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Federal Student Loan Debt Cancellation: Policy Considerations

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Federal Student Loan Debt Cancellation: Policy Considerations

SUMMARY

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Outstanding federal student loan debt exceeds $1.6 trillion and is owed by approximately 45 million borrowers. While numerous federal student loan repayment and forgiveness programs that provide targeted relief to individuals in certain circumstances currently exist, proposals for broader scale student loan debt relief—including cancellation of all or a portion of federal student loan debt—have gained considerable attention in recent years.

Roughly 63% of the U.S. population over the age of 25 has at some time enrolled in some level of postsecondary education, and a subset of those individuals (approximately 17% of the U.S. population aged 18 or older) borrowed federal student loans. Thus, a policy to broadly cancel federal student loan debt would directly apply to a discrete segment of the U.S. population. If a policy of cancelling up to $10,000 per borrower were implemented, about 15 million existing borrowers (33%) would have the entirety of their debt from their Higher Education Act (HEA) Title IV student loans (the primary federal student loan programs) eliminated; if the policy's threshold were $50,000 per borrower, about 36 million borrowers (80%) would have the entirety of their Title IV student loan debt eliminated. Depending on the specific policy under consideration, different student loan borrower populations may be affected in varying ways.

Cancelling some amount of federal student loan debt would alleviate loan repayment burdens for qualifying borrowers, but depending on the policy design and individual borrower circumstances, borrowers may experience different levels of relief, possibly resulting in different effects on their personal finances. Loan cancellation policies may also affect an individual's decision to borrow student loans in the future; some have argued that it may create a moral hazard for borrowers in which they have less incentive to mitigate the risk associated with student loan borrowing.

Broad-based student loan cancellation would have significant implications for the federal budget. A primary determinant of the cost to the government would be the total amount of student loan debt to be cancelled. Other cost determinants would include how the loan cancellation policy was to be effectuated, associated administrative costs, and borrower behavior.

Cancelling federal student loan debt may have implications for the federal student loan system. Cancelling a large swath of student loan debt may raise fundamental questions about student loans' role in the federal financial aid strategy. Additionally, even with a broad cancellation effort, factors that have been cited as contributing to the current amount of outstanding student loan debt, such as increasing college prices and the increasing availability and utilization of student loan repayment plans that allow borrowers to make monthly payments of less than the interest that accrues on their loans (negative amortization), may continue to exist without congressional or administrative action. Thus, loan cancellation, particularly a one-time cancellation effort, might not address underlying issues relating to unmanageable amounts of student loan debt. Broadly available student loan cancellation may also present administrative difficulties, particularly if loans held by nonfederal loan holders are included in a cancelation effort.

Some recent research suggests that policies to provide across-the-board loan cancellation may result in higher-income households receiving a higher share of loan cancellation benefits than lower-income households in terms of total dollar amounts cancelled and savings in annual debt service payments. Other research, examining potential effects on wealth inequality, shows mixed evidence on the potential effects of student loan cancellation.

Some original analyses presented in this report to complement existing research focus on longitudinal data from a 12-year follow up on the cohort of borrowers who started postsecondary education in academic year 2003-2004. These analyses suggest that certain groups of borrowers (Black, American Indian, and lower income Title IV student loan borrowers) have made less progress in paying down the original principal amount of their student loan debt when compared with borrowers of other races or ethnicities or household income levels. Among other findings, these analyses also suggest that individuals who borrowed larger amounts were less likely to have made progress in paying down the original principal amount borrowed than borrowers with lower principal amounts. These analyses also suggest that while 26% of borrowers had no remaining loan balance, among those with outstanding loans a large share (60%) had an outstanding balance greater than 90% of the original amount borrowed.

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Outstanding student loan debt exceeds $1.6 trillion and is owed by about 45 million borrowers.[1] Currently, some federal student loan repayment and loan forgiveness programs provide targeted relief to individuals for fulfilling employment service requirements or following prolonged periods when a borrower's student loan debt burden is high compared to their income.[2] However, policies that would provide for broader scale student loan debt relief—including cancellation of all student loan debt—have gained considerable attention in recent years.[3] Proposals in Congress[4] and varied stakeholders[5] have called for providing varying degrees of large-scale student loan debt cancellation to borrowers.

Should Congress explore providing student loan debt cancellation benefits that are broader in scale than what is currently available, several policy considerations may arise. This report discusses some of those considerations. It begins with an overview of the various student loan programs authorized and operated by the federal government and defines student loan *cancellation* as the term is used throughout the report. It then presents data on student loan borrowers and their characteristics. These data are followed by a presentation of recent existing research on the potential effects on borrowers of varied loan cancellation proposals and original analyses to complement the existing research. The final sections of the report discuss how widely available student loan debt relief may affect major stakeholders in the federal student loan programs. Key themes explored include the implications of varied loan cancellation policies for

- individual borrowers, such as potential effects on borrowers' loan repayment burdens, personal finances, and potential for future student loan borrowing;
- the federal government, such as potential costs associated with cancellation, impact on the existing federal student loan programs, and issues that may arise in administering a loan cancellation benefit; and
- institutions of higher education, such as effects on federal institutional accountability metrics, the postsecondary education marketplace, and institutional finances.

Some policymakers, advocates, and academics assert that the Secretary of Education has existing statutory authorities to grant broad student loan debt relief, including total debt cancellation on federal student loans made under Title IV of the Higher Education Act (HEA; P.L. 89-329, as amended).[6] This report does not analyze that claim.

[1] CRS communication with U.S. Department of Education, June 16, 2022.

[2] For additional information, see CRS Report R43571, *Federal Student Loan Forgiveness and Loan Repayment Programs*.

[3] See, for example, H.R. 6708 (117th Congress); S. 2235 (116th Congress); Michael Stratford, "Senate Democrats seek $10K in debt relief for each student loan borrower," *Politico*, March 19, 2020; Tiffany Jones and Victoria Jackson, "5 Reasons to Support Student Debt Cancellation," *Inside Higher Ed*, July 21, 2020; and Zack Freidman, "5 Reasons Not to Cancel Student Loans," *Forbes*, November 25, 2020.

[4] See, for example, S.Res. 46 (117th Congress), H.Res. 100 (117th Congress); H.R. 3448 (116th Congress), H.R. 8514 (116th Congress).

[5] See, for example, U.S. White House, "Press Briefing by Press Secretary Jen Psaki and National Security Advisor Jake Sullivan," press release, February 4, 2021, https://www.whitehouse.gov/briefing-room/press-briefings/2021/02/04/press-briefing-by-press-secretary-jen-psaki-and-national-security-advisor-jake-sullivan-february-4-2021/; and Letter from 350.org, Action Center on Race and Economy (ACRE), and Advocates for Youth et al. to President-Elect Biden and Vice President-Elect Harris, January 15, 2021, https://ourfinancialsecurity.org/2021/01/sign-on-letter-over-325-orgs-call-on-president-elect-biden-to-cancel-federal-student-debt-on-day-one-using-executive-action/.

[6] See, for example, S.Res. 46 (117th Congress); H.Res. 100 (117th Congress); Letter from Legal Services Center of Harvard Law School to Senator Elizabeth Warren 3, 6 (September 14, 2020), available at

Federal Student Loan Programs

The federal government operates several student loan programs to assist students and their families in financing the cost of postsecondary education. Upon borrowing a federal student loan, a borrower assumes a contractual obligation to use the loan proceeds to pay for postsecondary educational expenses and to repay the loan, with interest, according to specified repayment plans, whose repayment periods may span a decade or more. Federal student loans often contain a number of borrower benefits (e.g., interest subsidies, flexible repayment options) that are not typically available to borrowers of non-federal student loans. These federal student loan programs are the primary source of student loan borrowing;[7] thus, they are often the target of large-scale student loan debt relief proposals. As such, this report focuses only on federal student loan programs in discussing student loan debt relief options and does not consider options for debt relief of private education loans.[8]

The primary federal student loan program currently in operation is the William D. Ford Federal Direct Loan (Direct Loan) program, which is authorized under HEA Title IV, Part D. Under this program, the federal government makes loans using federal capital (i.e., funds from the U.S. Treasury), and once made, outstanding loans constitute an asset of the federal government.[9] The U.S. Department of Education (ED), holds all Direct Loan program loans and is responsible for administering the program. Many day-to-day administrative functions are fulfilled by contracted loan servicers and private collection agencies.[10]

Several smaller federal loan programs also exist:

- **Federal Family Education Loans (FFEL):** This program is authorized under HEA Title IV. While new loans are no longer authorized to be made under the program, previously borrowed loans remain outstanding and borrowers remain responsible for repaying them. These loans were made with private (i.e., nonfederal) capital and the federal government guarantees them against loss due to borrower default, death, permanent disability, and, in limited circumstances, bankruptcy. Loans may be held by private lenders,[11] guaranty agencies (GAs), or ED. Private lenders, GAs, or ED (and its contractors) may be responsible for

https://www.warren.senate.gov/imo/media/doc/Ltr%20to%20Warren%20re%20admin%20debt%20cancellation.pdf; and Luke Herrine, *The Law and Political Economy of a Student Debt Jubilee*, 68 BUFF. L. REV. 281, 281-87, 341-411 (2020).

[7] Individuals may also borrow private education loans to finance their postsecondary education. As of June 30, 2021, private education loans were estimated to comprise $131.1 billion, or 7.61%, of total outstanding student loan debt in the United States. See Elan Amir, Jared Teslow, and Christopher Borders, *The Measure One Private Student Lending Report*, December 15, 2021. It is unclear whether this estimate includes loans authorized under the Public Health Service Act, which are included in the definition of private education loan under the Truth in Lending Act (15 U.S.C. §1650(a)(8)).

[8] For the purposes of this report, private education loans are those loans for postsecondary educational expenses that are not made, insured, or guaranteed by the federal government.

[9] For additional information, see CRS Report R45931, *Federal Student Loans Made Through the William D. Ford Federal Direct Loan Program: Terms and Conditions for Borrowers*.

[10] For additional information, see CRS Report R44845, *Administration of the William D. Ford Federal Direct Loan Program*.

[11] In the FFEL program, *private lenders* include originating lenders (i.e., those lenders who made the loan) and secondary market loan purchasers to whom originating lenders may have sold FFEL program loans to secure capital. A secondary market purchaser may be, for example, a bank or nonprofit state agency.

administering various day-to-day aspects of the program, depending on which of them holds the loan.[12]

- **Perkins Loans**: This program is authorized under HEA Title IV. While new loans are no longer authorized to be made under the program, previously borrowed loans remain outstanding and borrowers remain responsible for repaying them. These loans were made with a combination of capital from the federal government and IHEs. Loans may be held by IHEs or ED. IHEs or ED (and its contractors) may be responsible for administering various day-to-day aspects of the program, depending on which of them holds the loan.[13]
- **Public Health Service Act (PHSA) Active Loan Programs**: These programs are authorized under Titles VII and VIII of PHSA and include (1) Health Professions Student Loans, (2) Loans for Disadvantaged Students, (3) Primary Care Loans, (4) Nursing Student Loans, and (5) Nurse Faculty Loan Program loans. Loans under these five programs are made with a combination of capital from the federal government and IHEs and are held by IHEs. IHEs are responsible for administering the day-to-day aspects of the program.[14]
- **Health Education Assistance Loans (HEAL)**: This program is authorized under PHSA. While new loans are no longer authorized to be made under the program, previously borrowed loans remain outstanding and borrowers remain responsible for repaying them. These loans were made with private (i.e., nonfederal) capital, and the federal government guarantees them against loss due to borrower default, death, permanent disability, and, in limited circumstances, bankruptcy. Loans may be held by private lenders[15] or ED. Private lenders or ED (and its contractors) may be responsible for administering various day-to-day aspects of the program, depending on which of them holds the loan.[16]

Due to differing data collection systems across the programs described above, estimates of the total amount of outstanding student loan debt and number of unique individuals with outstanding federal student loan debt are imprecise. **Table 1** provides summary information and data on each of these federal student loans programs.

[12] For additional information, see CRS Report R40122, *Federal Student Loans Made Under the Federal Family Education Loan Program and the William D. Ford Federal Direct Loan Program: Terms and Conditions for Borrowers* (archived); and CRS Report R46409, *Proposals to Extend CARES Act Provisions to Federal Student Loans Not Held by the Department of Education: Frequently Asked Questions*.

[13] For additional information, see CRS Report RL31618, *Campus-Based Student Financial Aid Programs Under the Higher Education Act*; and CRS Report R46409, *Proposals to Extend CARES Act Provisions to Federal Student Loans Not Held by the Department of Education: Frequently Asked Questions*.

[14] For additional information on loans made under these programs, see CRS Report R46720, *Student Loan Programs Authorized by the Public Health Service Act: An Overview*.

[15] Private lenders include originating lenders (i.e., those lenders who made the loan) and secondary market loan purchasers to whom originating lenders may have sold HEAL program loans to secure capital. A secondary market purchaser may be, for example, a bank or nonprofit state agency.

[16] For additional information on loans made under these programs, see CRS Report R46720, *Student Loan Programs Authorized by the Public Health Service Act: An Overview*.

