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# Necessary Relief: Substantial Cancellation Will Ease the Burden of Unaffordable Student Debt (and Boost the Economy)

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# Executive Summary

The student debt crisis has been building for decades, and millions of families have seen their dreams derailed by unaffordable debt repayment burdens that block their path to financial stability. As college costs rose, students had to take on increasing amounts of debt to pay for higher education. At the same time, state student financial aid offerings were drastically reduced, forcing students and families into long term debt that often grew to be unaffordable over time.

Due to longstanding discrimination, students and families of color have less personal, family, and intergenerational wealth, forcing them to take on more college debt. Many were targeted by predatory for-profit educational institutions that saddled them with debt while providing a substandard education that did not increase their job prospects or earning power. Graduates of color from traditional colleges carried more debt and often faced diminished job prospects, especially over the course of the Great Recession and the Covid pandemic. For example, today Black women hold median student debt burdens that are two-thirds higher than for white men. Yet due to pervasive pay discrimination, even highly educated Black women earn only 65 cents for every dollar earned by white males.[1]

Pay disparities are one reason much of the more than $1.7 trillion of student debt outstanding cannot be repaid. This debt burden prevents millions of American taxpayers from meeting day-to-day family needs, much less buying a home or starting businesses. It also depresses our overall economy, at a time when we badly need to boost and expand sources of economic growth.

The huge obstacle created by this massive debt requires a commensurate intervention. To provide relief to the families and the overall economy, a substantial portion of student debt must be cancelled. Various proposals have called for debt relief ranging from $10,000 to $50,000 per borrower. This report analyzes the impact of such cancellation, adding analyses from two new data sources: a panel of credit records for more than 360,000 student borrowers[2] and focus group analysis of women from across the country who had either voluntarily or involuntarily cut back their work hours or quit their jobs during the Covid-19 pandemic; and new analyses from the 2019 Survey of Consumer Finances (SCF).[3]

The findings confirm that:

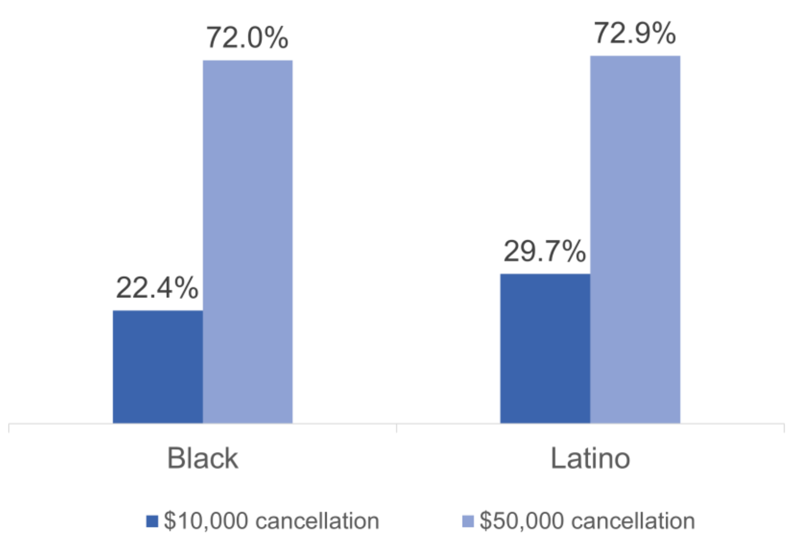
- Millions of families – despite diligently repaying their debts for a decade or more – remain trapped in unaffordable and growing debt balances. This is particularly the case for borrowers of color.
- When the temporary relief of the latest student loan payment pause ends, up to 15 million borrowers are projected to experience tremendous hardship.
- Cancelling $50,000 of student debt would deliver meaningful relief to a substantial number of borrowers caught in the student debt trap, eliminating debt for 72% of Black and Latino taxpayers and relieving a major source of racial wealth inequity.
- In contrast, cancelling the bare minimum of $10,000 only would reduce 22% of Black student debt, and 28% of Latino student debt.

## Findings

Higher levels of debt cancellation will benefit low-wealth and middle-income Americans who need it most – particularly Black and Latino borrowers.
Figure 1 sets out the impact on Black and Latino borrowers. Cancelling $10,000 of federal student loans forgives only 22% of Black borrowers' federal student loan debt and 28% of Latino debt. In contrast, cancelling $50K forgives more than 70% of these groups' student loan debt.

**Figure 1:** $50,000 in Federal Student Loan Forgiveness Triples the Amount of Relief for Borrowers of Color

Percentage of Federal Student Loans Forgiven by $10,000 and $50,000 Loan Cancellation by Race



