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How Were Student Loan Borrowers Affected by the Pandemic?

An Essay for the Learning Curve by Matthew Chingos and Jason Cohn

January 2023

The US Supreme Court will hear arguments next month about whether President Biden has the authority to forgive up to $20,000 in student debt for millions of borrowers.[1] Part of the Biden administration's legal argument rests on the claim that borrowers as a group were made worse off financially by the pandemic. Our analysis indicates that most borrowers are currently in a similar or stronger financial position than they were in 2019, but there are warning signs that many borrowers will be in a weaker position once the payment pause ends.

Last August, President Biden announced his intention to forgive up to $10,000 of student debt for all individual borrowers making less than $125,000 a year (or $250,000 for households) and an additional $10,000 for borrowers who received Pell grants.[2] The Biden administration's legal justification for this action is rooted in the 2003 Higher Education Relief Opportunities for Students (HEROES) Act, which allows the secretary of education to modify the requirements of the student loan program during periods of war, other military operations, or national emergencies.[3]

This legal authority has been challenged in several lawsuits, two of which the Supreme Court will consider next month.[4] These cases raise several legal issues, one of which is whether the HEROES Act grants the broad authority the president needs to forgive student debt for such a large group of borrowers. The language of the HEROES Act allows the secretary of education "to waive or modify any provision" of the federal student loan program to ensure that any borrowers who "suffered direct economic hardship as a direct result of a…national emergency" —in this case, the COVID-19 pandemic— "are not placed in a worse position financially in relation to that financial assistance."[5]

[1] White House, "Fact Sheet: President Biden Announces Student Loan Relief for Borrowers Who Need It Most," press release, August 24, 2022, https://www.whitehouse.gov/briefing-room/statements-releases/2022/08/24/fact-sheet-president-biden-announces-student-loan-relief-for-borrowers-who-need-it-most/.

[2] White House, "Fact Sheet: President Biden Announces Student Loan Relief."

[3] Lisa Brown, "The Secretary's Legal Authority for Debt Cancellation," letter to Miguel A. Cardona, August 23, 2022, https://www2.ed.gov/policy/gen/leg/foia/secretarys-legal-authority-for-debt-cancellation.pdf.

[4] The cases are Biden v. Nebraska and Department of Education v. Brown.

[5] Higher Education Relief Opportunities for Students Act of 2003, Pub. L. No. 108-76 (2003).

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How the pandemic affected student loan borrowers is a challenging question to answer. The available data sources indicate that, even though many borrowers struggle financially, a clear majority are at least as well off now as they were in 2019. What is more uncertain is how many borrowers will struggle once they are required to resume payments later this year, after a pause of more than three years.

Most Borrowers Emerged from the Pandemic in Reasonable Financial Shape

How student loan borrowers would have fared if the pandemic had never happened is impossible to know, but survey and administrative data can describe how borrowers were doing in 2021 and 2022 compared with 2019. We focus on borrowers' circumstances, not on how borrowers compare with nonborrowers, as the relevant question is whether people with student debt were put in a worse position by the pandemic, not whether they were differentially affected relative to nonborrowers.[6]

Since March 2020, federal student loan borrowers have not been required to make payments, and federal student loans have not been accruing interest. Predefault delinquencies were cured, which improved borrowers' credit scores, even absent other financial changes.[7] Though the data we examine can help us examine borrowers' circumstances, they cannot tell us whether changes occurred because of or despite the payment pause.

One measure of how the pandemic affected borrowers is whether they feel they are in a better financial position than they were before the pandemic. In October and November 2021, the Federal Reserve Board asked a nationally representative group of Americans how they were doing financially in 2021 compared with 2019. Among the respondents with student debt, 48 percent said they were doing better, 28 percent said they were doing about the same, and 24 percent said they were worse off (appendix table A.2).[8]

Across household income levels, most borrowers report they are no worse off financially, though households with low incomes are more likely than other households to report they are worse off (figure 1). This pattern holds regardless of amount of student debt, education level, and race (appendix table A.2).[9]

[6] For context, we provide basic descriptive information on borrowers and nonborrowers in appendix table A.1, which shows that borrowers, on average, are younger, have similar income levels (despite being younger), have attained higher levels of education, and are more likely to be Black and female.