Table 1. Summary of Federal Student Loan Programs

Loan Type	Data Reference Period	Total Outstanding Loan Balance ($ in millions)	Number of Recipients (in thousands)	Source of Capital	Loan Holder
Higher Education Act student loan programs					
Direct Loan	As of March 31, 2022	$13,962,500	37,100[a]	Federal government	ED
FFEL	As of March 31, 2022	$219,300	9,600[a]	Private lenders	ED, private lenders, GAs
Perkins Loan	As of March 31, 2022	$4,200	1,400	Combination of federal and institutional contributions	ED, IHEs
Public Health Service Act student loan programs					
Health Professions Student Loans	As of July 31, 2019	$387.9	30.05[b]	Combination of federal and institutional contributions	IHEs
Loans for Disadvantaged Students	As of July 31, 2019	$149.5	2.1[b]	Combination of federal and institutional contributions	IHEs
Primary Care Loans	As of July 31, 2019	$151.9	7.1[b]	Combination of federal and institutional contributions	IHEs
Nursing Student Loans	As of July 31, 2019	$143.3	40.3[b]	Combination of federal and institutional contributions	IHEs
Nurse Faculty Loans	As of July 31, 2019	$75.0	2.3[b]	Combination of federal and institutional contributions	IHEs
Health Education Assistance Loans	As of July 31, 2021	$468.0	7.7[c]	Private lenders	ED, private lenders

Source: Compiled by CRS, based on HEA Title IV-D; PHSA Title VII and Title VIII; U.S. Department of Education, Office of Federal Student Aid, Federal Student Aid Data Center, "Federal Student Aid Portfolio Summary," https://studentaid.gov/sites/default/files/fsawg/datacenter/library/PortfolioSummary.xls; CRS communication with U.S. Department of Education, October 13, 2021; CRS communication with Health Resources and Services Administration (HRSA), June 4, 2020, July 14, 2020, and October 23, 2020.

a. This figure represents the number of students who are the beneficiaries of the federal student loan. In most cases, the recipient is the borrower. However, in the case of Parent PLUS Loans made under the FFEL and Direct Loan programs, the parent is the borrower and their child is the recipient.

b. This figure represents the number of outstanding program loans, rather than the number of program borrowers. Data for this program are not tracked by individual borrowers for confidentiality reasons.

c. ED has indicated that this figure may include duplication of borrower counts, as the department used multiple data systems to generate the figure.

Defining Student Loan Cancellation

Broad-scale student loan relief proposals range from providing short-term relief to borrowers in specific circumstances[17] to cancelling a borrower's entire liability on outstanding student loans regardless of the borrower's financial circumstances or other characteristics.[18] This report focuses on student loan debt cancellation policies. Neither the HEA nor PHSA specifically define *cancellation* in the context of the student loan programs.

For the purposes of this report, student loan *cancellation* is defined as the permanent elimination of a borrower's responsibility to repay all or a portion of their outstanding student loan debt. Under current law, loan cancellation is available to borrowers as loan *discharge*, which is typically available based on a borrower's hardship (e.g., total and permanent disability, bankruptcy), and as loan *forgiveness*, which is typically available through a borrower completing employment service or meeting other requirements. Some recent policy proposals that invoke loan *cancellation* would eliminate borrower debt more broadly regardless of borrower characteristics.

For those federal student loans not held by the federal government (e.g., FFEL program loans held by private lenders), a potential mechanism to effectuate similar debt relief for borrowers may be for the federal government to pay funds directly to the loan holder, either in a lump sum or in increments (e.g., monthly) on behalf of the borrower. This transfer of funds from the federal government to a loan holder on behalf of a borrower may sometimes be referred to as *repayment* or *payment on behalf of the borrower*. While from a borrower's perspective the ultimate result may be the same whether the debt is cancelled by the loan holder or repaid by the government (i.e., elimination of their responsibility to repay all or a portion of the debt), there may be important distinctions between cancellation and repayment from the perspective of the federal government and other stakeholders. Throughout this report, loan cancellation includes borrower relief through this mechanism of the federal government's payment on behalf of the borrower, unless otherwise specified.

As an alternative to broadly cancelling student loan debt, Congress could also consider amending the federal Bankruptcy Code[19] to make it easier for individual borrowers to discharge their student loans in bankruptcy. Under current law, a debtor generally may not discharge a student loan in bankruptcy except in limited circumstances.[20] Bills have periodically been introduced in Congress proposing to provide relief to student loan borrowers by expanding the circumstances in which a borrower may discharge their student loans in bankruptcy.[21] This report does not analyze this issue (it is analyzed in depth in CRS Report R45113, *Bankruptcy and Student Loans*).

The Student Loan Borrower Population

In general, roughly 63% of the U.S. population over the age of 25 enrolls in some form of postsecondary education at some point in their life. A subset of those individuals borrows federal

[17] See, for example, H.R. 4119 (116th Congress).

[18] See, for example, H.R. 3448 (116th Congress).

[19] Title 11 of the U.S. Code.

[20] See 11 U.S.C. §523(a) (providing that a bankruptcy discharge "does not discharge an individual debtor from" specified educational debts "unless excepting such debt from discharge ... would impose an undue hardship on the debtor and the debtor's dependents").

[21] See, for example, S. 2598 (117th Congress).

student loans to finance their own postsecondary education. In addition, parents may borrow loans to help finance the postsecondary education of their dependent children.[22] Some individuals who borrow federal student loans repay those loans in full within a relatively short period, while others maintain student loan debt for an extended period of time. Thus, a policy to broadly cancel all or a portion of federal student loan debt would directly apply to a discrete segment of the U.S. population aged 18 or older (approximately 17%).[23] Data on segments of the U.S. population who attend college and who borrow for postsecondary education may help to clarify which populations may be affected by various student loan cancellation policies. The following section presents data on postsecondary education attainment rates among the broader U.S. population and then presents data on characteristics of individuals who incur federal student loan debt. The text box below presents a summary of the data.

Student Loan Borrower Population Summary

- In 2020, 63% of the U.S. population over age 25 had at some point enrolled in postsecondary education. Hispanic and low-income individuals were least likely to enroll in postsecondary education relative to other race or ethnicity or income subgroups categories, respectively.[24]
- Nearly 60% of individuals who completed an undergraduate degree or certificate in academic year (AY) 2015-2016 borrowed HEA Title IV student loans for their undergraduate education; a large majority of them borrowed between $10,000 and $50,000.[25] Other undergraduate borrowing trends are as follows.
  - Black students were more likely to borrow Title IV loans relative to any other racial or ethnic subgroup.
  - Asian students, upper-income students, students who completed an associate's degree, and students who attended public less-than-four-year institutions were least likely to borrow Title IV loans relative to other groups of students from within their respective categories.
  - Students who completed a bachelor's degree were more likely than other undergraduate degree or certificate completers to borrow higher amounts in Title IV loans.
  - Students who attended private for-profit four-year institutions were more likely than students enrolled in four-year public or private nonprofit institutions to borrow Title IV loans in amounts of greater than $50,000.
- Sixty-five percent of individuals who completed a graduate degree or certificate in AY2015-2016 borrowed HEA Title IV student loans for their undergraduate or graduate education; half of them borrowed more than $50,000.[26] Other graduate borrowing trends are as follows:
  - Black students were more likely to borrow larger amounts of Title IV loans relative to other racial or ethnic subgroups. Asian students were the least likely to borrow Title IV loans.
  - Low-income students were least likely to borrow Title IV loans relative to other income quintiles, but if they did borrow loans, they were more likely to borrow larger amounts compared to other income quintiles.
  - Individuals who completed a professional doctoral (e.g., medical or law) degree were more likely than any other graduate degree or certificate completers to borrow larger sums of Title IV loans.

[22] Approximately 3.6 million FFEL and Direct Loan program borrowers have outstanding PLUS Loans borrowed on behalf of their dependent undergraduate students. This accounts for approximately 7% of the dollar amount of outstanding HEA Title IV loans.

[23] CRS calculation using ED, FSA, Federal Student Aid Data Center, "Portfolio by Age;" U.S. Census Bureau, National Population by Characteristics: 2020-2021."

[24] CRS analysis of Current Population Survey, 2021 Annual Social and Economic Supplement (CPS ASEC).

[25] AY2015-2016 borrowing estimates were produced by CRS using ED, National Center for Education Statistics, 2015-2016 *National Postsecondary Student Aid Study* (NPSAS:16).

[26] Ibid.

- Students who attended a graduate program at a public four-year institution were less likely to borrow any Title IV loans, while students who attended a graduate program at a private for-profit four-year institutions were more likely to borrow Title IV loans in amounts of greater than $50,000.

- In 2021, approximately 45 million individuals held outstanding balances in Title IV student loan debt, which represents 17% of the adult population aged 18 or over. That is an increase of 61% relative to 2007. Since 2007, the amount in outstanding Title IV student loan balances held by such individuals rose from $516 billion to about $1.6 trillion in 2021, an increase of 210%.).[27]

Postsecondary Education Attainment Rates

Among the U.S. population over age 25 in 2020, about 9% had no high school diploma or equivalent, 28% had at most attained a high school diploma or equivalent, 15% had enrolled in some college without completing a degree (this may include individuals who completed an undergraduate certificate[28]), and 48% completed an associate's degree or higher.[29]

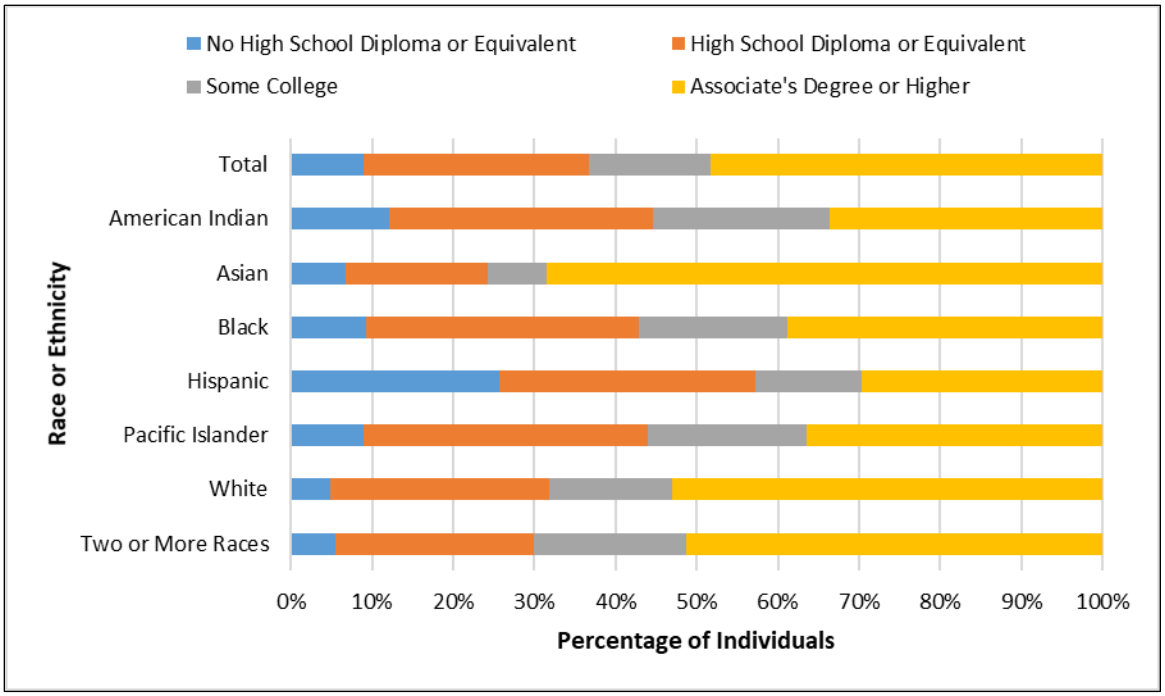
Figure 1 presents estimates, based on the U.S. Census Bureau's and Bureau of Labor Statistics' 2020 Current Population Survey (CPS) data, of educational attainment among the broader population over age 25 by race or ethnicity. Among other trends, these estimates suggest that Asian individuals were more likely to complete a college degree relative to individuals who identify as other races or ethnicities. Hispanic individuals were less likely to have enrolled in postsecondary education when compared to individuals from other race or ethnicity categories.

[27] ED, FSA, Federal Student Aid Data Center, "Portfolio by Age;" U.S. Census Bureau, National Population by Characteristics: 2020-2021.

[28] An undergraduate certificate is a postsecondary educational credential that usually requires less than two years to complete and does not lead to an associate's or bachelor's degree.

[29] CRS analysis of Current Population Survey, 2021 Annual Social and Economic Supplement (CPS ASEC), conducted by the U.S. Census Bureau. The CPS ASEC is the source of timely, official national estimates of poverty levels and rates and of widely used measures of income. It provides annual estimates based on a survey of more than 75,000 households. The survey contains detailed questions covering social and economic characteristics of each person who is a household member as of the interview date. Income questions refer to income received during the previous calendar year. A minimum age of 25 is used to subset the population, as that generally provides a sufficient time horizon to measure college attainment.

Figure 1. Educational Attainment of the U.S. Population Over Age 25 in 2020, by Race or Ethnicity

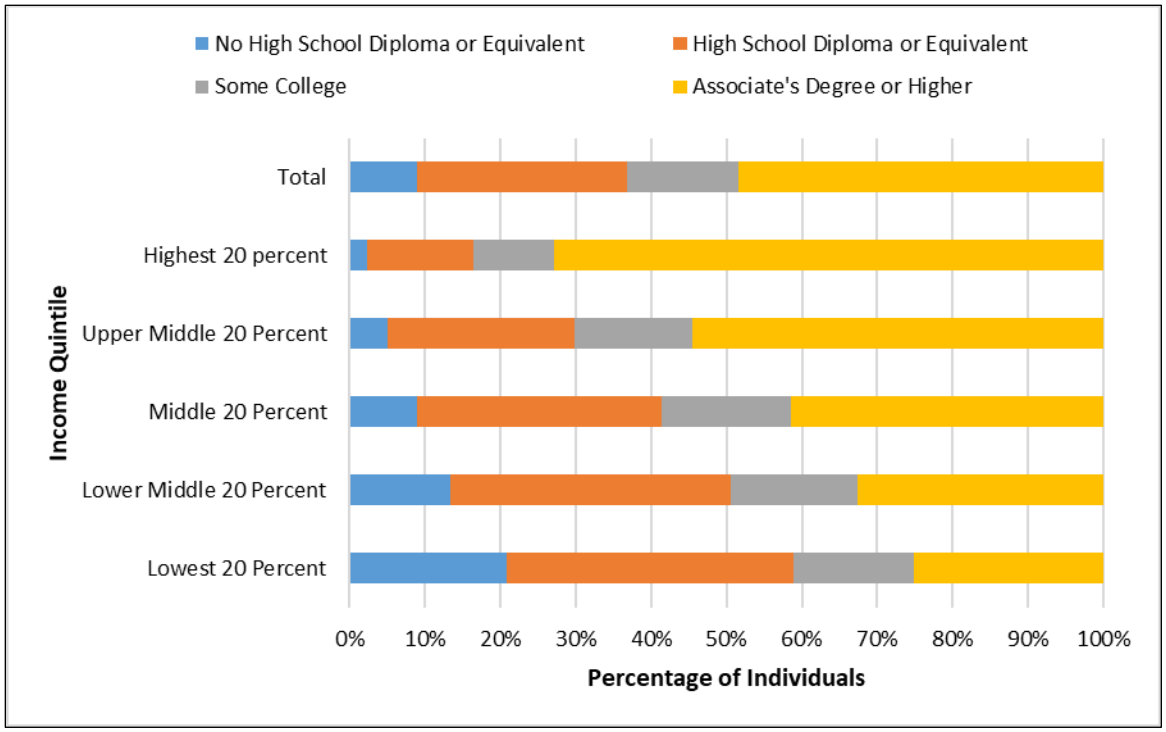


Source: CRS analysis of Integrated Public Use Microdata Series, Current Population Survey: Version 8.0.

