Student Debt in the COVID Era

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Student debt is not a broad and undifferentiated “crisis.”

• Some students / groups of students struggle disproportionately.

• Loan repayment is confusing.

• Loan servicing is problematic and sometimes abusive.

• A lot of change is needed—but it’s okay for students to borrow moderately.
Outstanding student debt has leveled off since 2016.

Student debt as share of all household debt.

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Source: Federal Reserve Bank of New York Quarterly Report on Household Debt and Credit, November 2021
Borrowing per undergraduate student has been declining since 2010-11. (Graduate borrowing is an increasing share of the total: 24% of student borrowers, 45% of federal student loans in 2020-21.)

Average Aid per Full-Time Equivalent (FTE) Undergraduate Student in 2020 Dollars, 2000-01 to 2020-21

Source: College Board, *Trends in Student Aid 2021*
Average total debt for public four-year college graduates is declining.

Average Cumulative Debt Levels in 2020 Dollars: Bachelor’s Degree Recipients, Public Four-Year Institutions, 2004-05 to 2019-20

Source: College Board, Trends in Student Aid 2021
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
Debt in Connecticut

• Among the state’s indebted student borrowers, 12.7% owe less than $5,000.

• 23% owe $20,000 to $40,000.
• 2% owe more than $200,000.

• Source: https://educationdata.org/student-loan-debt-by-state#connecticut
Who would benefit most from broad debt forgiveness?

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

![Chart showing the distribution of education debt payments and outstanding debt by income quintiles.](chart)

- **Share of monthly debt payments:**
  - Lowest quintile: 2%
  - Second quintile: 8%
  - Middle quintile: 17%
  - Fourth quintile: 34%
  - Highest quintile: 39%

- **Share of outstanding debt:**
  - Lowest quintile: 5%
  - Second quintile: 14%
  - Middle quintile: 22%
  - Fourth quintile: 32%
  - Highest quintile: 26%

Notes: Households ages 25 and older.
COVID policies

• Payment pause for two years.

• No interest charged.

• Months count toward loan forgiveness.

• Biden administration: canceling debt for victims of fraud and abuse, loosening requirements for Public Service Loan Forgiveness.

• But no broad debt forgiveness!
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.
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
What can states do? Reduce debt among future students

• Connecticut has relatively high state funding per student ($14,450 vs. $8,640 in US), but also relatively high tuition and fees ($4,550 vs. $3,800 at public two-year colleges, $14,550 vs. $10,740 at public four-year institutions).

• State grant aid is need-based but $260 per students vs. $980 in US.
What can states do? Relieve burden of existing debt

• California student debt commission: recommended coordinated information, guidance, assistance.

• New York: Get on Your Feet Loan Forgiveness. AGI < $50,000. In IDR. State makes up to two years of payments. Undergraduate debt only.