CONGRESSIONAL BUDGET OFFICE
U.S. Congress
Washington, DC 20515

Phillip L. Swagel, Director

September 26, 2022

Honorable Richard Burr
Ranking Member
Committee on Health, Education,
Labor, and Pensions
United States Senate
Washington, DC 20510

Honorable Virginia Foxx
Ranking Member
Committee on Education
and Labor
U.S. House of Representatives
Washington, DC 20515

Re: Costs of Suspending Student Loan Payments and Canceling Debt

Dear Members of Congress:

This letter responds to some questions you asked about the effects of President Biden's August 24, 2022, announcement on executive actions affecting student loans.

- The cost of outstanding student loans will increase by $20 billion because an action suspended payments, interest accrual, and involuntary collections from September 2022 to December 2022, the Congressional Budget Office estimates. That present-value cost is relative to the amounts in CBO's May 2022 baseline projections.[1]

- After accounting for those suspensions, CBO estimates that the cost of student loans will increase by about an additional $400 billion in present value as a result of the action canceling up to $10,000 of debt issued on or before June 30, 2022, for borrowers with income below specified limits and an additional $10,000 for such borrowers who also received at least one Pell grant.

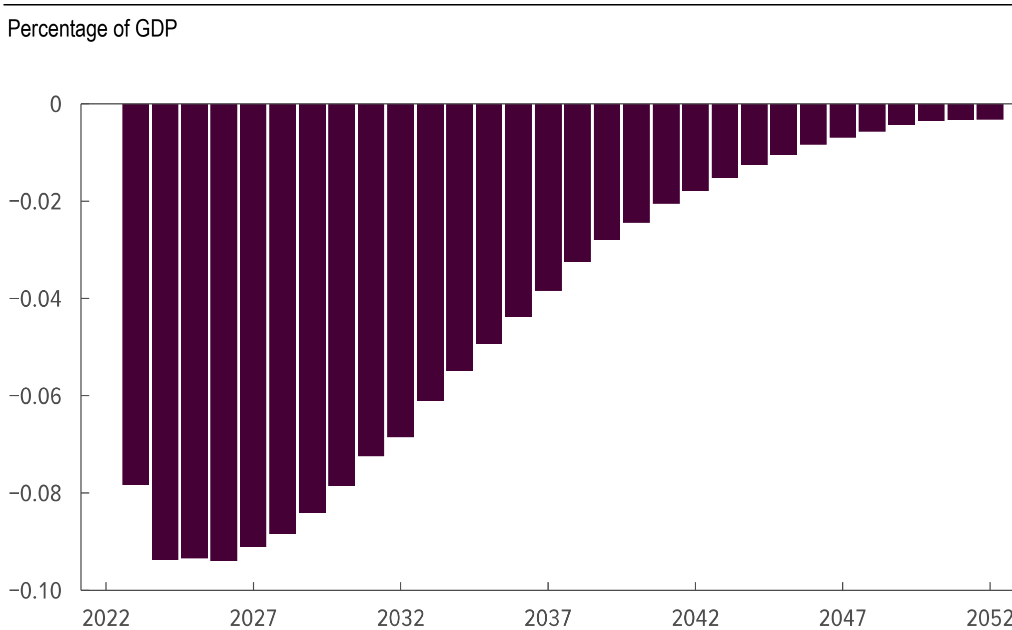
CBO continues to analyze the executive actions and will publish additional estimates as soon as they are completed. The estimates presented here do not include any effects of the actions affecting income-driven repayment plans, any other changes in loan terms, or effects on loans issued after June 30, 2022. The present values of expected reductions of cash inflows to the Treasury are calculated by discounting those flows as specified by the Federal Credit Reform Act (FCRA).[2] They rely on information available as of today about the executive actions, though more may become available when the application for canceling debt is published.[3]

The cost of debt cancellation is the present value of the borrowers' projected repayments of student debt before accounting for the cancellation minus the present value of repayments after doing so. As specified by FCRA, the costs of payment suspension and of debt cancellation will be recorded by the Office of Management and Budget in the federal budget as an increase in the deficit during the fiscal year in which the terms of the loans are modified. CBO will report those amounts in its *Monthly Budget Review* after they are recorded.

Reduced cash inflows to the Treasury will increase the amounts that the federal government borrows over time. The effects on cash inflows—which are used to calculate the present values—will occur over roughly the next 30 years, as loan repayments will be smaller than they would have been otherwise (see Figure 1).[4] In 2023, for example, repayments will be reduced by about 0.08 percent of gross domestic product (GDP), CBO estimates.[5] By comparison, in CBO's May 2022 baseline projections, the federal deficit in 2023 is 3.75 percent of GDP.

Figure 1.