[7] Kristin Blagg and Carina Chien, "The Student Loan Pause Has Improved Credit Scores, but Not Financial Distress," *Urban Wire* (blog), Urban Institute, October 6, 2020, https://www.urban.org/urban-wire/student-loan-pause-has-improved-credit-scores-not-financial-distress.

[8] This survey question was asked only in 2021, so we cannot compare responses from a prepandemic year. But the 2019 survey asked respondents how they were doing financially compared with one year before, and 17 percent of student loan borrowers reported they were worse off, 43 percent said they were doing the same, and 40 percent said they were better off.

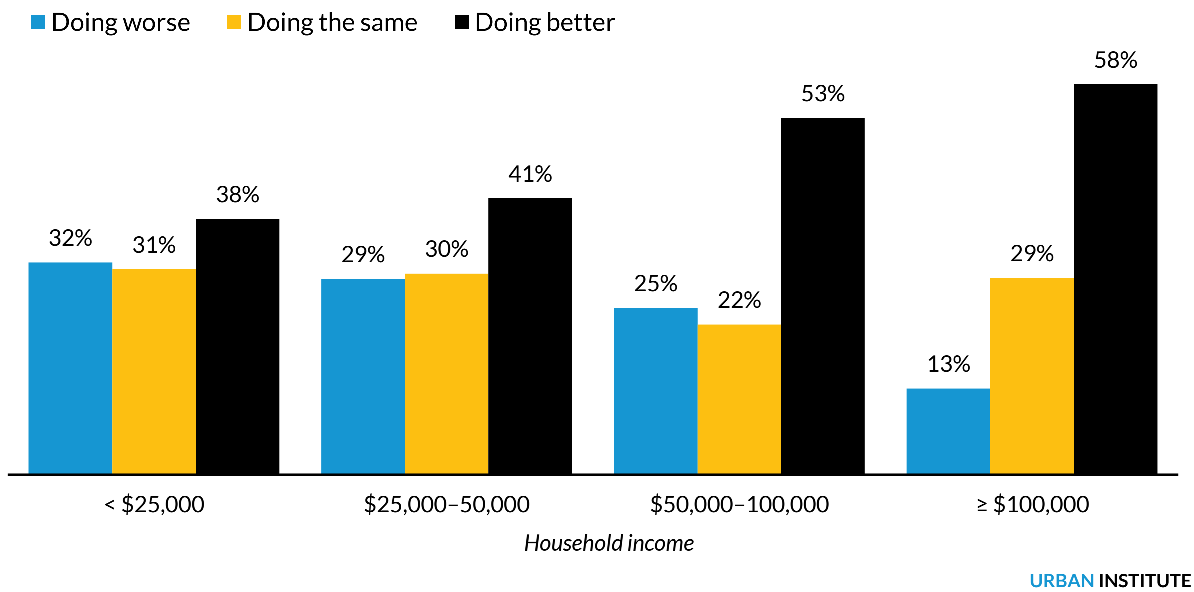
[9] Appendix table A.2 also shows that data from a different survey question about financial well-being posed in both the 2021 and 2019 surveys yield a similar conclusion.

The groups of borrowers with the largest shares reporting they are worse off are those with an associate's degree or certificate (34 percent of whom said they were worse off), people with incomes below $25,000 a year (32 percent), and Hispanic borrowers (31 percent).

FIGURE 1

Most Borrowers Reported They Were Doing at Least as Well Financially in 2021 as They Were in 2019

Share saying they are worse off, the same, or better off financially, by income



Source: Analysis of the 2021 Survey of Household Economics and Decisionmaking.
Notes: The survey question was "Compared to two years ago (2019), would you say that you (and your family) are better off, the same, or worse off financially?" with the options "much worse off, somewhat worse off, about the same, somewhat better off, much better off."