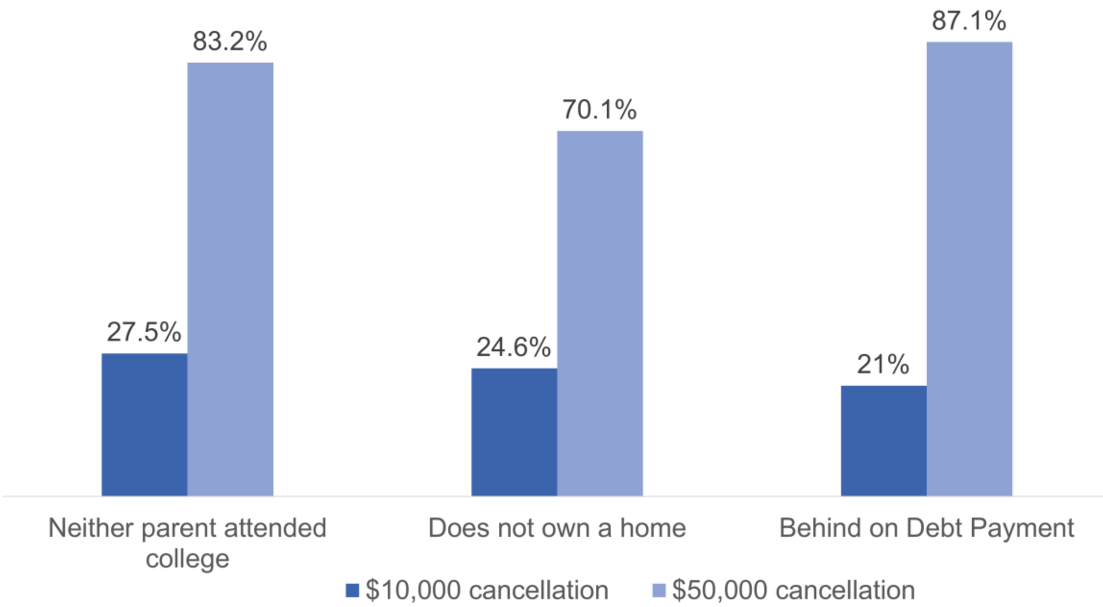

Source: CRL analysis using 2019 Survey of Consumer Finances

The 2019 Survey of Consumer Finances data also includes respondent details that allowed us to examine the impact of debt cancellation on three groups particularly constrained by high levels of student debt: first-generation college students; those who do not own a home; and those who are behind on student debt payments.

Our analysis shows that different levels of cancellation provided drastically different levels of relief. For first generation college students – those for whom neither parent attended college – $10,000 of cancellation relieved just over 25% of their debt, while $50,000 ended over 80% of the outstanding college debt for this group. Similar results were found for those who do not own a home, with about 25% of the debt eliminated at $10,000 and 70% at $50,000. Importantly, for the many borrowers who are in arrears on their debt, an even larger differential was found, with 21% of debt covered by $10,000 of cancellation and 87% at $50,000 cancellation.

**Figure 2**: $50K in Federal Student Loan Forgiveness Eliminates the Vast Majority of Student Loan Debt for Economically Vulnerable Borrower Groups

Percentage of Federal Student Loans Forgiven with $10,000 and $50,0000 Cancellation per Borrower by Subgroup

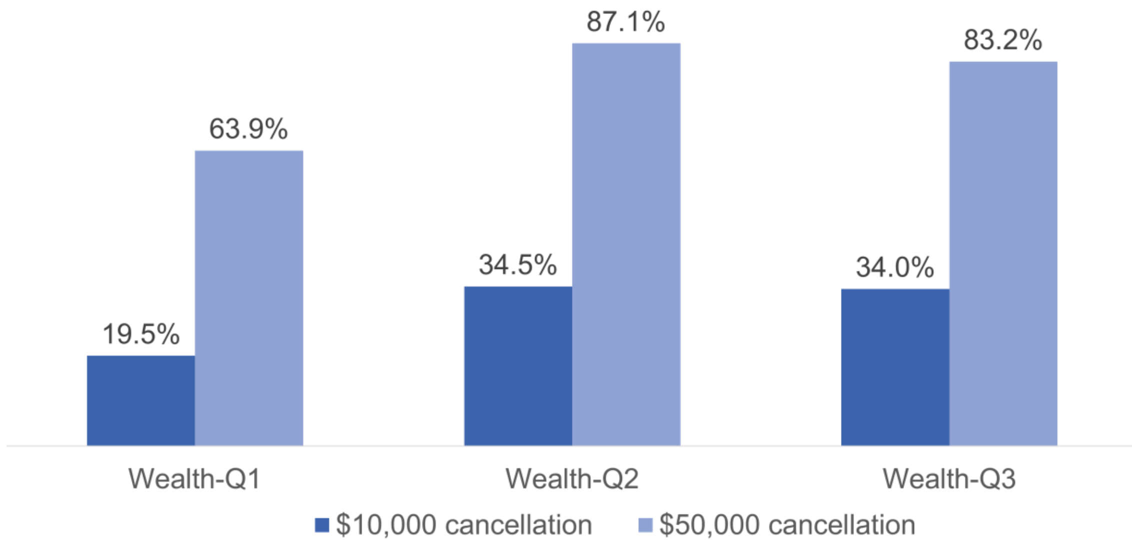



Source: CRL analysis using 2019 Survey of Consumer Finances

Finally, the data show dramatic differences in the impact of different levels of debt cancellation for low-wealth borrowers. For borrowers with up to $34,616 of wealth (total net assets minus total debt), $10,000 of cancellation relieves less than 20% of the outstanding debt, where $50,000 of cancellation provides relief for 64% of the debt. The same applies for working and middle-class families with wealth $34,616 to $84,504 of wealth, with 34% of debt relieved with $10,000 and about 85% at $50,000. This larger forgiveness value would help ensure that the vast majority of borrowers from working class and middle-class backgrounds are not saddled with student loan debt in the future and would reduce the racial wealth gap.