Notes: Race categories do not include individuals who identified as Hispanic. For example, if an individual identified as Black race and Hispanic ethnicity, they would be counted as Hispanic and not Black for the purposes of these estimates.

Figure 2 presents estimates of educational attainment by household income. It shows that individuals at the higher end of the income distribution were more likely to have a college degree, while individuals at the lower end of the income distribution were less likely to have enrolled in postsecondary education at all.

Figure 2. Educational Attainment of the U.S. Population Over Age 25 in 2020, by Household Income



Source: CRS analysis of Integrated Public Use Microdata Series, Current Population Survey: Version 8.0.

Notes: This figure displays the distribution of educational attainment levels within each income quintile. Measures of income include income received in the previous calendar year from wages and salaries and income sourced from federal benefits and other forms of public assistance, among other things.

Federal Student Loan Borrowing

A subset of individuals who enroll in postsecondary education borrow federal student loans to finance their postsecondary education. In addition, under the FFEL and Direct Loan programs, parents may have borrowed PLUS Loans on behalf of their dependent undergraduate students (Parent PLUS Loans) to help finance the cost of an undergraduate student's education. Thus, a policy to cancel all or a portion of federal student loan debt necessarily applies only to a subpopulation of college-going individuals and, in limited circumstances, their parents.[30] The figures that follow present estimates of student loan borrowing under the HEA Title IV student loan programs (the primary sources of federal student loans) for students who completed an undergraduate or graduate degree or certificate in AY2015-2016. Because the following figures examine student loan borrowing of individuals for their own education and not on behalf of another, they exclude amounts borrowed for Parent PLUS Loans. Recent calls for federal student loan cancellation have generally focused on varying amounts of cancellation (e.g., $10,000 or

[30] The number of individuals with outstanding Parent PLUS Loans has grown over time, from 3.1 million recipients with $62.2 billion in debt as of March 31, 2014, to 3.6 million recipients with $107.3 billion in debt as of March 31, 2022. Some Parent PLUS Loan borrowers may also have borrowed federal student loans for their own education. ED, Office of Federal Student Aid (FSA), Federal Student Aid Data Center, "Federal Student Aid Portfolio by Loan Type," https://studentaid.gov/sites/default/files/fsawg/datacenter/library/PortfoliobyLoanType.xls.

$50,000).[31] As a result, these figures present estimates for varying debt size categories: (1) $1-$10,000; (2) $10,001-$50,000; and (3) over $50,000. In cases where percentages are presented, estimates for individuals who did not borrow any Title IV student loans are also included.

The below figures were derived using the 2015-2016 *National Postsecondary Student Aid Study* (NPSAS:16) from ED's National Center for Education Statistics (NCES). This nationally representative cross-sectional study of undergraduate and graduate students enrolled in postsecondary education in AY2015-2016 examines the characteristics of such students, with a focus on how they finance their postsecondary education.[32] Federal student loan data for the large majority of the survey sample were obtained from the National Student Loan Data System (NSLDS), ED's central student-level database for tracking Title IV aid, including student loans.[33] The NPSAS:16 sample includes public IHEs and private IHEs (both for-profit and nonprofit) and spans less-than-two-year IHEs to four-year IHEs.

Undergraduate and Graduate Student Borrowing

Nearly 60% of individuals who completed an undergraduate certificate or degree in AY2015-2016 borrowed Title IV loans for their education.[34] More specifically, 16% borrowed between $1 and $10,000; 40% borrowed between $10,001 and $50,000; and 4% borrowed over $50,000. Less than 1% borrowed over $60,000. The median cumulative amount borrowed by these individuals was $20,020. The distribution of federal loan amounts borrowed by undergraduate program completers is depicted in **Figure 3**.

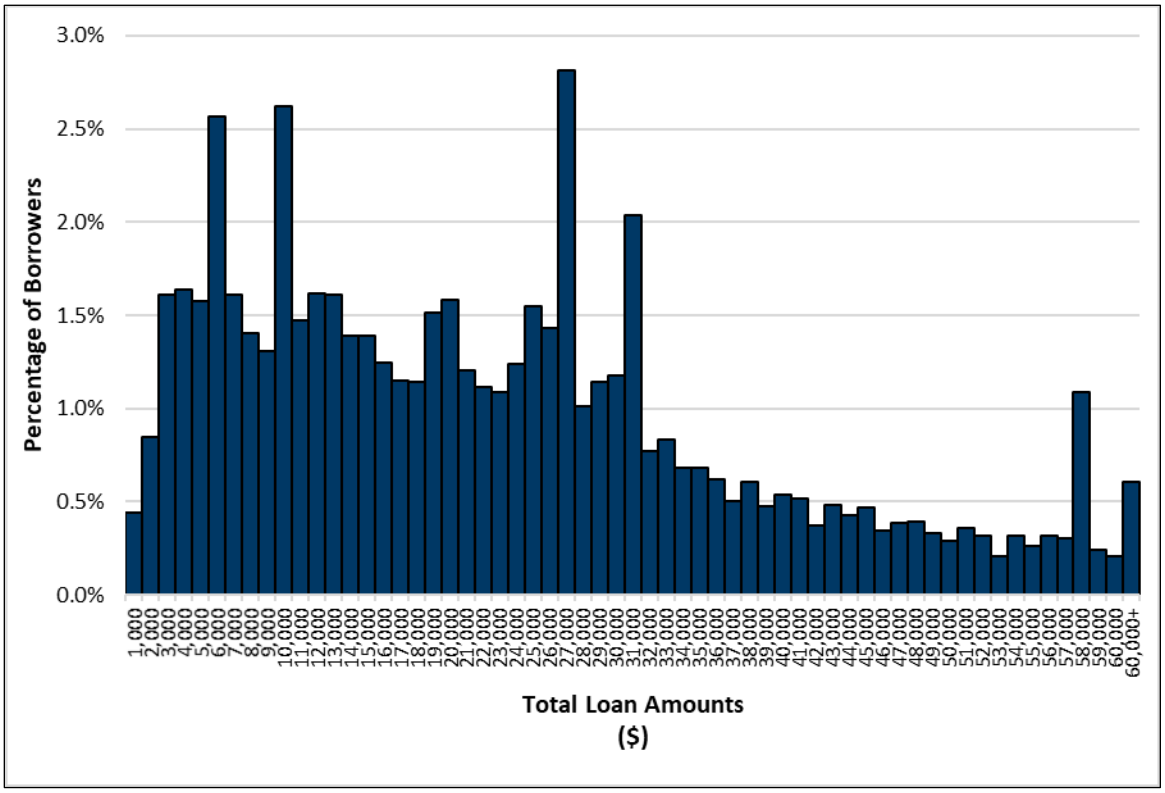
[31] See, for example, S.Res. 46 and H.Res. 100 (117th Congress), and The White House, "Press Briefing by Press Secretary Jen Psaki and National Security Advisor Jake Sullivan," press release, February 4, 2021, https://www.whitehouse.gov/briefing-room/press-briefings/2021/02/04/press-briefing-by-press-secretary-jen-psaki-and-national-security-advisor-jake-sullivan-february-4-2021/.

[32] The most recent cohort available in NPSAS is from AY2017-2018. The data for this cohort are based on an administrative data collection only and do not include data from student survey responses. As a result, data available on pre-enrollment income are limited, and the desired CRS analysis was not feasible for this cohort.

[33] Jennifer Wine, Peter Siegel, and Rob Stollberg, *2015–16 National Postsecondary Student Aid Study (NPSAS:16): Data File Documentation*, ED, National Center for Education Statistics (NCES), NCES 2018-482, Washington, DC, May 2018, https://nces.ed.gov/pubs2018/2018482.pdf. Data from NSLDS were obtained for survey sample members who had non-missing Social Security numbers and at least one valid loan record within the NSLDS database.

[34] Title IV loans include cumulative amounts of Subsidized and Unsubsidized Loans under the Direct and FFEL programs and Perkins Loans borrowed through 2016 for undergraduate education. Amounts borrowed for PLUS Loans by parents of dependent undergraduate students are excluded. The maximum aggregate loan limit on Direct Subsidized and Unsubsidized Loans for undergraduate education combined is capped at $31,000 for dependent undergraduate students and $57,500 for independent undergraduate students.

Figure 3. HEA Title IV Loan Amounts Borrowed through June 2016 by Individuals Who Completed an Undergraduate Certificate or Degree in AY2015-2016

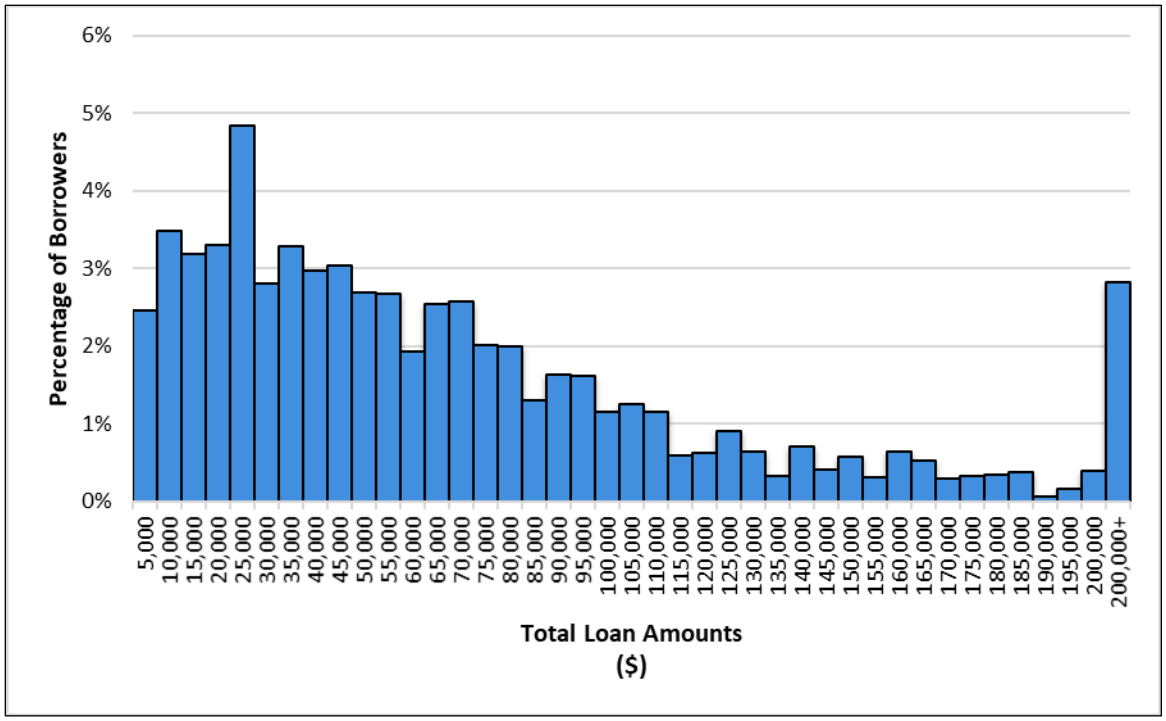


Source: CRS analysis of U.S. Department of Education, National Center for Education Statistics, 2015-2016 *National Postsecondary Student Aid Study* (NPSAS:16).

Notes: Includes cumulative amounts borrowed for undergraduate education through June 30, 2016, in Subsidized and Unsubsidized Loans under the Direct and FFEL programs, and Perkins Loans. Excludes amounts borrowed for PLUS Loans by parents of dependent undergraduate students. The figure reflects, but does not show, the 40% of individuals who did not borrow any Title IV student loan. Each bar represents an increment of $1,000 (e.g., $1 to $1,000), and each label on the x-axis reflects the upper limit of such range. Data presented, reflect cumulative borrowing for program completers; no data are presented on borrowing among individuals who left programs prior to completing them.

Sixty-five percent of individuals who completed a graduate certificate or degree in AY2015-2016 borrowed Title IV loans for their undergraduate or graduate education, but in contrast to undergraduate borrowing, significantly more individuals who completed a graduate certificate or degree borrowed amounts of greater than $50,000. Six percent borrowed between $1 and $10,000; 26% borrowed between $10,001 and $50,000; and 33% borrowed over $50,000. Approximately 3% borrowed over $200,000. The median cumulative amount borrowed by these individuals was $50,872. The distribution of Title IV loan amounts borrowed by graduate program completers is depicted in **Figure 4**.

