeleine Dean introduced an amendment to the National Defense Authorization Act (NDAA) which passed the House, would provide relief to $4.5 million private student loan borrowers by providing up to $10,000 in immediate assistance to pay down the student loan.33

Americans for Financial Reform, the Center for Responsible Lending, Demos, and Freedom to Prosper led more than 100 community, civil rights, consumer, and student advocacy organizations led a letter calling on Congress to cancel student loan debt in the next coronavirus relief package.34

Conclusion

When the CARES Act suspension expires on October 1, millions of Americans will be saddled with student loan payments that they simply cannot afford at a time of deepening economic contraction, unemployment, and an accelerating pandemic. But even a further suspension is not sufficient. As long as Americans assume that their debt burden will remain, their already limited resources, including any additional stimulus checks, will go towards paying down that debt instead of back into the economy as intended. Reducing overall student debt burdens is thus an essential component of any successful recovery going forward.

In this moment of crisis, we cannot afford the constraints student loan debt places on individuals and the economy. The right approach is broad-based debt cancellation for all student loan borrowers, as removing limitations based on economic distress would not only avoid unfair cutoffs but also enable easier implementation. Congress should use this crucial tool to reduce expenses during the ongoing labor shocks and economic turmoil.