**Figure 3:** For Individuals in the Lowest Wealth Quintile, $10,000 Student Loan Cancellation Forgives Only One Fifth of their Federal Student Loan Debt

Percentage of Federal Student Loans Forgiven with $10,000 and $50,0000 Cancellation per Borrower by Wealth Quintile




Source: CRL analysis using 2019 Survey of Consumer Finances

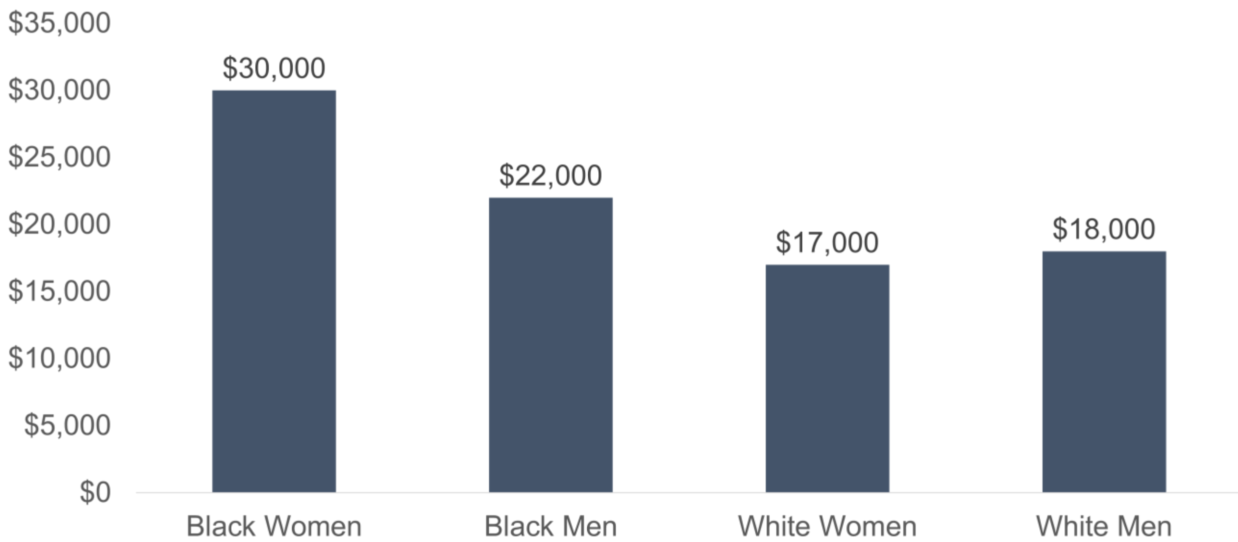
This significantly different impact is due to the fact that borrowers of color, and particularly Black borrowers, hold a disproportionately large level of debt.

## 1. Black borrowers, and particularly Black women, hold higher levels of debt and face additional obstacles to repayment.

To understand why higher levels of student loan debt cancellation will have the greatest impact for borrowers of color and low-wealth borrowers, it is first necessary to examine who holds the majority of student loan debt. Since Black families have less accumulated wealth than white families, Black students are disproportionately likely to take out student loans to finance their education. Black people make up 12% of the U.S. population yet hold over 22% of federal student loan debt. CRL analysis of SCF data finds that Black borrowers have higher levels of outstanding debt, and Black women have the highest median federal student loan debt balance, 40% higher than white men (see Figure 4).