Figure 4. HEA Title IV Loan Amounts Borrowed through June 2016 by Individuals Who Completed a Graduate Certificate or Degree in AY2015-2016



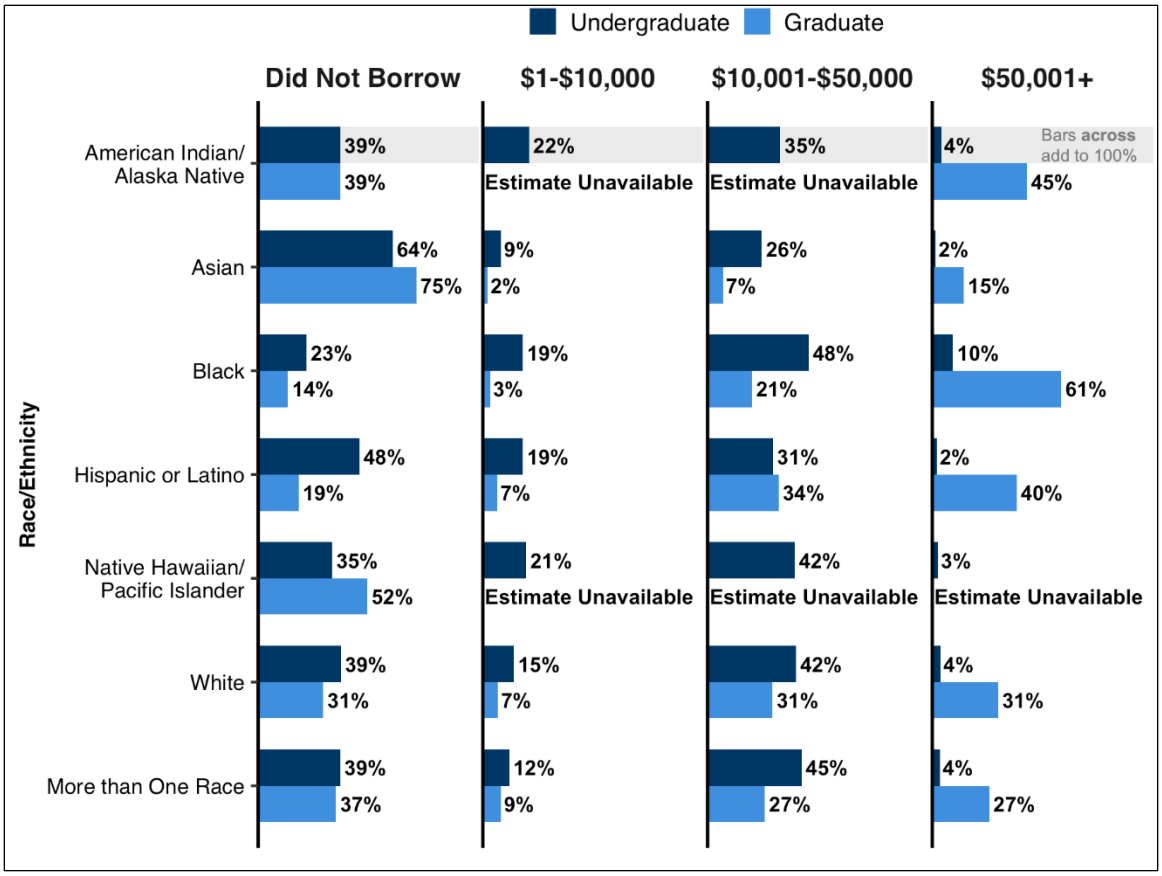
Source: CRS analysis of U.S. Department of Education, National Center for Education Statistics, 2015-2016 *National Postsecondary Student Aid Study* (NPSAS:16).

Notes: Includes cumulative amounts borrowed for undergraduate education or graduate education through June 30, 2016, in Subsidized and Unsubsidized Loans, and PLUS Loans to graduate and professional students, under the Direct and FFEL programs, and Perkins Loans. Excludes amounts borrowed for PLUS Loans by parents of dependent undergraduate students. The figure reflects, but does not show, the 35% of individuals who did not borrow any Title IV student loan. Each bar represents an increment of $5,000 (e.g., $1 to $5,000), and each label on the x-axis reflects the upper limit of such range. The estimates of the 10 bars spanning from $155,000 through $200,000 have standard errors greater than 30% of the estimates. These estimates should be viewed and interpreted with caution. Data presented reflect cumulative borrowing for program completers; no data are presented on borrowing among individuals who left programs prior to completing them.

Some of the policy discourse has focused on potential disparities among borrowing levels across race and ethnicity groups. **Figure 5** presents the percentages disaggregated by race or ethnicity of (1) individuals who completed an undergraduate certificate or degree in AY2015-2016 and borrowed Title IV student loans for their undergraduate education, and (2) individuals who completed a graduate certificate or degree in AY2015-2016 and borrowed Title IV student loans for their undergraduate or graduate education. These estimates of both undergraduate and graduate borrowing suggest that at both levels of study Asian students were less likely to borrow Title IV student loans relative to students from other racial or ethnic categories. At the undergraduate level, Hispanic students were also less likely to borrow than other groups. Black students, at the undergraduate and graduate levels, were more likely to borrow larger amounts of Title IV student loans relative to students from other racial or ethnic categories.

For estimates of median Title IV student loan amounts borrowed in AY2015-2016 by undergraduate and graduate certificate or degree completers disaggregated by race or ethnicity, see **Table A-1** and **Table A-2**, respectively.

Figure 5. Percentage of Individuals Who Borrowed Title IV Student Loans and Completed an Undergraduate or Graduate Certificate or Degree in AY2015-2016, by Cumulative Amount Borrowed and Race or Ethnicity



Source: CRS analysis of U.S. Department of Education, National Center for Education Statistics, 2015-2016 *National Postsecondary Student Aid Study* (NPSAS:16).

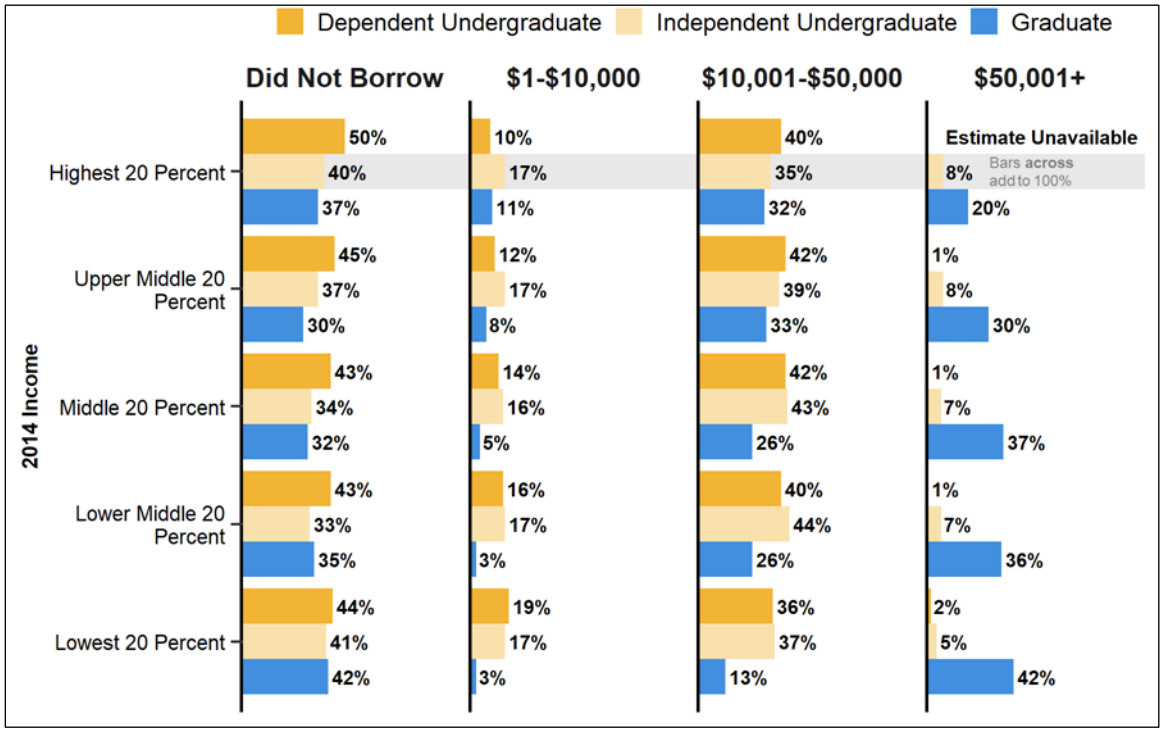
Notes: For undergraduate students, Title IV loans include cumulative amounts borrowed for undergraduate education through June 30, 2016, in Subsidized and Unsubsidized Loans under the Direct and FFEL programs, and Perkins Loans. For graduate students, Title IV loans include cumulative amounts borrowed for undergraduate or graduate education through June 30, 2016, in Subsidized and Unsubsidized Loans, and PLUS Loans to graduate and professional students, under the Direct and FFEL programs, and Perkins Loans. Title IV loans for both undergraduate and graduate students exclude amounts borrowed for PLUS Loans by parents of dependent undergraduate students. For undergraduate students, standard errors related to estimates of the percentages of American Indian or Alaska Native and Native Hawaiian/Other Pacific Islander individuals who borrowed more than $50,000 in Title IV student loans are 33% and 30%, respectively. These estimates should be viewed and interpreted with caution. For graduate students, estimates related to American Indian or Alaska Native and Native Hawaiian/Other Pacific Islander individuals are generally not reliable and should be viewed and interpreted with considerable caution. There are too few observations within either group to generate reliable estimates of the percentages of individuals who borrowed between $1 and $10,000 or who borrowed between $10,001 and $50,000, which is indicated by "Estimate Unavailable." This does not mean that those percentages are zero. The estimate of the percentage of Native Hawaiian/Other Pacific Islander who borrowed more than $50,000 is also unreliable. Standard errors related to percentage estimates for the other debt size categories range from 33% to 38% for American Indian and Alaska Native individuals and is 35% for Native Hawaiian and Other Pacific Islander individuals who did not borrow. Standard errors related to percentage estimates for multi-racial individuals who borrowed between $1 and $10,000 or who borrowed between $10,001 and $50,000 are 34% and 44%, respectively. These estimates should also be viewed and interpreted with caution. Percentage totals across rows may not always add to 100% due to rounding or unavailable estimates. Data presented reflect borrowing for program completers; no data are presented on borrowing among individuals who left programs prior to completing them.

Figure 6 presents the percentages disaggregated by 2014 income (see **Figure 6** notes) of (1) individuals who completed an undergraduate certificate or degree in AY2015-2016 and borrowed Title IV student loans for their undergraduate education and (2) individuals who completed a graduate certificate or degree in AY2015-2016 and borrowed Title IV student loans for their undergraduate and/or graduate education.

For undergraduate borrowing, estimates suggest fewer differences when compared to borrowing by race or ethnicity. Dependent undergraduate students from the highest end of the income distribution were less likely to borrow any federal student loans for undergraduate education and, to the extent that they did borrow, were also less likely to borrow Title IV student loans in amounts greater than $50,000. Independent undergraduate students from the highest and lowest ends of the income distribution were about equally as likely to borrow any federal student loans for their undergraduate education, but those from the higher end of the income distribution were more likely to borrow Title IV student loans in amounts greater than $50,000. For graduate borrowing, students from the lowest end of the income distribution were less likely to borrow any federal student loans for undergraduate or graduate education, but if they did borrow federal student loans, they were more likely to borrow in amounts greater than $50,000.

For estimates of median Title IV student loan amounts borrowed in AY2015-2016 by undergraduate and graduate certificate or degree completers disaggregated by 2014 income, see **Table A-1** and **Table A-2**, respectively.

Figure 6. Percentage of Individuals Who Borrowed Title IV Student Loans and Completed an Undergraduate or Graduate Certificate or Degree in AY2015-2016, By Cumulative Amount Borrowed and 2014 Income



Source: CRS analysis of U.S. Department of Education, National Center for Education Statistics, 2015-2016 *National Postsecondary Student Aid Study* (NPSAS:16).

Notes: For undergraduate students, Title IV loans include cumulative amounts borrowed for undergraduate education through June 30, 2016, in Subsidized and Unsubsidized Loans under the Direct and FFEL programs,

and Perkins Loans. For graduate students, Title IV loans include cumulative amounts borrowed for undergraduate or graduate education through June 30, 2016, in Subsidized and Unsubsidized Loans, and PLUS Loans to graduate and professional students, under the Direct and FFEL programs, and Perkins Loans. Title IV loans for both undergraduate and graduate students exclude amounts borrowed for PLUS Loans by parents of dependent undergraduate students. 2014 income is defined as total income of parents of dependent students and total income of independent students and their spouses in 2014 for undergraduate students, and total income of students and their spouses in 2014 for graduate students. Income in 2014 was used to determine federal student aid eligibility in AY2015-2016. Income quintiles for dependent undergraduate student estimates are based on all such individuals who completed an undergraduate degree or certificate in AY2015-2016. The "Lowest 20 Percent" includes those individuals with incomes between $0 and $24,820; the "Lower Middle 20 Percent" includes those with incomes between $24,821 and $54,003; the "Middle 20 Percent" includes those with incomes between $54,004 and $87,124; the "Upper Middle 20 Percent" includes those with incomes between $87,125 and $132,727; and the "Highest 20 Percent" includes those with incomes of $132,728 or higher. Income quintiles for independent undergraduate student estimates are based on all such individuals who completed an undergraduate degree or certificate in AY2015-2016. The "Lowest 20 Percent" includes those individuals with incomes between $0 and $4,299; the "Lower Middle 20 Percent" includes those with incomes between $4,300 and $13,676; the "Middle 20 Percent" includes those with incomes between $13,677 and $25,061; the "Upper Middle 20 Percent" includes those with incomes between $25,062 and $50,547; and the "Highest 20 Percent" includes those with incomes of $50,548 or higher. Income quintiles for graduate student estimates are based on all individuals who completed a graduate degree or certificate in AY2015-2016. The "Lowest 20 Percent" includes those individuals with incomes between $0 and $4,493; the "Lower Middle 20 Percent" includes those with incomes between $4,494 and $19,233; the "Middle 20 Percent" includes those with incomes between $19,234 and $42,132; the "Upper Middle 20 Percent" includes those with incomes between $42,133 and $81,840; and the "Highest 20 Percent" includes those with incomes of $81,841 or higher. Percentage totals across rows may not always add to 100% due to rounding. Data presented reflect cumulative borrowing for program completers; no data are presented on borrowing among individuals who left programs prior to completing them.