Effects of Payment Suspension and Debt Cancellation on the Repayment of Student Loans Relative to CBO's May 2022 Baseline Projections



Data source: Congressional Budget Office.

The repayments are nominal cash flows divided by GDP, not discounted values. GDP = gross domestic product.

As of June 30, 2022, 43 million borrowers held $1.6 trillion in federal student loans.[6] About $430 billion of that debt will be canceled, CBO estimates. In its May 2022 baseline, CBO projected that for many borrowers in income-driven repayment plans, a portion of the amounts canceled through executive action would eventually be forgiven anyway. CBO also projected that many borrowers in fixed-length repayment plans would accrue and pay interest on the principal amounts canceled through executive action. Because of the executive action, those borrowers will now pay less in principal and interest than the amounts estimated in the baseline.

CBO's projections of costs depend in part on the number of borrowers with income below the specified limits, the number of those borrowers who received a Pell grant, the fraction of eligible borrowers who apply for debt cancellation, and the balances on those borrowers' loans. For the roughly 37 million borrowers with direct loans from the federal government, CBO made the following estimates, which are approximate:

- 95 percent of borrowers meet the income criteria for eligibility,
- 65 percent of income-eligible borrowers have received at least one Pell grant,
- 90 percent of income-eligible borrowers will apply for debt cancellation, and
- 45 percent of income-eligible borrowers will have their entire outstanding debt canceled.

For this analysis, CBO used administrative data on a representative sample of borrowers from the National Student Loan Data System. The agency supplemented that information with other data as inputs for projections of borrowers' lifetime earnings and repayment of loans.[7]

CBO's estimates are highly uncertain. The most uncertain components are the projections of how much borrowers would repay if the executive action canceling debt had not been undertaken and how much they will repay under that executive action. Those projections depend in part on future economic conditions and on how the terms of loans might be modified in the future. CBO will incorporate updated information about those factors in its baseline projections early next year.

I hope this information is helpful to you. Please let me know if you have any further questions.

Sincerely,

Phillip L. Swagel
Director

cc: Honorable Patty Murray
Chair
Senate Committee on Health, Education, Labor, and Pensions

Honorable Bobby Scott
Chairman
House Committee on Education and Labor

[1] A present value is a single number that expresses a flow of current and future income or payments in terms of an equivalent lump sum received or paid at a specific time. The value depends on the rates of interest, known as the discount rates, used to translate future cash flows into current dollars.

[2] FCRA specifies the discount rates as the rates on Treasury securities with similar terms to maturity.

[3] For details about the plans for debt cancellation, including the types of loans that are eligible, see Alexandra Hegji, *The Administration's Newly Announced Student Loan Debt Cancellation Policy*, Report IN11997, version 4 (Congressional Research Service, September 12, 2022), https://tinyurl.com/yc27b3cj. Borrowers are eligible if their annual income in 2020 or 2021 was less than $125,000 (for individuals or married borrowers who file their federal income taxes separately) or $250,000 (for married couples filing jointly or heads of households). Current dependent students will be eligible for cancellation on the basis of parental income.

[4] The Administration has estimated the dollar reduction in repayments from 2023 to 2032; for the sake of comparison, CBO has translated that estimate to an average percentage of GDP (using its May 2022 projection of GDP): 0.08 percent. See Office of Management and Budget, "Assessing Debt Relief's Fiscal and Cash-Flow Effects" (*The White House Briefing Room Blogs*, August 26, 2022), https://tinyurl.com/4hyktz4h. CBO also estimates that repayments will be reduced by an average of 0.08 percent of GDP over that period.

[5] In 2023, CBO estimates, cash flows to the Treasury will be reduced by about 0.2 percent of GDP because of the executive actions. About two-thirds of that amount is estimated to occur for reasons other than the reduction in repayments: refunds of previous payments to borrowers who made payments during the pandemic (when the requirement for payments was suspended) on debt that will be canceled under executive action, as well as outflows for consolidation loans, for borrowers who consolidate private loans obtained through the Federal Family Education Loan program so that their debt will be canceled under executive action. The initial consolidation of private loans into direct federal loans will increase federal debt held by the public but not federal debt net of financial assets, because the federal government will acquire assets equal in present value to their cost.

[6] For information about how the volume of student loans has changed over time, see Congressional Budget Office, *The Volume and Repayment of Federal Student Loans: 1995 to 2017* (November 2020), www.cbo.gov/publication/56706.

[7] For a technical description of CBO's modeling, which was originally developed to analyze income-driven repayment plans, see Nadia Karamcheva, Jeffrey Perry, and Constantine Yannelis, *Income-Driven Repayment Plans for Student Loans*, Working Paper 2020-02 (Congressional Budget Office, April 2020), www.cbo.gov/publication/56337.