**Figure 4:** The Median Black Woman Borrower Has $30,000 in Federal Student Loan Debt, $12,000 More than White Men

Median Amount of Federal Student Loan Owed by Race and Gender




Source: CRL analysis using 2019 Survey of Consumer Finances

## 2. Student debt is concentrated in lower wealth households.

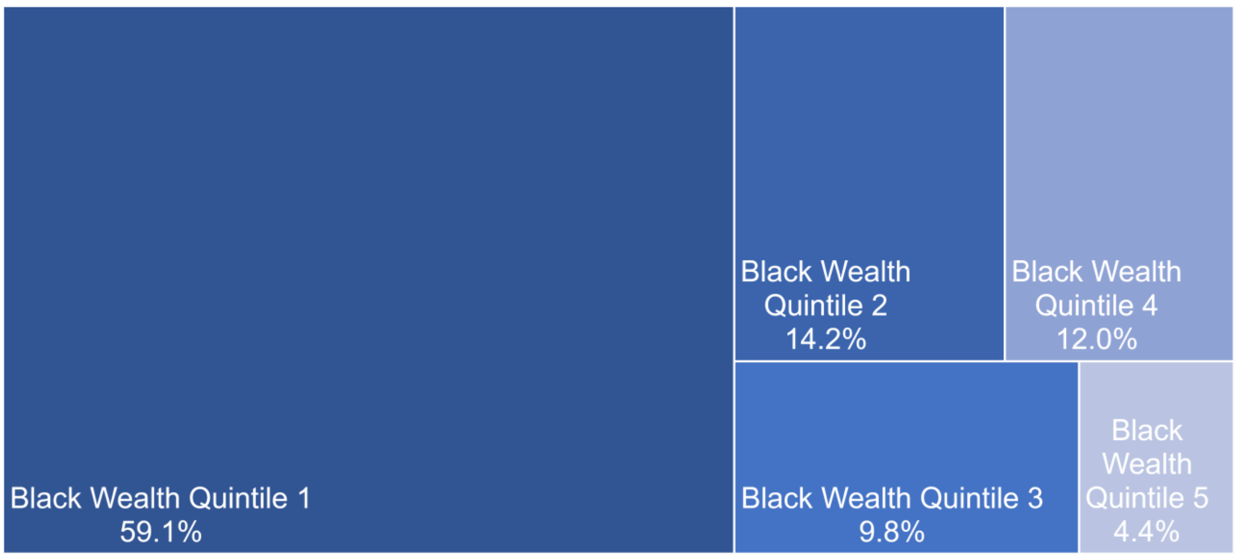
Student borrowers in the lowest quintile by wealth hold the majority of federal student debt, and this is particularly true for Black borrowers. Analyzing 2019 SCF data, CRL found that more than half of federal student loan debt is held by borrowers with a net worth less than $6,370. In fact, more than one third of student loan borrowers in the lowest wealth quintile, whose net worth is less than $6,370, have more than $50,000 in federal student loan debt.[18] These borrowers with unsustainable levels of student debt and little to no wealth are likely to be among the fifteen million borrowers projected to struggle with student loan repayment once the federal payment pause ends.[4]

CRL analysis of SCF data has found that the median federal student loan debt for borrowers in the lowest wealth quintile ($30,000) is twice as high as the median federal student loan for borrowers in the highest wealth quintile ($15,000). Because lower wealth borrowers have higher debt levels, $10,000 of student loan cancellation is insufficient to address the financial hardships experienced by low-wealth student loan borrowers.

This concentration of debt in the lowest wealth quintiles is even more pronounced for Black households. Black individuals in the lowest wealth quintile hold over half (59%) of all Black student debt and 13% of all federal student loan debt. Low-wealth Black borrowers hold a disproportionate amount of student debt, largely because of compounding racial inequities in wealth accumulation due to systemic racially discriminatory policies that made it harder for Black families to gain access to credit, buy a home or start their own business. Consequently, when Black students decide to pursue postsecondary education, most must take out loans, as opposed to having financial support from family, to finance their degree. Over half of all families with Black heads of household aged 25–40 have student debt, and 85% of Black graduates in 2016 took on debt to finance their undergraduate degree.[5] Moreover, because Black students are more likely to enroll in for-profit academic institutions with lower degree completion rates,[6] they often are forced to repay debt for an education that did not provide an earnings boost.[7]

**Figure 5:** Black Student Loan Borrowers in the Lowest Quintile of Wealth Hold More than Half of Federal Loan Debt Held by Black Borrowers

Share of Federal Student Loans Held by Wealth Quintile for Black Student Loan Borrowers




Source: CRL analysis using 2019 Survey of Consumer Finances

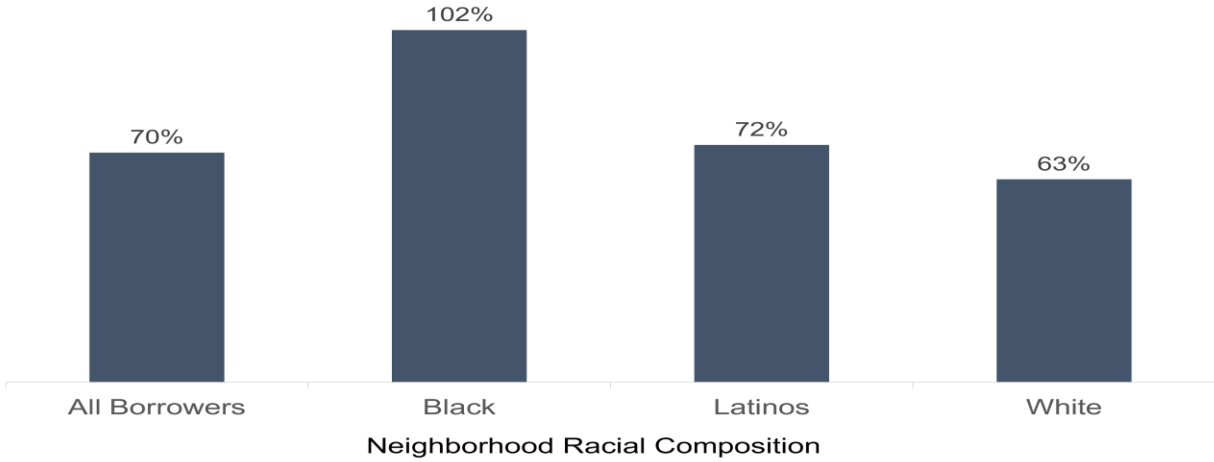
Higher levels of education debt contribute to the widening of the racial wealth gap for people under 35. Black families whose primary economic unit (PEU)[8] is under 35 years old have a median net worth of only $600. This is the prime age to buy a first home, have children, or consider starting a business.[9] With nearly zero accumulated wealth, and needing to repay student loans, Black young families are excluded from these opportunities.

