CRL and NCLC Research Reveals Two-Thirds of Navient Borrowers Enrolled in IDRs and Making Voluntary Loan Payments During COVID Student Loan Pause Are Underwater

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An Analysis of Over 428,000 Borrowers in Income-Driven Repayment (IDR)

Washington, D.C. — The Center for Responsible Lending (CRL) and the National Consumer Law Center (NCLC) issued a new joint policy brief revealing that almost two-thirds (63%) of student loan borrowers enrolled in Income-Driven Repayment Plans (IDR) serviced by Navient who made voluntary loan payments during the COVID-19 federal student loan payment pause are underwater—unable to repay even $1 of their original loan balance.

Of the borrowers who are underwater, one-third owe more than 125% of their original balance, despite making at least one payment during the payment pause enacted by the federal government in March 2020. Of the underwater borrowers:

- 67% owe 100% to 125% of original balance
- 26% owe 125% to 150% of original balance
- 6% owe more than 150% of original balance

The data, produced by the U.S. Department of Education in response to a Freedom of Information Act (FOIA) request, included information on 428,268 Navient borrowers who owe almost $28 billion in student loans and made $600 million worth of voluntary payments.

"The data reinforces what we already knew: borrowers want to make progress towards repaying their loans, but our broken student loan system has made it difficult, resulting in loan balances that in many cases greatly exceed the original amount borrowed," said **Center for Responsible Lending Senior Researcher Robin Howarth**. "Servicing errors and lack of federal oversight exacerbate flawed federal student loan policies and leave borrowers, particularly those of color, even more vulnerable. It is imperative for the Biden Administration to provide immediate relief to existing borrowers with across-the-board student debt cancellation as the Administration works to reduce the wealth gap and get the economy back on a sustainable path."

"As this data shows, it is unfortunately all too common for student loan borrowers to see their balances go up instead of down while in repayment," said **National Consumer Law Center Attorney Abby Shafroth. "**Balances go up when borrowers in financial distress cannot afford to make payments. They also go up when monthly payments in income-driven repayment plans are insufficient to cover interest, which is common for low-income borrowers, meaning that despite faithfully making payments their balance goes up instead of down. And unpaid interest is often capitalized, so borrowers pay interest on interest. Ballooning balances not only make education more expensive for those who must borrow but make many feel hopeless that they'll ever be free of their student debt. The Biden Administration can and should end the practices that cause debt to balloon going forward and provide relief to borrowers already harmed through debt cancellation."

Based on the analysis of the data, NCLC and CRL recommend the following policy improvements for the Department:

- **Provide across-the-board debt cancellation**: While policymakers have debated system fixes, borrowers' debt has ballooned, and their financial futures have grown more bleak. In addition to fixing the system going forward, the Department should provide relief to existing borrowers by providing widespread student debt cancellation and by clearing the books of bad debt.
- **End practices that cause balances to balloon**: To stop balances from ballooning, the Department should both (1) expand existing partial interest subsidies in income-driven repayment (IDR) plans by fully subsidizing unpaid interest that would otherwise accrue as a result of IDR payments that are insufficient to cover accrued interest for borrowers with high debt to income ratios, and (2) end interest capitalization, which causes borrowers who experience financial distress to have to pay interest on interest.
- **Provide data**: As policymakers grapple with what to do about the student debt crisis, more information about the amount and role of interest in the federal student loan portfolio is needed to better understand the scope of the problem and to assess potential responses.