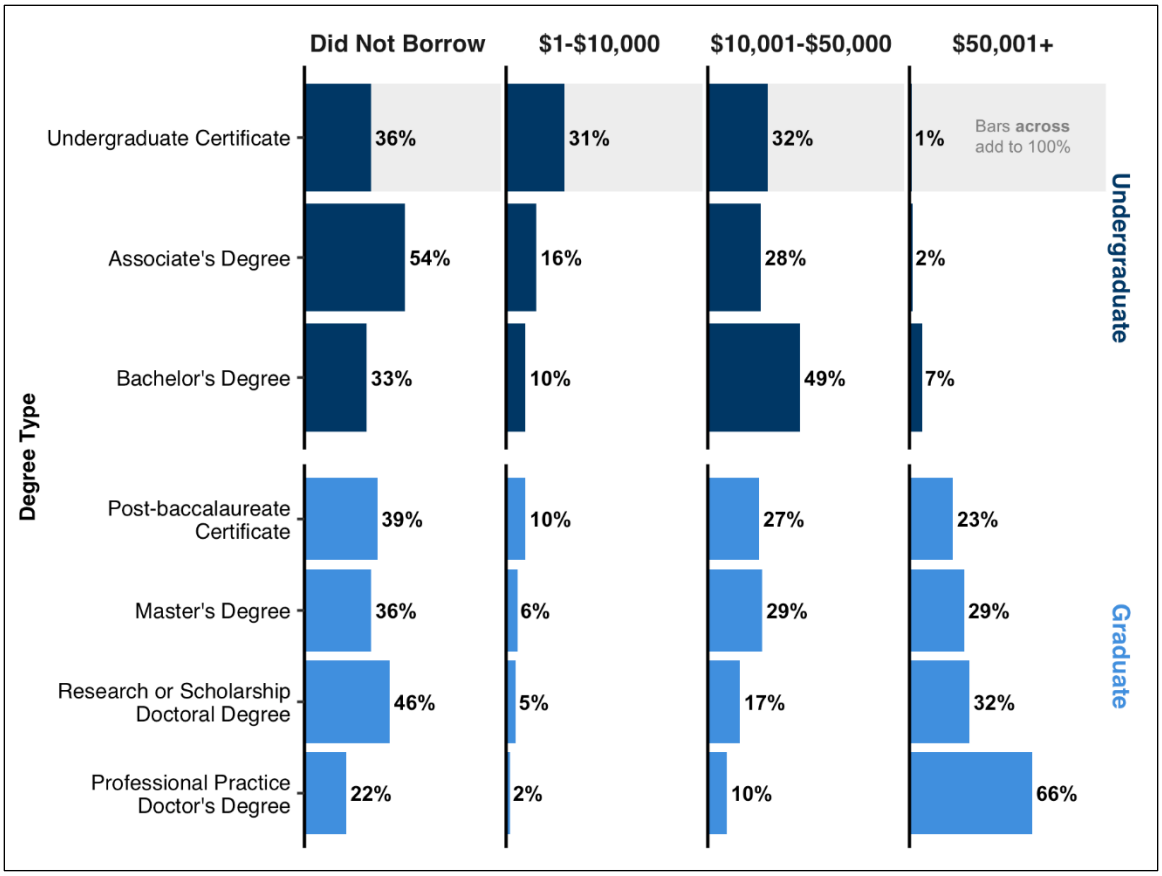
Figure 7 presents percentages disaggregated by degree type of (1) individuals who completed an undergraduate certificate or degree in AY2015-2016 and borrowed Title IV student loans for their undergraduate education, and (2) individuals who completed a graduate certificate or degree in AY2015-2016 and borrowed Title IV student loans for their undergraduate or graduate education.

Regarding undergraduate borrowing, associate's degree recipients were considerably less likely to borrow any Title IV loans than students completing other certificate or degree programs. Students who attained an undergraduate certificate were more likely than degree completers to borrow Title IV student loans in amounts of up to $10,000, and bachelor's degree recipients were more likely to borrow Title IV student loans in amounts greater than $10,000.

For graduate students, those who attained a doctoral degree in a research or scholarship field were less likely to borrow any Title IV loans for their undergraduate or graduate education relative to other graduate degree type completers. Approximately 78% of students who obtained a professional practice doctoral degree (e.g., J.D., M.D) borrowed Title IV loans, and roughly two-thirds of these degree recipients borrowed more than $50,000 cumulatively across undergraduate and graduate studies. The rate of professional practice doctoral degree completers who borrowed more than $50,000 cumulatively is considerably higher than other graduate degree type completers. Still, nearly a third of master's degree recipients and research or scholarship doctoral degree recipients borrowed in amounts greater than $50,000 cumulatively to support undergraduate and graduate studies.

For estimates of Title IV student loan median amounts borrowed in AY2015-2016 by undergraduate and graduate certificate or degree completers disaggregated by undergraduate or graduate degree type, see **Table A-1** and **Table A-2**, respectively.

Figure 7. Percentage of Individuals Who Borrowed Title IV Student Loans and Completed an Undergraduate or Graduate Certificate or Degree in AY2015-2016, by Cumulative Amount Borrowed and Undergraduate or Graduate Degree Type



Source: CRS analysis of U.S. Department of Education, National Center for Education Statistics, 2015-2016 *National Postsecondary Student Aid Study* (NPSAS:16).

Notes: For undergraduate students, Title IV loans include cumulative amounts borrowed for undergraduate education through June 30, 2016, in Subsidized and Unsubsidized Loans under the Direct and FFEL programs, and Perkins Loans. For graduate students, Title IV loans include cumulative amounts borrowed for undergraduate or graduate education through June 30, 2016, in Subsidized and Unsubsidized Loans, and PLUS Loans to graduate and professional students, under the Direct and FFEL programs, and Perkins Loans. Title IV loans for both undergraduate and graduate students exclude amounts borrowed for PLUS Loans by parents of dependent undergraduate students. Percentage totals across rows may not always add to 100% due to rounding. Data presented reflect cumulative borrowing for program completers; no data are presented on borrowing among individuals who left programs prior to completing them. Also not presented are estimates for individuals who earned a doctoral degree that is classified as "other." There is no additional documentation regarding what is included in this category, which comprises 1% of all graduate respondents in the sample.

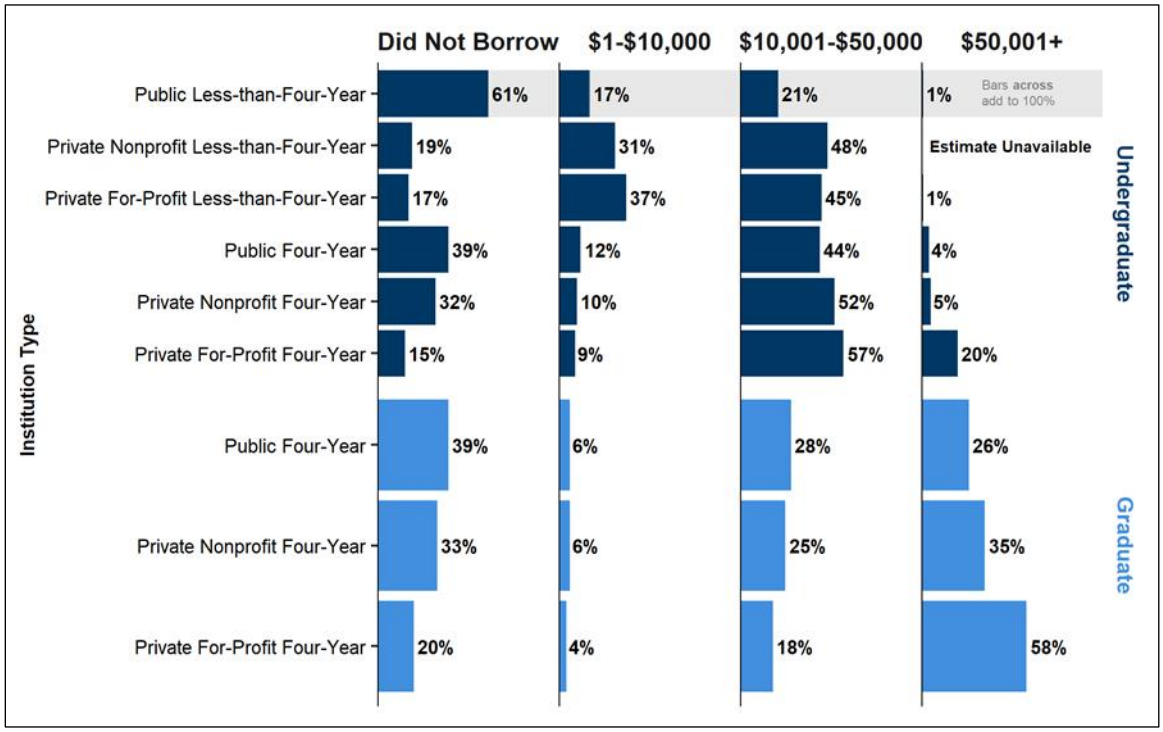
Figure 8 presents percentages disaggregated by institution type of (1) individuals who completed an undergraduate certificate or degree in AY2015-2016 and borrowed Title IV student loans for their undergraduate education, and (2) individuals who completed a graduate certificate or degree in AY2015-2016 and borrowed Title IV student loans for their undergraduate or graduate education.

Relative to students who attended other institution types, students who attended less-than-four-year public institutions were less likely to borrow any Title IV loans and when they did borrow, they borrowed lower amounts. Additionally, compared to students attending other institution

types, students who attended a private for-profit institution, for undergraduate or graduate education, were generally more likely to borrow Title IV loans and in higher amounts.

For estimates of Title IV student loan median amounts borrowed in AY2015-2016 by undergraduate and graduate certificate or degree completers disaggregated by institution type, see **Table A-1** and **Table A-2**, respectively.

Figure 8. Percentage of Individuals Who Borrowed Title IV Student Loans and Completed an Undergraduate or Graduate Certificate or Degree in AY2015-2016, by Cumulative Amount Borrowed and Institution Type



Source: CRS analysis of U.S. Department of Education, National Center for Education Statistics, 2015-2016 *National Postsecondary Student Aid Study* (NPSAS:16).

Notes: For undergraduate students, Title IV loans include cumulative amounts borrowed for undergraduate education through June 30, 2016, in Subsidized and Unsubsidized Loans under the Direct and FFEL programs, and Perkins Loans. For graduate students, Title IV loans include cumulative amounts borrowed for undergraduate or graduate education through June 30, 2016, in Subsidized and Unsubsidized Loans, and PLUS Loans to graduate and professional students, under the Direct and FFEL programs, and Perkins Loans. Title IV loans for both undergraduate and graduate students exclude amounts borrowed for PLUS Loans by parents of dependent undergraduate students. For undergraduate students, there were too few observations to produce an estimate of borrowing of over $50,000 at private nonprofit less-than-four-year institutions (as indicated by "Estimate Unavailable"). This does not mean that the percentage is zero. Percentage totals across rows may not always add to 100% due to rounding or unavailable estimates. Data presented reflect cumulative borrowing for program completers; no data are presented on borrowing among individuals who left programs prior to completing them.

Potential Effects on Borrowers

Differing policies to cancel federal student loan debt may affect varied aspects of a borrower's financial circumstances, including a borrower's monthly loan repayment burden, the opportunity for other major financial commitments (e.g., saving for retirement, buying a home), future student

loan borrowing, and federal income tax liability. While some of these potential effects may reach across borrower populations generally, certain populations of borrowers may experience one or more of them more acutely than others. This section of the report explores the potential effects of a student loan cancellation policy on individual borrowers and on selected subpopulations. While widespread student loan debt cancellation may have broad macroeconomic effects as well, an examination of any such effects on borrowers and society at large is beyond the scope of this report.

Number of Borrowers Affected

A prevalent question surrounding proposals to broadly cancel federal student loan debt is–who would receive such benefits? Recent calls for federal student loan cancellation have focused on providing varying amounts of cancellation, such as up to $10,000 or $50,000, to borrowers regardless of their characteristics.[35] As of March 31, 2022, approximately 45 million borrowers owed $1.6 billion in federal student loans; 16% of those borrowers were 24 years old or younger, 64% were between 25 and 49, and 20% were 50 or older.[36]

Table 2 presents information on outstanding Title IV student loan debt currently owed by borrowers, regardless of when they enrolled in school and borrowed Title IV loans. It shows the total number of borrowers and the total and average amounts of outstanding debt held by such borrowers for the following debt size categories: (1) $1 to $10,000; (2) $10,001 to $50,000; and (3) greater than $50,000.

Table 2. Number of Borrowers and Total and Average Amounts in Outstanding Title IV Student Loan Debt They Hold, by Debt Size

As of December 2021

Outstanding Debt Size	Number of Borrowers (in thousands)	Total Outstanding Debt (in millions)	Average Outstanding Debt
$1-$10,000	15,000	$75,000	$5,000
$10,001-$50,000	21,000	$518,000	$24,667
Greater than $50,000	9,000	$1,010,000	$112,222
Total	**45,000**	**$1,603,000**	**$35,622**

Source: Email exchange between CRS and U.S. Department of Education, Office of Legislative and Congressional Affairs, June 16, 2022.

Notes: Includes outstanding balances of principal and interest on loans made under the Direct Loan, FFEL, and Perkins Loan programs.

While 20% of borrowers with existing Title IV student loan debt have outstanding balances of greater than $50,000, the total amount of debt held by these borrowers accounts for 63% of all

[35] See, for example, S.Res. 46 and H.Res. 100 (117th Congress), and The White House, "Press Briefing by Press Secretary Jen Psaki and National Security Advisor Jake Sullivan," press release, February 4, 2021, https://www.whitehouse.gov/briefing-room/press-briefings/2021/02/04/press-briefing-by-press-secretary-jen-psaki-and-national-security-advisor-jake-sullivan-february-4-2021/.

[36] ED, FSA, Federal Student Aid Data Center, "Portfolio by Age," https://studentaid.gov/sites/default/files/fsawg/datacenter/library/Portfolio-by-Age.xls. Due to rounding and timing differences, the total figures presented in the FSA Data Center's "Portfolio by Age" report may differ slightly from the center's "Portfolio Summary," which was used to present Title IV student loan data in **Table 1**.

outstanding Title IV student loan debt. If an across-the-board cancellation policy of up to $10,000 per borrower in Title IV student loan balances were implemented, then 15 million borrowers, or one-third of existing borrowers, would see their Title IV student loan debt completely eliminated. If an across-the-board cancellation policy of up to $50,000 were implemented, then an additional 21 million, or a total of 36 million borrowers (80%), would see their debt completely eliminated. Remaining borrowers would see their debt levels reduced.