## 3. Student debt also adversely impacts neighborhoods of color.

When we analyzed data from one of the three main credit bureaus in the United States,[10] we find borrowers living in Black-majority neighborhoods as most impacted by student debt. The data illustrate that these borrowers experience, on average, the worst ratios of student debt to income compared to those residing in other neighborhoods. The average student debt balance represents 102% of the average household income in Black neighborhoods, nearly double that of households in white neighborhoods.

**Figure 6:** The Financial Burden of Student Loans Disproportionately Weighs on Borrowers in Black Neighborhoods

Percentage of Student Debt Balance Relative to Income by Neighborhood Racial Composition



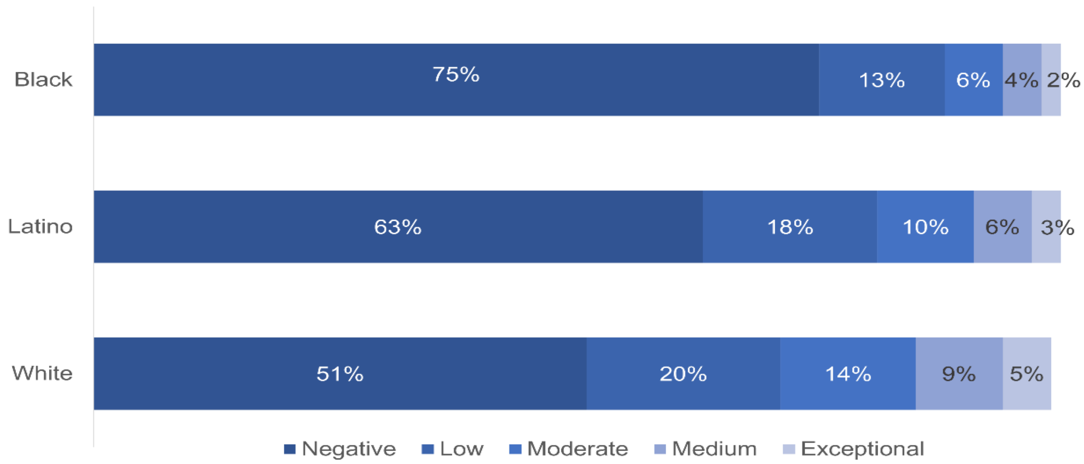

Source: CRL analysis using Experian credit reporting data

## 4. Student debt is held by borrowers who have struggled for many years.

A pernicious feature of student debt is that accruing interest is added to the principal balance of loans, resulting in growing principal balances and increased interest accruing on that growing balance. In line with previous research, we find in the credit bureau data that Black borrowers are much more likely to experience this negative amortization. Nearly 75% of Black borrowers and 63% of Latino borrowers see their student loan balances grow rather than shrink, compared to 51% of white borrowers (Figure 7).[11]

**Figure 7: 75% of Black Borrowers Have Student Loan Balances That Exceed the Original Amount Borrowed**

Student Loan Balance Status Determined by Ratio of Current Loan Balance to Principal Borrowed, by Race of Borrower




Source: CRL analysis using Experian credit reporting data

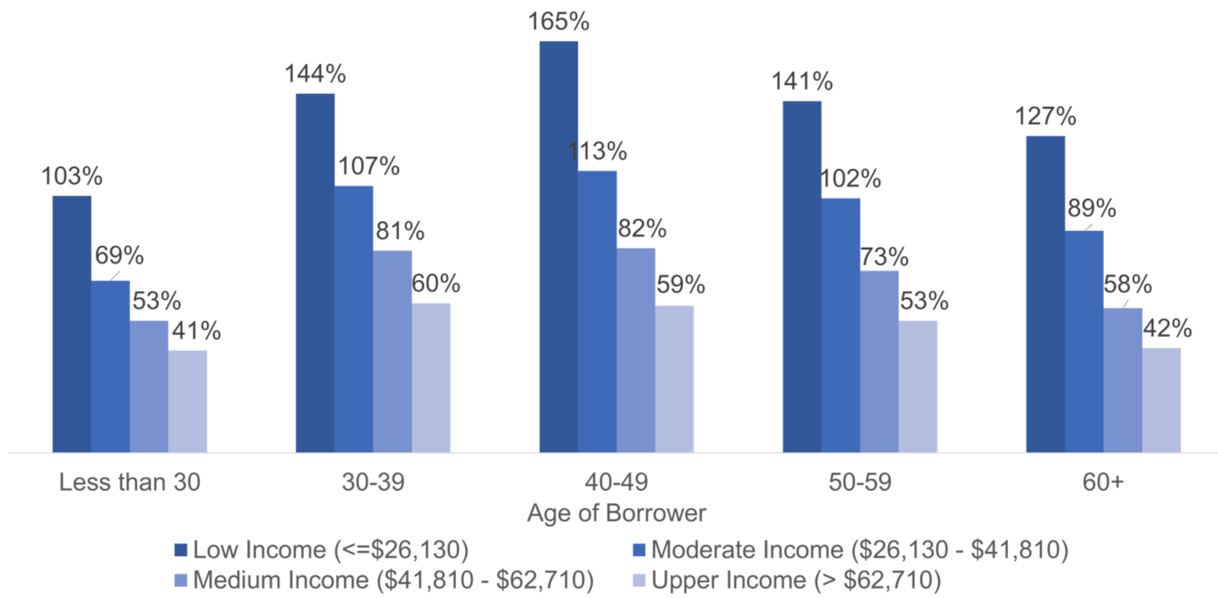
## 5. Student burdens families for decades, with middle age low-income borrowers carrying the greatest debt as a percentage of income.