Data on the credit health outcomes of a representative group of US adults with credit records show similar trends. Just before the pandemic, 33 percent of Americans with student debt had subprime credit (scores below 600), a share that fell to 24 percent in August 2022. This improvement in credit records applied regardless of borrower age, student debt amount and status, and neighborhood demographics (income and race).[10]

These trends at least partly reflect the credit boost borrowers received from the payment pause, so it is also useful to look at credit health outcomes that are not directly affected by student loans.[11]

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[10] "Credit Health Metrics for Student Loan Borrowers," Urban Institute Data Catalog, accessed December 28, 2022, https://datacatalog.urban.org/dataset/credit-health-metrics-student-loan-borrowers. Data originally sourced from one of the three major credit bureaus and the National Historical Geographic Information System, developed at the Urban Institute, and made available under the ODC-BY 1.0 Attribution License.

[11] Blagg and Chien, "The Student Loan Pause Has Improved Credit Scores."

Just before the pandemic, 31 percent of people with student loan debt had other (nonstudent) debt (including utility, medical, bank, and retail debt) in collections. This share fell to 25 percent in August 2022.[12] Borrowers with smaller student loan balances (less than $20,000), who would be more likely to have all their student debt forgiven, were slightly more likely to have nonstudent debt that is in collections but also saw improvements on this front over the course of the pandemic (figure 2). The same was true across groups of borrowers defined in terms of age, neighborhood income and racial makeup, and their student loan status just before the pandemic.[13]

These improvements could be partially a result of other pandemic relief efforts, such as stimulus checks, American Rescue Plan funds that helped cover utility costs, and availability of forbearances for mortgages, in addition to the indirect effects of the student loan pause easing overall finances.[14]

These data make clear that many borrowers with student debt are struggling financially. One in four borrowers having other debt that is in collections is a problem, and this share rises to 40 percent of borrowers in the lowest-income neighborhoods.[15]

There are reams of evidence documenting structural problems in the student loan system that pre-date the pandemic.[16] But there is little evidence to suggest that most student borrowers are worse off than they were before the pandemic.

What is less clear is whether this would have been the case without the payment pause and whether this will continue to be the case once student loan payments resume.

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[12] "Credit Health Metrics for Student Loan Borrowers," Urban Institute Data Catalog, accessed December 28, 2022, https://datacatalog.urban.org/dataset/credit-health-metrics-student-loan-borrowers. Data originally sourced from one of the three major credit bureaus and the National Historical Geographic Information System, developed at the Urban Institute, and made available under the ODC-BY 1.0 Attribution License.

[13] "Credit Health Metrics for Student Loan Borrowers," Urban Institute Data Catalog, accessed December 28, 2022, https://datacatalog.urban.org/dataset/credit-health-metrics-student-loan-borrowers. Data originally sourced from one of the three major credit bureaus and the National Historical Geographic Information System, developed at the Urban Institute, and made available under the ODC-BY 1.0 Attribution License.

[14] The Consumer Financial Protection Bureau has public statistics based on credit bureau data indicating that nondefaulted student loan borrowers were more likely to be 60 or more days delinquent on nonstudent credit products in September 2022 than they were just before the pandemic began (7.1 percent versus 6.2 percent). This is a narrower measure than our measure of collections debt (which shows that more than 30 percent of all student borrowers have nonstudent debt in collections), and the data series published by the bureau does not provide any pre-2020 trends for comparison. See Thomas Conkling and Christa Gibbs, "Update on Student Loan Borrowers during Payment Suspension," Consumer Financial Protection Bureau blog, November 2, 2022, https://www.consumerfinance.gov/about-us/blog/office-of-research-blog-update-on-student-loan-borrowers-during-payment-suspension/.