Distributional Effects on Subgroups of Borrowers

One of the prevailing questions regarding various student loan cancellation policies concerns the distributional effects across subgroups of borrowers. The relative *benefit* of student loan cancellation to an individual borrower or to subgroups of borrowers may be defined in a variety of ways. For example, a borrower may experience a benefit in terms of total dollar amount cancelled, a reduction in monthly loan payments, or both. Alternatively, the benefit may be measured by changes in overall wealth and earning potential. Measuring the relative benefit of a particular policy may rest with understanding the relative ability of subgroups of borrowers to repay their federal student loans.

Distributional effect analyses of student loan cancellation policies by borrower characteristics such as race or ethnicity, income, and degree attainment may help shed light on the types of individuals who may experience student loan cancellation benefits and the nature of those benefits.

This section first provides a summary of findings from recently published studies that examine distributional effects and the allocation of benefits of particular student loan cancellation policy options. For example, some studies investigate the effect of student loan cancellation options on the actual dollar amount cancelled for individuals, while others explore effects on the changes in the racial-wealth gap among different subgroups. Most of these studies utilize the Federal Reserve Board's Survey of Consumer Finances (SCF), because administrative data on Title IV loans collected by ED do not include information on a borrower's race or ethnicity, and in most cases their income. A description of the SCF and its limitations is found in the text box below.

To offer relevant information from a different data source, this report also includes some CRS original analyses exploring variations in student loan repayment experiences at selected debt levels as another measure of the potential effects of canceling student loan debt under different policy options. These analyses utilize the NCES Beginning Postsecondary Student Longitudinal Survey (BPS), which follows individuals who began their postsecondary studies in a certain year.

Distributional Effects: Dollar Amount Cancelled and Savings in Annual Debt Service Payments

Some recently published studies and analyses investigate distributional effects, most of which suggest that middle- to high-income borrowers and borrowers with advanced degrees stand to receive the greatest dollar amount of debt cancellation, especially in the context of 100% across-the-board student loan cancellation, or even under a policy of up to $50,000 of across-the-board student loan cancellation. That these groups of student loan borrowers tend to hold larger shares of federal student loan debt drives that conclusion.[37]

[37] Anna E. Huffman, "Forgive and Forget: An Analysis of Student Loan Forgiveness Plans," *North Carolina Banking Institute*, no. 24 (2020), pp. 449-478; Sylvain Catherine and Constantine Yannelis, *The Distributional Effects of Student Loan Forgiveness*, Becker Friedman Institute for Economics at the University of Chicago, Working Paper no. 2020-

For instance, one study investigated a proposed policy of cancelling up to $50,000 in federal student loan debt for borrowers with household incomes of less than $250,000. Using data from the SCF, the study found that because the bulk of federal student loan debt is held by high-income households and borrowers with advanced degrees, those households would receive a higher share of the benefits (in terms of both total dollar amount cancelled and savings in annual loan payments) under such a policy. As an example, the highest 40% of households by income (within the income range studied) would receive 66% of all annual savings in debt service payments and borrowers with advanced degrees, who represent 27% of all borrowers, would receive 37% of annual savings.[40]

The Survey of Consumer Finances (SCF)

The SCF is a cross-sectional survey of households on their finances, income, and demographic characteristics, including student loan debt. While fairly comprehensive in scope in terms of measuring household wealth, the survey has its limitations.

- The survey sample size is somewhat small (about 5,800 households for the 2019 SCF administration), which may challenge the generalizability of findings from these survey data.
- The aggregate amount of student loan debt reported by the SCF is roughly 25% to 35% lower than amounts reported by other sources.[38]
- Some documentation indicates that the way in which the survey's unit of analysis is constructed may lead to an underestimation of student loan debt held by low-income younger adults, and therefore, by comparison, an overestimation of debt held by wealthier households.
- Student loan debt estimates are based on survey responses, which may be inaccurate or missing, and such data are then statistically imputed.
- The SCF assumes that the race or ethnicity of the individual who holds the student loan debt is the same as the survey respondent, which is not always the case.[39]

Additionally, while these particular groups of student loan borrowers are more likely to hold greater shares of total federal student loan debt, they may not face a proportional hardship in repaying such high balances. This is because these groups of borrowers are more likely to have higher incomes and, thus, may be more able to pay down their debt.

Many low-income households are more likely to qualify for interest subsidies and zero- or low-dollar monthly payments under income-driven repayment plans.[41] As such, a broad student loan cancellation policy may not result in the availability of substantial freed-up financial resources in the immediate term for such households due to their already low monthly payments.

169, April 2021; Adam Looney, *How Progressive Is Senator Elizabeth Warren's Loan Forgiveness Proposal?*, Brookings Institution, April 2019, available at https://www.brookings.edu/blog/up-front/2019/04/24/how-progressive-is-senator-elizabeth-warrens-loan-forgiveness-proposal/; Adam Looney, *Putting Student Loan Forgiveness in Perspective: How Costly Is It and Who Benefits?*, Brookings Institution, February 2021, available at https://www.brookings.edu/blog/up-front/2021/02/12/putting-student-loan-forgiveness-in-perspective-how-costly-is-it-and-who-benefits/; and Anthony P. Carnevale, *The Student Debt Dilemma*, The Georgetown Center on Education and the Workforce, May 2021, available at https://medium.com/georgetown-cew/the-student-debt-dilemma-6db2f56039eb.

[38] Matt Bruenig, "Low Income People Have More Student Debt Than Realized," People's Policy Project, June 2019, available at, https://www.peoplespolicyproject.org/2019/06/27/low-income-people-have-more-student-debt-than-realized/.

[39] Matt Bruenig, "Low Income People Have More Student Debt Than Realized," People's Policy Project, June 2019, available at, https://www.peoplespolicyproject.org/2019/06/27/low-income-people-have-more-student-debt-than-realized/.

[40] Adam Looney, *How Progressive Is Senator Elizabeth Warren's Loan Forgiveness Proposal?*, Brookings Institution, April 2019, available at https://www.brookings.edu/blog/up-front/2019/04/24/how-progressive-is-senator-elizabeth-warrens-loan-forgiveness-proposal/.

[41] Under income-driven repayment (IDR) plans, borrowers' monthly loan payments vary according to their income.

Distributional Effects: Changes in Racial Wealth Gaps

Recent studies have suggested mixed evidence on the effects of student loan cancellation on racial wealth inequality. Using SCF data, one study found that a 100% across-the-board student loan cancellation would widen racial wealth gaps, as measured by the difference in median wealth between non-Hispanic White households and each minority household group, by 9% for Black households and 31% for Latino households. Reducing student loan debt by various amounts (e.g., 25%, 50%, or 75%), without limiting eligibility to certain incomes, contributed to increasing racial wealth gaps as well. At the same time, the study found that targeting student loan cancellation to low- and middle-income households could contribute to reducing racial wealth inequality.[42]

When using a measure of wealth that includes future lifetime earnings from educational attainment (versus only face-value wealth), another study found that the contribution of student loans to racial wealth gaps is small, and that the impact of student loan forgiveness policies on reducing such gaps is uncertain.[43] In contrast, using SCF data, another study found that a policy of 100% across-the-board student loan debt cancellation, and to a lesser extent a policy to cancel up to $50,000 in federal student loan debt, for borrowers with household incomes of less than $250,000 would contribute to reducing White-Black wealth gaps across the wealth distribution, as measured by the ratio of White wealth to Black wealth at a given wealth quantile.[44]

Distributional Effects: Ability to Repay Federal Student Loans

Another consideration in measuring the potential distributional effects of various student loan cancellation policies is the ability, or lack thereof, of borrowers to repay federal student loan debt, regardless of the debt size.

Some prior research on all student loans (both federal and nonfederal) investigates outcomes such as progress toward repaying loans, debt burden, and incidence of loan default as an approach toward measuring a borrower's ability to repay federal student loans. The two studies described below both leverage consumer credit panel data from different sources in their analyses.

The Consumer Financial Protection Bureau (CFPB) published a study in 2017 on student loan repayment trends using data from its Consumer Credit Panel (CFPB-CCP). The CFPB-CCP is a panel of de-identified credit records for a 2% nationally representative sample of individuals maintained by one of the top national credit bureaus. These credit records include information on both federal and nonfederal student loans such as the origination date; periods of deferment, repayment, delinquency, and default; payment amounts; and the balance throughout the life of the loan. The study found that 25%-30% of borrowers do not fully repay student loans within a 10-year repayment window across multiple repayment cohorts.[45] In terms of the "remaining balance

[42] Laura Sullivan et al., *Less Debt, More Equity: Lowering Student Debt While Closing the Black-White Wealth Gap*, Demos and the Institute on Assets and Social Policy, 2015, available at https://www.demos.org/sites/default/files/publications/Less%20Debt_More%20Equity.pdf.

[43] Adam Looney, *Student Loan Forgiveness Is Regressive Whether Measured by Income, Education, or Wealth: Why Only Targeted Debt Relief Policies Can Reduce Injustices in Student Loans*, Hutchins Center on Fiscal & Monetary Policy at Brookings, January 2022, available at https://www.brookings.edu/wp-content/uploads/2022/01/WP75-Looney_updated_1.pdf.

[44] Marshall Steinbaum, *Student Debt and Racial Wealth Inequality*, Jain Family Institute, August 2019, available at https://marshallsteinbaum.org/assets/steinbaum-2019-student-debt-and-racial-wealth-inequality.pdf.

[45] Consumer Financial Protection Bureau (CFPB), The Office of CFPB Research, *CFPB Data Point: Student Loan Repayment*, August 2017, available at https://files.consumerfinance.gov/f/documents/201708_cfpb_data-point_student-

ratio," which is defined as the "total outstanding balance at any point in time divided by the sum of reported principal at the start of repayment," the same study found that across multiple cohorts, (1) a large share of borrowers pay down their student loan balances over time, decreasing their balance ratios from 100% to 50% within several years of entering into repayment, eventually reaching zero within eight years[46]; (2) about 23% of borrowers have a balance ratio of more than 50% eight years after entering into repayment; and (3) 6% of borrowers make very little progress paying down their balances and have balance ratios above 90% eight years after entering into repayment.[47] The report also found that borrowers with lower loan balances are more likely to pay off their loans faster than borrowers with higher balances.

Another analysis by the Federal Reserve Bank of New York (New York Fed Reserve) published in 2019 utilized its Consumer Credit Panel data (Fed Reserve-CCP), a panel of de-identified Equifax credit bureau records from a 5% nationally representative sample of individuals with a credit history. The Fed-Reserve-CCP includes information on federal and nonfederal student loans such as account balance, scheduled monthly payment, and loan performance. The analysis found that borrowers who completed school in 2005 repaid less than 40% of their balances within 10 years, and borrowers who completed school in 2010 repaid 9% of their balances within five years.[48] The analysis also found that while the highest income quartile of households held more student debt relative to other income quartiles, the average student loan debt-to-income ratio was highest for households in the lowest income quartile, over 20%. In addition, the report showed that default and delinquency rates decreased as household income increased.

The findings from these two analyses seem to suggest very different trends in student loan repayment outcomes and experiences, though it is not clear, as the New York Fed Reserve does not provide sufficient documentation of its methodology in arriving at some of the specific estimates mentioned above. One possible explanation could be in how the repayment cohorts for each analysis were constructed. In the CFPB study, assignment to a certain repayment cohort was based on "their last observed period of deferment to best proxy for when borrowers (or the student they borrowed on behalf of) leave school for the last time."[49] All loans disbursed to a borrower were assigned to the same repayment cohort, regardless of when the borrower entered into repayment on each individual loan. Many borrowers who had deferments, including those who attended graduate school or returned to their postsecondary studies at a later time, could have made payments on all or some of their loans for multiple years prior to leaving school or deferment "for the last time." This suggests that the point in time at which the study charts the start of repayment is when the borrower may be in a position to make greater progress on repaying their loans, and thus, leads to a finding of more positive repayment outcomes. Alternatively, while the New York Fed Reserve analysis defines its repayment cohort as individuals who graduated in a given year, it is unclear which individuals are captured by the term "graduate." For example, if graduate only refers to individuals who completed an undergraduate degree, then they may take out additional loans to pursue graduate studies and enter into

loan-repayment.pdf.

[46] The CFPB report did not precisely indicate what constitutes a "large share," but it appears a large share may equal 71% of borrowers, as the other shares of borrowers equal 29%.

[47] This analysis is not inclusive of borrowers who immediately pay off their student loan balances after entering into repayment.

[48] Andrew F. Haughwout, Donghoon Lee, and Joelle Scally et al., "Liberty Street Economics: Who Borrows for College—and Who Repays?" Federal Reserve Bank of New York, October 2019, https://libertystreeteconomics.newyorkfed.org/2019/10/who-borrows-for-collegeand-who-repays/.

[49] Consumer Financial Protection Bureau (CFPB), The Office of CFPB Research, *CFPB Data Point: Student Loan Repayment,* August 2017, available at https://files.consumerfinance.gov/f/documents/201708_cfpb_data-point_student-loan-repayment.pdf.

repayment later, potentially leading to an interpretation of a slower progress toward repaying their increasing debt.

Original Analysis

For a complementary perspective on borrower experiences repaying debt, CRS original analyses were conducted using data from the Beginning Postsecondary Students Longitudinal Study (BPS) to examine measures of progress toward repayment of debt and hardship in repaying debt. These data, which are described in greater detail below, offer the ability to investigate outcomes for particular subgroups of borrowers including by race or ethnicity, income, and degree type, and by different debt sizes. One of the limitations of these data, however, is that the study follows only one cohort of students and at four points in time, which may limit the applicability of findings to the specific cohort in question and at those specified time periods. Nonetheless, these analyses may offer some insight into the varying degrees to which different student loan cancellation policies could be beneficial to all or particular subgroups of borrowers.

Data Source

Even though ED tracks Title IV loans awarded to students over their entire loan life cycle in the NSLDS, that comprehensive administrative dataset is limited in that it generally does not include information on borrower characteristics such as race or ethnicity and income or salary.[50] Thus, there are no administrative data to provide up-to-date information on the entire federal student loan portfolio disaggregated by race or ethnicity or income. However, survey data from BPS may provide a useful approximation of trends in federal student loan debt by various borrower characteristics at certain points in time and of differences across subgroups.