Like most Americans, many older borrowers also incur debt to improve their employment prospects and to equip themselves with fresh skills as more Americans are retiring later in life (or not at all). The student debt trap is especially insidious for older borrowers who often face persistent discrimination, even after pursuing higher education to update their skills and already struggle to afford basic needs such as necessary health care.[12],[13] Even worse: A growing number of older borrowers have had a portion of their Social Security retirement or disability benefits seized for nonpayment of federal student loans. The Government Accountability Office (GAO) reported that 114,000 older borrowers suffered such garnishments in 2015. The typical garnishment was just over $140 a month. And nearly half of defaulted borrowers were subject to the maximum garnishment, or 15% of their Social Security benefit.[14]

The findings below show that the low-income senior citizens carry, on average, a student debt balance representing 127% of their income, reflecting the reality for many borrowers that student loans can turn into a lifelong burden and weaken retirement security (Figure 8).

**Figure 8:** Student Debt Imposes the Heaviest Burden on Middle-Aged Borrowers from Low-Income Backgrounds

Student Debt Balance Relative to Income by Neighborhood Income

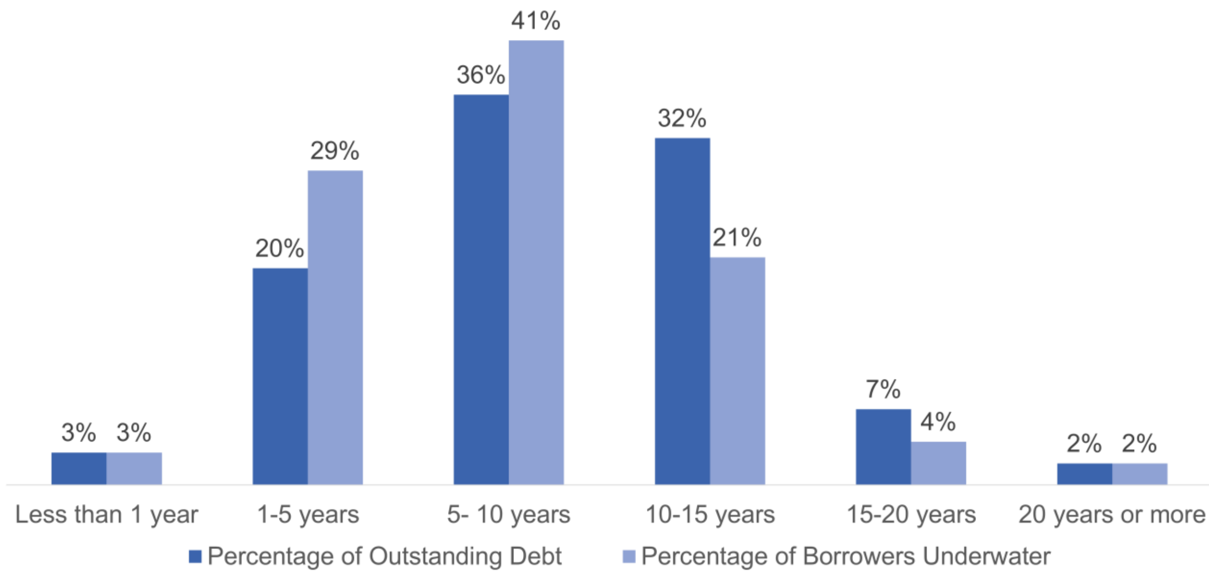



Source: CRL analysis using Experian credit reporting data

To investigate the prevalence of older student loans on a broader scale, first, the data were broken down by age of the first loan taken out by each borrower. Then, the data were analyzed based on the oldest student loan taken out by each borrower. Figure 9 displays the percentage of outstanding student loan debt by age and the percentage of borrowers underwater – owing more than their original balance due to interest amortization – found in each loan age subgroup. Over a quarter (27%) of borrowers who are underwater had taken out their first student loan more than a decade ago were still in the repayment cycle. These borrowers carrying over-10-year-old loans collectively owe nearly 40% of the aggregate student debt balance.

**Figure 9:** More than 40% of Aggregate Student Debt Balance is Comprised of Loans Ten Years and Older

Distribution of Outstanding Student Debt and Underwater Borrowers by Age of First Loan