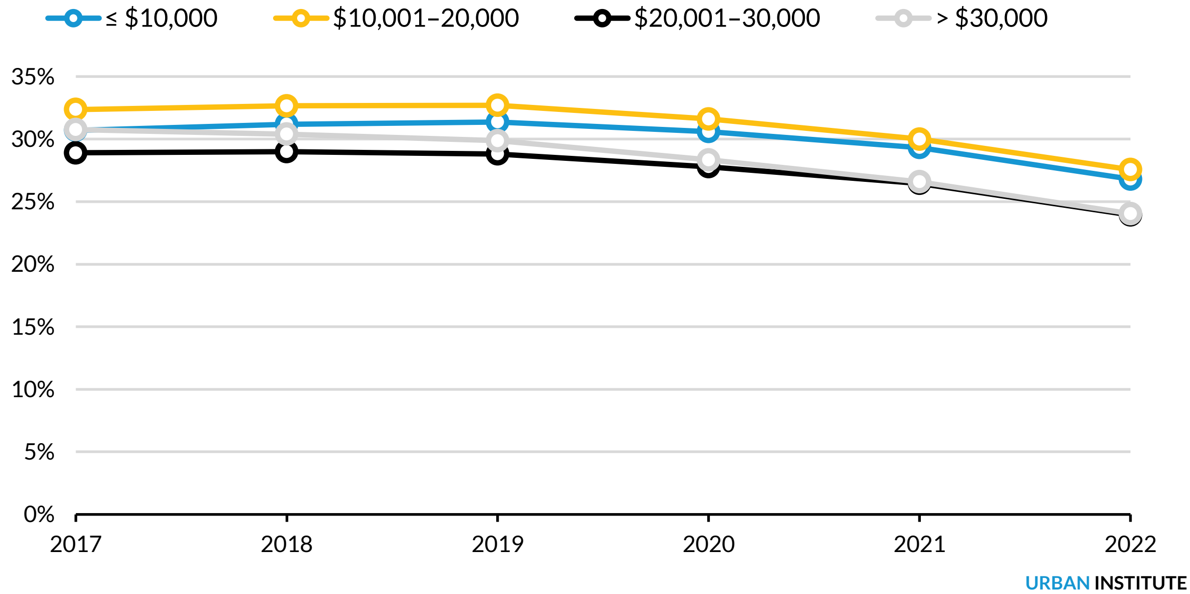
[15] In August 2022, the collections rate among the 10 percent of borrowers with the lowest median zip code incomes was 40 percent (see "Credit Health Metrics for Student Loan Borrowers," Urban Institute Data Catalog, accessed December 28, 2022, https://datacatalog.urban.org/dataset/credit-health-metrics-student-loan-borrowers. Data originally sourced from one of the three major credit bureaus and the National Historical Geographic Information System, developed at the Urban Institute, and made available under the ODC-BY 1.0 Attribution License).

[16] Matthew Chingos, "Fixing the Federal Student Lending System: Options for Policymakers in 2021" (Washington, DC: Urban Institute, 2020).

FIGURE 2

Fewer Student Loan Borrowers Are Struggling with Other Debts

Share of student borrowers with nonstudent debt that is in collections, by student loan balance



Source: "Credit Health Metrics for Student Loan Borrowers," Urban Institute Data Catalog, accessed December 28, 2022, https://datacatalog.urban.org/dataset/credit-health-metrics-student-loan-borrowers. Data originally sourced from one of the three major credit bureaus and the National Historical Geographic Information System, developed at the Urban Institute, and made available under the ODC-BY 1.0 Attribution License.

Notes: These shares include borrowers who have medical, utility, retail, or bank collections debt. The figure includes only borrowers who held student debt in February 2020 and had a credit record every year from 2017 to 2022. Borrowers older than 70 at the start of the pandemic are excluded.

Borrowers Face an Uncertain Future

The student loan payment pause has helped borrowers weather the pandemic, but there are warning signs that the return to repayment will be rocky for many, whether for financial or administrative reasons.

In a recent survey by the Federal Reserve Bank of Philadelphia, about 30 percent of borrowers who were making regular payments before the pandemic did not think they could make their payments in full once the pause ends.[17] Evidence shows that some borrowers have lowered the payments they will make when repayment resumes, such as by switching to a different repayment plan, but the share who have done so is small.[18]

[17] Akana and Ritter, "Expectations of Student Loan Repayment."