The BPS surveys a cohort of first-time, beginning students at three points in time: at the end of their first year in postsecondary education, and then three years and six years after beginning postsecondary education. It collects data on a variety of topics, including student demographic characteristics, school and work experiences, persistence, transferring, and degree attainment.

The BPS cohort with the data of most interest is the cohort that started postsecondary education in AY2003-2004 (BPS:04). In addition to the availability of data from the three-year (2006) and six-year (2009) follow-ups for the BPS:04 cohort, NCES also provides 12-year follow-up data in its 2015 Federal Student Aid Supplement, which is strictly based on available administrative data through the NSLDS. Thus, while the BPS:04 cohort does not represent the most recent BPS cohort for which data are available,[51] more comprehensive measures of progress to repayment and repayment hardship and measures reflecting a longer time horizon are available within the BPS:04 dataset.

One limitation with using data for a cohort of borrowers who started postsecondary education nearly two decades ago is that they borrowed federal student loans under different conditions and circumstances than did more recent cohorts. For example, in AY2003-2004 the average cost of attendance (i.e., undergraduate tuition, fees, room, and board rates) for full-time students

[50] For borrowers enrolled in IDR plans (23% of all borrowers with outstanding Direct Loan balances), they must annually provide their adjusted gross income to ED. As such, ED does possess information on income for such borrowers. ED, FSA, Federal Student Aid Data Center, "Federal Student Aid Portfolio Summary," https://studentaid.gov/sites/default/files/fsawg/datacenter/library/PortfolioSummary.xls, and "Portfolio by Repayment Plan (DL, ED-Held FFEL, ED-Owned)," https://studentaid.gov/sites/default/files/fsawg/datacenter/library/DLPortfoliobyRepaymentPlan.xls.

[51] The most recent BPS cohort to be surveyed is the cohort that started postsecondary education in AY2019-2020. Data from the study have not yet been released.

attending degree-granting postsecondary institutions was $12,953 ($17,905 in 2019-2020 dollars), compared to $25,281 in AY2019-2020.[52] This could mean that fewer students may have borrowed for postsecondary education and at lower amounts in AY2003-2004 relative to students in AY2019-2020. Nonetheless, some of the indicators of borrowers' experiences repaying debt for the BPS:04 cohort were measured in 2015, representing a more recent time period. This may contribute to understanding the effects of various broad-based student loan cancellation policies, regardless of when individuals borrowed.

Estimates and Observations/Findings

CRS's analyses examined federal student loan data on measures of progress toward repayment and hardship in repaying debt (i.e., default) for students who began postsecondary education in AY2003-2004. The analyses included investigating the aforementioned outcomes by the following borrower characteristics:

- **Race/ethnicity.** These categories were based on the U.S. Census categories. Race categories are exclusive of individuals of Hispanic or Latino origin.
- **Pre-enrollment income.** Total income from the 2002 calendar year was used to determine federal student aid eligibility when a student began postsecondary education in AY2003-2004. The specific measure used for the analyses was parents' 2002 income, if the borrower was a dependent undergraduate student, and combined borrower and (if applicable) spousal 2002 income, if the borrower was an independent student when beginning postsecondary education in AY2003-2004. While salary information is available for 2009, it is not available for 2015.[53]
- **Degree type**. This measure represents the borrower's highest level of degree attainment through June 2009, and includes (1) no degree, (2) an undergraduate certificate, (3) an associate's degree, or (4) a bachelor's degree.[54]

Additionally, the analyses examined outcomes by the following federal student loan debt size categories: (1) $1-$10,000; (2) $10,001-$50,000; and (3) over $50,000. Depending on the particular measure, debt could be defined as the cumulative amount borrowed in Title IV student loans or the outstanding balance, in principal and interest, on Title IV student loans as of a certain year.[55] The applicable definition for each specific measure is noted below.

On average, an estimated 63% of students in this cohort borrowed over $26,000 in federal student loans for their undergraduate and/or graduate education. Seventy-five percent of those who borrowed were estimated to hold an average outstanding balance, in principal and interest, of over $32,000 on their federal student loans 12 years after starting postsecondary education.[56] **Table A-**

[52] NCES, *Digest of Education Statistics: 2020*, Table 330.10, https://nces.ed.gov/programs/digest/d20/tables/dt20_330.10.asp.

[53] Borrower/family income at the time the borrower started postsecondary education, along with other measures of income available in the BPS:04 dataset (e.g., 2009 salary) is not necessarily a measure of a borrower's future earnings potential or lifetime earnings.

[54] The BPS:04 does not include measures of graduate degree attainment.

[55] Debt amounts include Subsidized and Unsubsidized Loans, and PLUS Loans to graduate and professional students, under the Direct and FFEL programs, and Perkins Loans. They exclude PLUS Loans made to parents on behalf of dependent undergraduate students under the Direct Loan and FFEL programs.

[56] Borrowers may experience an increase in their outstanding balance due to the accumulation of unpaid interest that accrued while in school, during periods of deferment and forbearance, and while enrolled in an IDR plan under which negative amortization is permitted. Fees, such as those charged for late payments, may also lead to increases in

3 presents selected descriptive statistics and estimates of federal student loan borrowing and debt for students who began postsecondary education in AY2003-2004. This information is disaggregated by borrower race or ethnicity, income, and degree type.

Some of the more noteworthy trends that emerged from the analysis of progress toward repayment and hardship in repayment of federal student loan debt are described in the following sections.

Progress Toward Repayment

The BPS:04 dataset includes a measure of progress toward repayment 12 years after beginning postsecondary education (2015 for the AY2003-2004 cohort), defined as the ratio, as of 2015, of the outstanding balance in principal and interest on federal student loans to the initial amount of the loans borrowed.[57]

Figure 9 presents estimates of averages for this measure by borrower race or ethnicity, income, and degree type, regardless of debt size. The estimates exclude the 26% of borrowers who had fully repaid their debt on applicable federal student loans by 2015 and, therefore, had ratios of amounts still owed to amounts borrowed of zero.[58] Ratios of amounts still owed to amounts borrowed of greater than 100 indicate that borrowers had not paid down any of their outstanding federal student loan principal balance, and, in fact, their outstanding debt had grown within 12 years of beginning postsecondary education.[59]

The data on the roughly three-quarters of borrowers who had not fully repaid their loans show that on average, regardless of debt size, these students who began postsecondary education in AY2003-2004, repaid 7% of their original outstanding debt within 12 years of the start of their postsecondary education experience.[60] The data also show the following:

- Black and American Indian borrowers made less progress toward repaying their debt compared with other subgroups; their debt was more likely to grow, relative

outstanding balances.

[57] Federal student loan amounts used in this measure include Subsidized and Unsubsidized Loans, and PLUS Loans to graduate and professional students, under the Direct and FFEL programs, and Perkins Loans. They exclude both PLUS Loans to parents on behalf of dependent undergraduate students and Consolidation Loans made under the Direct Loan and FFEL programs.

[58] The repayment ratio of zero indicates that the individual fully repaid their debt and had an outstanding balance, in principal and interest, of $0 on applicable federal student loans within 12 years of starting postsecondary education. Among this 26% of total borrowers, across racial or ethnic subgroups, 29% of white borrowers, 12% of Black or African American borrowers, 26% of Hispanic or Latino borrowers, 36% of Asian borrowers, 31% of American Indian or Alaskan Native borrowers (this estimate should be interpreted with caution), 16% of Native Hawaiian or other Pacific Islander borrowers (this estimate should be interpreted with considerable caution), 16% of borrowers who identify as other race or ethnicity, and 25% of borrowers who identify as more than one race had fully repaid their debt on applicable federal student loans. Across the income distribution, 23% of borrowers in the lowest income quintile, 22% in the lower middle income quintile, 26% in the middle income quintile, 28% in the upper middle income quintile, and 29% in the highest income quintile had fully repaid their debt on applicable federal student loans. By highest degree attained through 2009, 24% of borrowers with some college but no undergraduate degree or certificate, 35% with an undergraduate certificate, 20% with an associate's degree, and 27% with a bachelor's degree had fully repaid their debt on applicable federal student loans.

[59] For borrowers enrolled in IDR plans, negative amortization is permitted; that is, their monthly payments according to such plans may be less than the interest that is due in a given month. This would lead to a scenario in which unpaid accrued interest would accumulate and a balance would remain until it is either paid down or capitalized into the principal balance. Under such circumstances, while the borrower may have a ratio of amount still owed to amount borrowed of greater than 100%, he or she is still considered to be making regular monthly payments and not necessarily experiencing a hardship toward repayment.

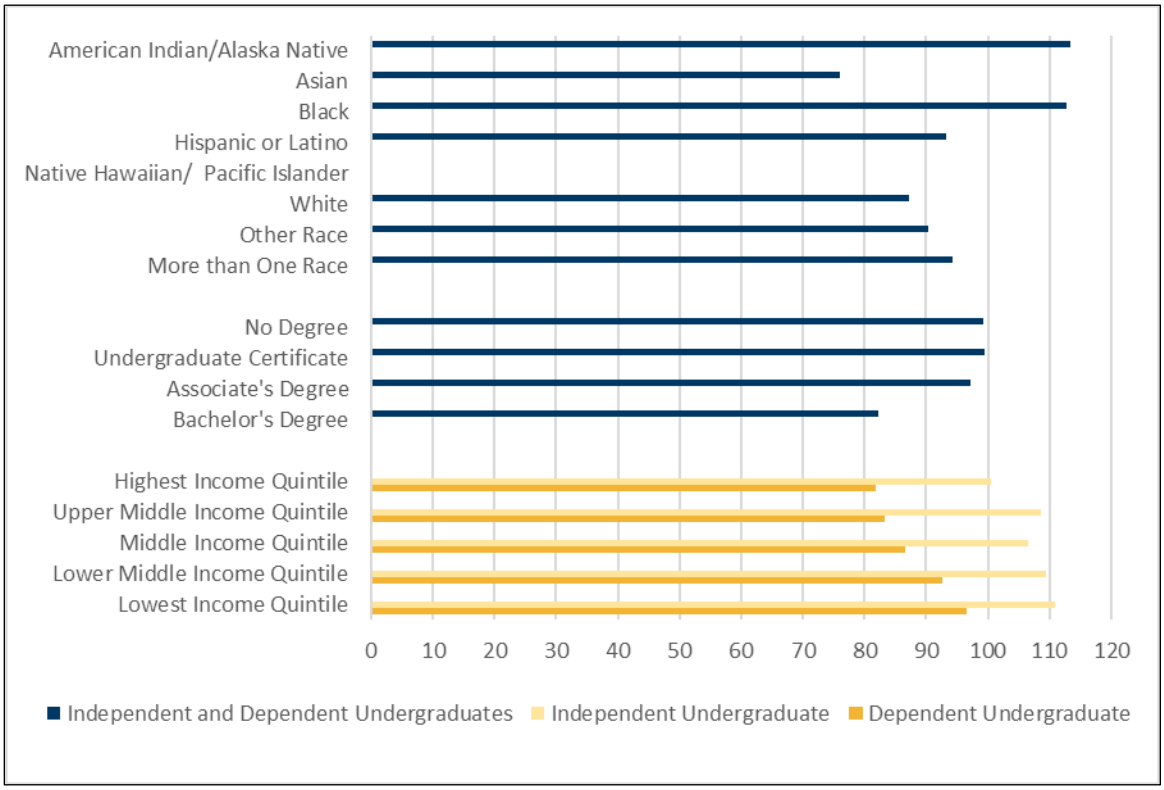
[60] BPS:04 does not include data on when borrowers actually enter repayment on their loans.

to other race/ethnicity groups. The same was true for borrowers from the lower end of the income distribution.

- While Asian borrowers were more likely to borrow higher amounts in Title IV student loans relative to other racial and ethnic subgroups (see **Table A-3**), they also tended to make the greatest progress in repaying their debt—nearly a quarter of it—within 12 years. Similar patterns emerged for borrowers from the highest end of the income distribution and for bachelor's degree recipients when compared to other subgroups from within their respective categories.

Figure 9. Average Ratio of the Title IV Student Loan Outstanding Balance to the Initial Amount Received as of 2015 for Borrowers Who Began Postsecondary Education in AY2003-2004 and Whose Loans Are Not Paid Off

By Race/Ethnicity, Income, and Degree Type



Source: CRS analysis of U.S. Department of Education, National Center for Education Statistics, 2003-2004 *Beginning Postsecondary Students Longitudinal Study*, Second Follow-Up (BPS:04/09).

Notes: Roughly 26% of borrowers in this cohort had their loans retired or forgiven, and are not depicted in this figure. Federal student loan amounts used in the measure depicted here include Subsidized and Unsubsidized Loans, and PLUS Loans to graduate and professional students, under the Direct and FFEL programs, and Perkins Loans. They exclude both PLUS Loans to parents on behalf of dependent undergraduate students and Consolidation Loans made under the Direct Loan and FFEL programs. The initial amount received is the amount the individual borrowed through 2015. Income is defined as total income of parents of dependent students and total income of independent students and their spouses in 2002, which is what was used to determine federal student aid eligibility in AY2003-2004. A student's dependency status in the measurement year (2015) could be different than the student's dependency status at the beginning of their postsecondary education (2003-2004). Quintile groupings are based on students who borrowed at least $1 in federal student loans as of 2015. For dependent undergraduate students, the "Lowest Quintile" includes those borrowers with incomes between $0 and $24,959; the "Lower Middle Quintile" includes those with incomes between $24,960 and $42,582; the "Middle Quintile" includes those with incomes between $42,583 and $63,676; the "Upper Middle Quintile"

includes those with incomes between $63,677 and $90,838; and the "Highest Quintile" includes those with incomes at $90,839 or higher. For independent undergraduate students, the "Lowest Quintile" includes those borrowers with incomes between $0 and $5,000; the "Lower Middle Quintile" includes those with incomes between $5,001 and $11,608; the "Middle Quintile" includes those with incomes between $11,609 and $19,900; the "Upper Middle Quintile" includes those with incomes between $19,901 and $31,269; and the "Highest Quintile" includes those with incomes at $31,270 or higher. Degree type represents the highest level of degree attainment by the student through June 30, 2009. There are too few observations within the Native Hawaiian and Other Pacific Islander subgroup to generate a reliable estimate. This does not mean that the progress to repayment ratio is zero.