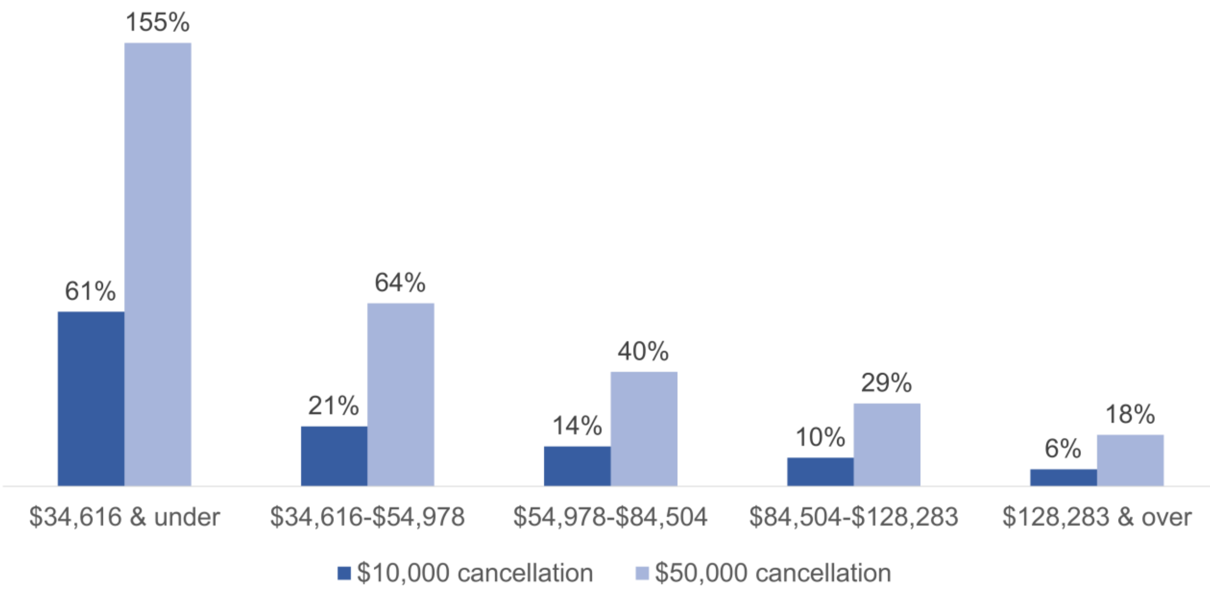

Source: CRL analysis using Experian credit reporting data

## 6. Black and Latino borrowers and lower income households receive the greatest relief from cancellation on their monthly household budgets.

The impact of different amounts of debt cancellation was analyzed for its effect on borrowers at different income levels. The impact is calculated as the percentage of debt relieved as a percentage of the household's income. This reflects how much debt would be forgiven in comparison to the total household annual income across different income quintiles. As shown in Figure 10 below, the cancellation relief is a large percentage of the annual household income for the lower income quintiles, and it is a small percentage at the higher income quintiles. This demonstrates the tremendous immediate financial relief cancellation provides for lower income households, and the even greater value at higher amounts.

**Figure 10: Student Loan Cancellation Relief is Greatest for Borrowers in the Lowest Income Quintile**

Percentages Represent the Amount of Student Debt Cancelled as a Share of Household Income, Disaggregated by Household Income Quintile




Source: CRL analysis using 2019 Survey of Consumer Finances

## 7. The impact of student debt on families documented through focus groups.

In addition to the statistical analyses above, CRL also conducted focus groups of student loan borrowers to gain insights into the impact of student debt on their lives. The focus groups were conducted by the Farkas-Duffett Research Group (FDR) and included focus groups with 33 women from across the country who had either voluntarily or involuntarily cut back their work hours or quit their jobs during the Covid-19 pandemic. Student loan debt burdens remain at staggering levels, despite the payment pause. Black women and Latina borrowers typically have higher student loan balances than white women, making repayment more difficult. Although the focus group participants found the student loan payment pause helpful, they worry about their ability to start paying again once payments resume. Because of the difficulties faced repaying their student loans, women are reluctant to incur more student loan debt– for themselves or their children.

*"I'm only letting my son apply to a school where he won't have student loans. If he goes to a school needing loans, he's completely on his own. I'm not helping him…He can't go. He knows. He's very smart. He's looking forward to going to college. My only condition is because of the debt I accumulated for myself I'm trying to prevent that for him." (Jasmine, NY)*

## Borrower Profile: Kay

Kay and her husband were both furloughed during the pandemic, and he eventually lost his job. Kay works at a department store and has a newborn, for whom she incurred over $15,000 in medical bills. She works unpredictably long shifts that sometimes end later than midnight. Working late is not enough; she has maxed out multiple credit cards to help make ends meet. To simultaneously work and care for her newborn, Kay said she has been "basically begging" different daycares to admit her daughter, but due to capacity, age requirements, and affordability, Kay has not found a suitable option. Instead, Kay relies upon various family members' support in supervising her young child. Kay carries approximately $70,000 in public and private loans. She has continued making payments for the outstanding private loan. When asked why she took out the private loan, she said she only needed it in her last months of school to pay for "a couple of courses I had to take." Since earning her degree, she has been unable to find a job that is in the same field. Her husband also has student debt. Kay is extremely worried about the payment restart, saying "I can either pay student loans or I can have a car."

## Conclusion

The student loan debt crisis was precipitated by a misleading promise of economic success in exchange for completing a postsecondary education. Because of longstanding racial inequities in intergenerational wealth, Black student loan borrowers hold a disproportionate share of student loan debt. Black borrowers in the lowest wealth quintile hold the highest share of debt and the majority of federal student loan debt is held by the lowest wealth households.

The ability to earn more and have greater job security comes at a cost for those who cannot afford a postsecondary education – going into debt. Student debt is a significant drag on the entire economy as it depresses the purchasing power of millions. Burdened with immense student loan debt, a generation of Americans are putting off starting a business, buying a home, or starting a family as they struggle to repay their education debt.