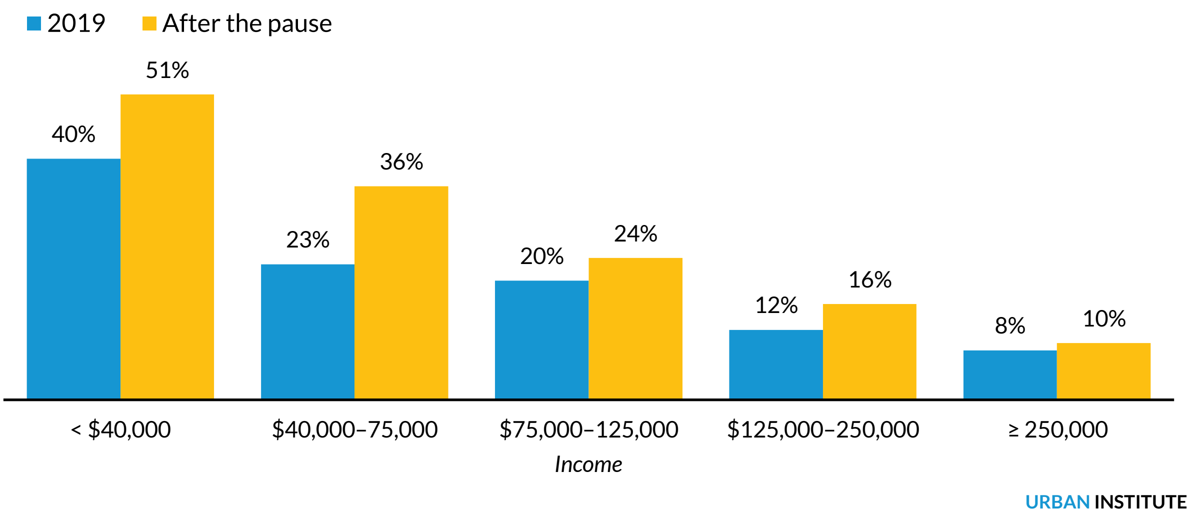
[18] Kristin Blagg and Carina Chien, "Some Borrowers Navigate toward Lower Monthly Payments during Student Loan Pause," *Urban Wire* (blog), Urban Institute, November 11, 2020, https://www.urban.org/urban-wire/some-borrowers-navigate-toward-lower-monthly-payments-during-student-loan-pause.

Concerns about the return to repayment are most acute for borrowers with the lowest incomes. Among borrowers with incomes below $40,000 who had payments due in 2019, 40 percent reported not making full payments that year, but 51 percent said they did not expect to make full payments once the pause ends. There was also a large gap between previous and expected repayment for borrowers with incomes between $40,000 and $75,000 and a smaller gap for those with higher incomes (figure 3).

FIGURE 3

Low- and Middle-Income Borrowers Are More Likely to Anticipate Greater Trouble Making Payments after the Pause Ends, Compared with 2019

Share who made or expect to make partial or no payments, by income



Source: Tom Akana and Dubravka Ritter, "Expectations of Student Loan Repayment, Forbearance, and Cancellation: Insights from Recent Survey Data" (Philadelphia: Federal Reserve Bank of Philadelphia, n.d.), table 1.

Notes: Data for 2019 are the share of borrowers with payments due who reported making occasional or no payments. Data for after the pause are share of borrowers with payments due in 2019 who expect to make partial or no payments once the pause ends.

Logistical challenges could also make it difficult for borrowers to resume making payments. Servicers have yet to reestablish contact with many borrowers, and the US Department of Education (as of December 2021) lacked email addresses (its main form of communication) for 13 percent of all borrowers and for one-quarter of those in default.[19]

Data from previous shorter administrative forbearances provide a more optimistic forecast, though they still suggest that the default rate is likely to increase. In fall 2017, the Trump administration used the authority in the HEROES Act to pause payments on student loans for borrowers in areas affected by

[19] See "COVID-19: Significant Improvements Are Needed for Overseeing Relief Funds and Leading Responses to Public Health Emergencies," Government Accountability Office, January 27, 2022, https://files.gao.gov/reports/GAO-22-105291/index.html#appendix8. The department likely obtained more email addresses from borrowers who applied for loan forgiveness in fall 2022.

Hurricanes Irma and Maria and the California wildfires.[20] The default rates (among borrowers not previously in default) dipped in 2018 as the pause took effect and then increased to slightly above preemergency levels in 2019 (figure 4).