Strong evidence from multiple sources makes clear the tremendous value of $50,000 of student loan forgiveness for the majority of affected Americans. CRL analysis found that $50,000 of federal student loan cancellation will fully cancel the federal student loan debt of 22.7 million borrowers, and will provide sizeable relief for far more Black, low-wealth, older, already behind on debt, first generation college students, and non-homeowners. It more than triples the amount of forgiveness for the lowest wealth borrowers and wipes out most of the outstanding federal student loan debt for borrowers that belong to historically marginalized groups.

Cancellation of $50,000 of federal student debt would offer the greatest benefit for borrowers who most need the relief. It will reduce the racial wealth gap that has been brought forth by longstanding systemic racially discriminatory policies. Cancellation offers a chance to help working families recover from bad policy decisions that burdened millions of taxpayers with unsustainable levels of debt.

[1] https://www.epi.org/publication/black-white-wage-gaps-expand-with-rising-wage-inequality/#epi-toc-6

[2] Credit reporting data include individual-level records as of December 2017 for 360,000 individuals in the Orlando MSA with an outstanding student debt. Since these data do not include borrower race based on Equal Credit Opportunity Act requirements, we imputed student borrower race based on the borrowers' location and assigned them the predominant racial group of their census tract.

[3] Notably, the SCF "almost certainly systematically understates how much student debt is carried by low-income individuals." https://www.peoplespolicyproject.org/2019/06/27/low-income-people-have-more-student-debt-than-realized/.

[4] Student Loan Borrowers Potentially At-Risk when Payment Suspension Ends (consumerfinance.gov)

[5] Demos. "African Americans, Student Debt, and Financial Security." Washington DC: Demos. Available at https://www.demos.org/sites/default/files/publications/African%20Americans%20and%20Student%20Debt%5B7%5D.pdf; U.S. Department of Education. National Postsecondary Student Aid Study (NPSAS), 2016. Available at https://nces.ed.gov/surveys/npsas/.

[6] https://www.responsiblelending.org/research-publication/state-profit-colleges

[7] https://www.responsiblelending.org/sites/default/files/nodes/files/research-publication/crl-florida-debt-disillusionment-l-aug2018.pdf

[8] In the SCF, a household unit is divided into a primary economic unit (PEU) -the family-and everyone else in the household. The PEU is intended to be the economically dominant single person or couple (whether married or living together as partners) and all other persons in the household who are financially interdependent with that economically dominant person or couple: https://www.federalreserve.gov/publications/2020-bulletin-changes-in-us-family-finances-from-2016-to-2019.htm. Respondents specified whether student debt was for their own, their spouse's or child's education. So, we assigned the debt to the individual for whom the postsecondary education was linked. Doing so enables us to treat households that likely have multiple borrowers as each being eligible for loan forgiveness. And this is particularly important because 14% of households with over 10K in total federal student debt likely have more than one debt holder, and 30% of households with over 50K of federal student debt do.

[9] The Fed - Disparities in Wealth by Race and Ethnicity in the 2019 Survey of Consumer Finances (federalreserve.gov); also CRL analysis of SCF 2019.

[10] This analysis uses data obtained from Experian, one of the three main credit bureaus in the United States, to examine the extent of the student debt crisis in the Orlando Metropolitan Statistical Area (MSA) and to model the impact of student debt cancellation. Orlando's population largely matches the nation by age and sex. In terms of race and ethnicity, it has about 14 percent fewer whites, 4 percent more Blacks, and 13 percent more Latino or Hispanics than the nation. Approximately 360,000 individuals in the Orlando MSA with an outstanding student debt were included in the database supplied by the credit reporting company. Specifically, Experian provided the entire credit record of each of these individuals, excluding any identifying information, as of December 2017.

[11] The analysis quantifies student debt repayment success by looking at borrowers in the repayment cycle and computing a ratio of their original amount borrowed to their current debt balance. A ratio of 0.5 suggests that a borrower has paid down half of the initial debt, while a ratio of 1 or higher suggests that the borrower's current loan balance is higher than the initial debt amount. To simplify the figure, we assigned the repayment success variable a qualitative category. If the repayment ratio reads "Exceptional," for example, it corresponds to a value less or equal to 0.25. Exceptional ratio <=0.25; Medium 0.25>ratio<=0.50; Moderate: 0.50>ratio<=0.75; Low: 0.75>ratio<=1; Negative: ratio>1.

[12] Zacher, H. & Steinvik, H. 2015. "Workplace Age Discrimination." *The Encyclopedia of Adulthood and Aging.*

[13] Snapshot of older consumers and student loan debt Office for Older Americans & Office for Students and Young Consumers. Consumer Financial Protection Bureau. January 2017. https://s3.amazonaws.com/files.consumerfinance.gov/f/documents/201701_cfpb_OA-Student-Loan-Snapshot.pdf

[14] Khalfani-Cox, L. 2017, April 18. "Student Debt Sinks Retirees." *AARP.* https://www.aarp.org/money/credit-loans-debt/info-2017/student-loans-debt-repayment-retirement.html?msclkid=3087e784ce5411ecb2134d70cade6f0d