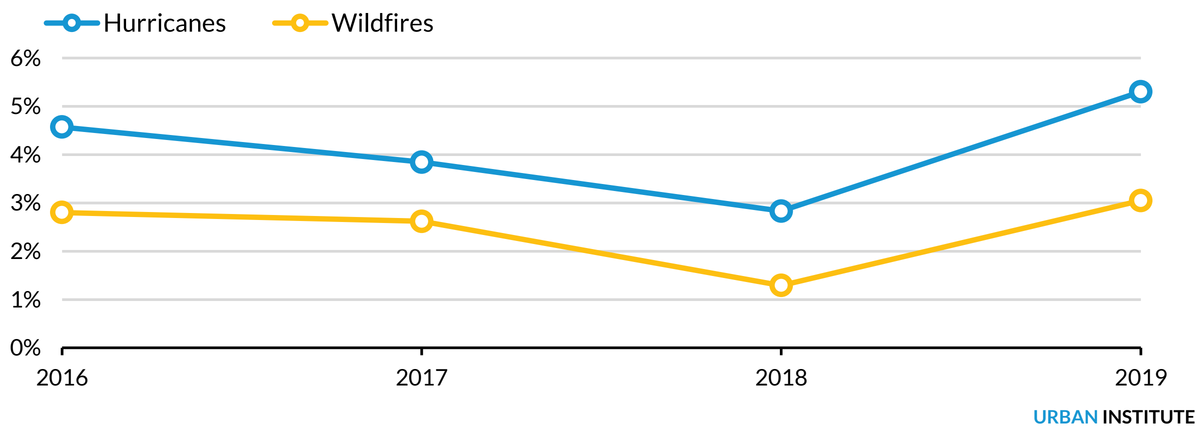
These data suggest that at least some borrowers will not successfully resume repayment and will default, but the size of the impact is modest (about 1 percentage point above the preemergency rate). Of course, it is hard to know whether the experience of the 2017–18 pause, which lasted three months for most borrowers, will extrapolate to the three-year pandemic pause, in addition to hurricanes and wildfires being different from a pandemic.

This trend is consistent with more recent evidence that delinquency rates on federal student loans not subject to the payment pause increased after these loans exited voluntary forbearance (which generally lasted only a few months) in mid-2020, returning to approximately prepandemic levels.[21]

FIGURE 4

Default Rates Rose to Slightly above Preemergency Levels after 2017 Hurricanes and Wildfires

Default rates among borrowers not previously in default



Source: "Credit Health Metrics for Student Loan Borrowers," Urban Institute Data Catalog, accessed December 28, 2022, https://datacatalog.urban.org/dataset/credit-health-metrics-student-loan-borrowers. Data originally sourced from one of the three major credit bureaus and the National Historical Geographic Information System, developed at the Urban Institute, and made available under the ODC-BY 1.0 Attribution License.

Notes: Limited to borrowers not in default during the previous year in Florida, Georgia, Puerto Rico, and eight counties in California (which we identify using zip codes in the credit bureau data). The figure is restricted to borrowers who held student debt in August 2017, just before payments were paused. These data include private borrowers who were not eligible for the pause.

[20] See "Designated Areas: Disaster 4344," Federal Emergency Management Agency, accessed December 28, 2022, https://www.fema.gov/disaster/4344/designated-areas for the eight California counties included in our analysis of default rates among borrowers affected by the wildfires in 2017.

[21] Jacob Goss, Daniel Mangrum, and Joelle Scally, "Student Loan Repayment during the Pandemic Forbearance," *Liberty Street Economics* (blog), Federal Reserve Bank of New York, March 22, 2022, https://libertystreeteconomics.newyorkfed.org/2022/03/student-loan-repayment-during-the-pandemic-forbearance/.

Looking Ahead

There are reasons to be concerned that a larger number of borrowers will struggle once loan payments resume, including those who were struggling before the pandemic and those who fall through the cracks as servicers resume payment collection. About half of people with student debt expressed concern about being able to make ends meet over the next 12 months in a recent survey, compared with one-third of nonborrowers.[22]

But if the question is whether most borrowers were financially harmed by the pandemic, the available data indicate the answer is no. This conclusion has important caveats, including that there are some measures of financial well-being it cannot consider, such as inflation-adjusted incomes, for which data for student loan borrowers are not yet available.[23] And we cannot know how much of borrowers' financial resilience was because of the policy intervention (the payment pause) designed to minimize financial harm.

Legal advocates on both sides of the loan forgiveness dispute can find evidence to support their case. Forgiveness opponents can point to evidence that most borrowers weathered the pandemic without suffering economic harm, while supporters can point to evidence about the minority of borrowers who did suffer economically during the pandemic and can point to warning signs that the worst effects may not come until payments resume.

Importantly, the HEROES Act is silent on what the standard is for a group of borrowers to have "suffered direct economic hardship" and thus be eligible for relief, except to say that relief does not have to be granted case by case. The Supreme Court will have to decide whether financial harms suffered by a minority of borrowers, along with the potential for a difficult transition back to repayment, justifies the broad-based action President Biden has proposed.

Regardless of how the Supreme Court decides this issue, there will be challenges with the return to repayment—whether it is all 45 million current borrowers if the Court strikes down the forgiveness plan or the 25 million who will still have student loan debt remaining if the Court lets forgiveness stand.[24] It is critical that the Biden administration focus on ensuring that the restart of payments does not further harm vulnerable borrowers.

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[22] Akana and Ritter, "Expectations of Student Loan Repayment," figure 4.

[23] A more detailed picture of the financial health of student loan borrowers will be provided by the 2022 Survey of Consumer Finances, which will be released later this year.

[24] White House, "Fact Sheet: President Biden Announces Student Loan Relief."

Appendix

TABLE A.1

Characteristics of US Adults with and without Student Debt in 2021

	Nonborrowers	Borrowers
Average age	50	35
Education		
No college	35%	3%
Some college, no degree	19%	22%
Associate's degree or certificate	14%	16%
Bachelor's degree or more	33%	59%
Race or ethnicity		
Black, non-Hispanic	11%	20%
Hispanic	17%	16%
White, non-Hispanic	64%	57%
Two or more races or other	9%	7%
Female	50%	60%
Median income	$50,000–75,000	$50,000–75,000

Source: Analysis of the 2021 Survey of Household Economics and Decisionmaking.

Notes: Median income is the median range among the ranges reported in the survey dataset.

TABLE A.2

Borrowers' Reports of Financial Well-Being

	Borrowers Doing at Least OK Financially		How Borrowers Are Doing Financially in 2021 Compared with 2019		
	2019	2021	Worse	Same	Better
All borrowers	64%	72%	24%	28%	48%
Education					
Some college, no degree	56%	57%	29%	28%	43%
Associate's degree or certificate	53%	62%	34%	30%	36%
Bachelor's degree or more	75%	81%	20%	27%	54%
Income					
< $25,000	46%	55%	32%	31%	38%
$25,000–50,000	54%	59%	29%	30%	41%
$50,000–100,000	71%	76%	25%	22%	53%
≥ $100,000	91%	95%	13%	29%	58%
Amount of debt					
< $10,000	61%	73%	27%	27%	47%
$10,000–20,000	65%	72%	24%	24%	52%
$20,000–30,000	65%	67%	26%	31%	43%
≥ $30,000	67%	73%	22%	29%	49%
Race or ethnicity					
Black, non-Hispanic	57%	68%	22%	27%	51%
Hispanic	57%	65%	31%	24%	45%
White, non-Hispanic	69%	75%	23%	28%	49%
Two or more races or other	68%	74%	24%	37%	39%

Source: Analysis of the 2019 and 2021 Surveys of Household Economics and Decisionmaking.

Notes: The sample is limited to respondents with student loans (1,844 in 2019 and 1,590 in 2021). The survey questions for "borrowers doing at least OK financially" were "Overall, which one of the following best describes how well you are managing financially these days?" with the options "finding it difficult to get by, just getting by, doing okay, living comfortably." The survey question for "how borrowers are doing in 2021 compared with 2019" was "Compared to two years ago (2019), would you say that you (and your family) are better off, the same, or worse off financially?" with the options "much worse off, somewhat worse off, about the same, somewhat better off, much better off."

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Acknowledgments

This essay was funded by the Walton Family Foundation and the Bill & Melinda Gates Foundation as part of the Learning Curve essay series. We are grateful to them and to all our funders, who make it possible for Urban to advance its mission.

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