When factoring in the size of student loan debt, defined as the outstanding balance in principal and interest as of 2015, perhaps the most notable trend is that borrowers who still owed larger amounts of debt tended to have made little progress, on average, toward repaying debt; in fact, many had seen their outstanding debt increase. While no discernable differences across subgroups are generally apparent by debt size category, there are a few exceptions. Borrowers with a smaller amount of remaining student loan debt ($1-$10,000), had repaid, on average, 34% of their debt within 12 years of beginning postsecondary education. However, on average, certain subgroups—Black individuals, individuals from the lowest end of the income distribution, and individuals who completed an undergraduate certificate or did not attain a degree or credential—made less progress paying down smaller remaining amounts of student loan debt ($1-$10,000) by that time. For example, Black individuals with these smaller outstanding debt amounts had repaid about 8% of their debt within 12 years of beginning postsecondary education; the average amount borrowed by such Black individuals through 2015 was $6,415.

Hardship in Repaying Debt

A loan made through a Title IV student loan program is considered to be in default once the borrower has failed to make payments when due or has otherwise not adhered to the terms of the promissory note.[61] The incidence of default on Title IV student loans may be viewed as an indicator of hardship in repaying debt. The BPS:04 dataset includes a measure of whether a borrower had ever defaulted on a Title IV student loan through 2015 (exclusive of PLUS Loans made to parents on behalf of dependent undergraduate students).

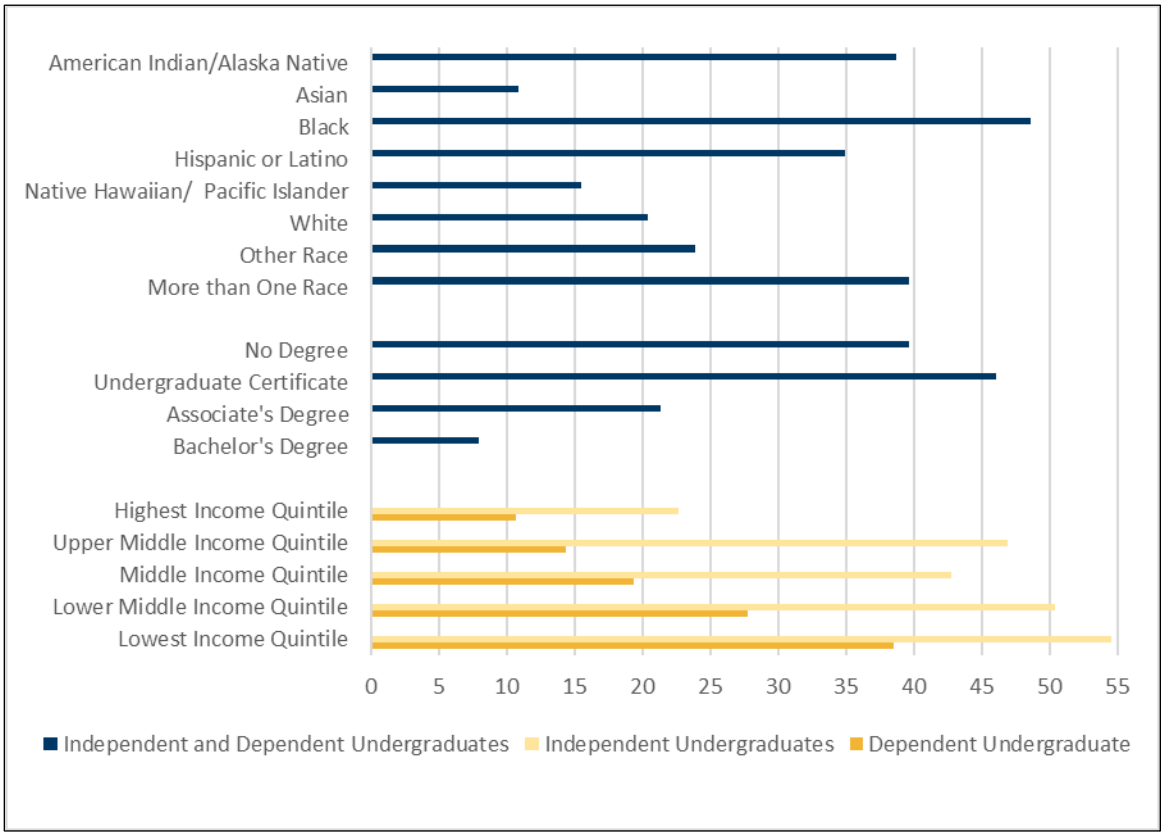
Figure 10 presents estimates of default rates by borrower race or ethnicity, income, and degree type as of 2015, regardless of debt size. On average, the default rate for all borrowers was nearly 30%. Some of the more notable trends include the following:

- Default rates were highest, nearly 50% for each group, among Black borrowers, independent undergraduate borrowers in all but the highest income quintile, and borrowers with undergraduate certificates.
- Default rates were lowest, under 15% for Asian borrowers, borrowers from the higher end of the dependent undergraduate student income distribution, and borrowers with bachelor's degrees.

[61] The precise conditions governing the incidence of default depend on the specific loan program. For example, loans made under the Direct Loan program are considered to be in default once the borrower has failed to make payments when due or has otherwise not adhered to the terms of the promissory note for 270 days (34 C.F.R. §685.102(b)).

Figure 10. Percentage of Borrowers Who Ever Defaulted on a Federal Student Loan as of 2015 for Students Who Began Postsecondary Education in AY2003-2004

By Race/Ethnicity, Income, and Degree Type



Source: CRS analysis of U.S. Department of Education, National Center for Education Statistics, 2003-2004 *Beginning Postsecondary Students Longitudinal Study*, Second Follow-Up (BPS:04/09).

Notes: Estimates of default rates include loans made under the Direct Loan, FFEL, and Perkins Loan programs for undergraduate and graduate education. They do not include PLUS Loans made to parents on behalf of dependent undergraduate students. Income is defined as total income of parents of dependent students and total income of independent students and their spouses in 2002, which is what was used to determine federal student aid eligibility in AY2003-2004. A student's dependency status in the measurement year (2015) could be different than the student's dependency status at the beginning of their postsecondary education (2003-2004). Quintile groupings are based on students who borrowed at least $1 in federal student loans as of 2015. For dependent undergraduate students, the "Lowest Quintile" includes those borrowers with incomes between $0 and $24,959; the "Lower Middle Quintile" includes those with incomes between $24,960 and $42,582; the "Middle Quintile" includes those with incomes between $42,583 and $63,676; the "Upper Middle Quintile" includes those with incomes between $63,677 and $90,838; and the "Highest Quintile" includes those with incomes at $90,839 or higher. For independent undergraduate students, the "Lowest Quintile" includes those borrowers with incomes between $0 and $5,000; the "Lower Middle Quintile" includes those with incomes between $5,001 and $11,608; the "Middle Quintile" includes those with incomes between $11,609 and $19,900; the "Upper Middle Quintile" includes those with incomes between $19,901 and $31,269; and the "Highest Quintile" includes those with incomes at $31,270 or higher. Degree type represents the highest level of degree attainment by the student through June 30, 2009. There are too few observations within the Native Hawaiian and Other Pacific Islander subgroup to generate a reliable estimate. This does not mean that the true value of the default rate is zero.

When examining default incidence by debt size, as measured by outstanding balances in principal and interest on Title IV loans as of 2015, the aforementioned trends generally persisted for borrowers with balances of $1 to $10,000 and $10,001 to $50,000. For both debt size categories,

default rates, on average, were roughly just over 30%. However, for both debt size categories, default rates were at or above about 50% for Black individuals, individuals from the lowest and upper middle quintiles of the independent undergraduate student income distribution, and individuals whose highest level of educational attainment was an undergraduate certificate.

While incidence of borrower default serves as an indicator of the ability or difficulty experienced by borrowers to repay their loans, it is not a direct indicator of budgetary cost to the federal government. Through a variety of tools to collect on or rehabilitate defaulted loans—including offset of certain federal benefits such as Social Security benefits, wage garnishment, and loan consolidation out of default—the government is able to recover a high proportion of defaulted debt.[62]

Summary of Potential Findings

This original analysis of borrower experiences repaying Title IV student loan debt for the cohort that began postsecondary education in AY 2003-2004 identifies some trends that may inform student loan cancellation policy options.

With regard to degree type, bachelor's degree recipients seemed to perform better in repaying their debt relative to other undergraduate degree and certificate completers and noncompleters, while borrowers who earned an undergraduate certificate seemed to face the greatest hardship repaying their debt. In particular, undergraduate certificate completers who still owed up to $10,000 in debt as of 2015 made very little progress repaying their debt within 12 years of beginning their education. In addition, undergraduate certificate completers who still owed up to up to $50,000 in debt as of 2015 had substantially higher default rates relative to other degree completers and noncompleters.

When examining income level, borrowers from the highest end of the income distribution for both dependent and independent undergraduate students (as defined according to pre-enrollment income in 2002) performed better on measures of student loan repayment relative to the rest of the income distribution, while borrowers from the lowest end of income distribution fared comparatively poorly. On average, borrowers across the entire income distribution for independent undergraduate students saw their debt grow within 12 years of beginning postsecondary education; although borrowers at the highest end of such income distribution fared better, with the amount of their student loan debt remaining within 12 years of beginning postsecondary education almost equaling what they initially borrowed. Borrowers from the lower end of the income distribution for dependent undergraduate students also made less progress toward paying down their debt within 12 years of beginning postsecondary education relative to the rest of the income distribution. Unlike independent undergraduate students at the lower end of their income distribution, similarly situated dependent undergraduate students saw their debt balances decrease, on average, within 12 years of beginning postsecondary education; although, at debt levels of greater than $10,000, such borrowers saw their debt levels grow.

Regarding race or ethnicity, Black borrowers performed worse on both measures of repayment experience compared to other racial or ethnic subgroups. On average, Black borrowers saw their debt grow within 12 years of beginning postsecondary education, and at a debt level of up to $10,000, repaid 7% of their student loan debt. Black borrowers were also more likely to default

[62] For example, while the government estimates that Federal Direct Student Loans made in FY2022 will have a default rate of 19.1%, it also projects to recover 104.7% of defaulted payments. The recovery rate may exceed 100% due to the estimated recovery of fees, capitalized interest, or other amounts. United States Budget, *Federal Credit Supplement*, Table 3, available at https://www.govinfo.gov/content/pkg/BUDGET-2023-FCS/pdf/BUDGET-2023-FCS.pdf.

on their Title IV loans relative to other racial or ethnic subgroups, and at debt levels of up to $50,000, had rates of default at or about 50%.

One possible explanation for some subgroups faring worse than others is that those particular groups had lower median incomes relative to the other subgroups, which may contribute to difficulties with student loan repayment.[63] In designing a federal student loan debt relief policy, Congress may consider whether to target debt relief in specific ways, such as based on income, amount still owed, and so on.

Effects on Individual Borrower Loan Repayment Burdens

Cancelling federal student loan debt, in whole or in part, would remove or lessen loan repayment burdens for qualifying borrowers. Depending on the amount of loan cancellation provided, some borrowers may have the full amount of their outstanding loans cancelled immediately. For others, if less than the full debt amount were cancelled, the overall dollar amount of loan payments made over the life of the loan would likely decrease and such borrowers may be able to pay off the remaining portion of their loan in a shorter period. However, such borrowers may not see immediate relief in terms of monthly payment obligations.[64] For example, under a policy of $10,000 in cancellation benefits, a borrower with $5,000 in outstanding student loan debt would experience full cancellation of their debt, which would result in an immediate termination of a borrower's monthly payment obligation. A borrower with $30,000 in outstanding loan debt would experience an immediate decrease of their total loan debt; thus, the overall dollar amount of loan payments made by the borrower over the loan's life may decrease and the borrower may be able to pay off the remaining portion of their loan in a shorter time period, but their monthly loan repayment obligation would not necessarily decrease unless the loan cancellation policy permitted reamortization.[65]

For individuals with large amounts of outstanding interest, a cancellation benefit may be insufficient to cover all outstanding interest (depending on the amount of the benefit). If cancellation benefits were applied in a manner similar to loan repayments, where payments are applied to accrued interest and fees before principal, such borrowers would still be helped by this assistance but might not see a reduction in outstanding principal.[66] And for others, such as those

[63] ED, NCES, "Table 502.30. Median annual earnings of full-time year-round workers 25 to 34 years old and full-time year-round workers as a percentage of the labor force, by sex, race/ethnicity, and educational attainment: Selected years, 1995 through 2018," available at https://nces.ed.gov/programs/digest/d19/tables/dt19_502.30.asp.

[64] This may depend on a variety of circumstances, such as a borrower's individual financial circumstances and the repayment plan in which they enroll. For example, under the Direct Loan and FFEL programs, borrowers repaying according to the various IDR plans make monthly payments based on their income. Thus, their monthly loan repayment obligation may be unlikely to change following cancellation of a portion of their loan. If a loan cancellation policy did not permit a loan to be reamortized (i.e., permit a modification of the borrower's repayment schedule) following the cancellation of a portion of a loan, borrowers under other available repayment plans similarly may not experience a decrease in monthly payment obligations, as monthly payments are calculated according to a specified repayment schedule based on the borrower's outstanding loan balance at the time they enter repayment or select their repayment plan. For additional information, see 34 C.F.R. §§682.209 and 685.208.

[65] Amortization refers to "the repayment of debt by a borrower in a series of installments over a period. Each payment includes interest and part repayment of the capital." *Oxford Dictionary of Finance and Banking*, Jonathan Law and John Smulten, 4th rev. ed. (Oxford University Press, 2008), https://www.oxfordreference.com/view/10.1093/acref/9780199229741.001.0001/acref-9780199229741-e-118?rskey=bwHfZw&result=161. Student loans may be reamortized in specific circumstances, such as the borrower obtaining a new Direct Consolidation Loan or switching among certain non-IDR plans.

[66] This may be particularly relevant for individuals enrolled in any of the IDR plans, under which certain borrowers may experience negative amortization (i.e., the amount of interest that accrues on a loan over a given period is greater

already likely to benefit from an existing loan forgiveness benefit such as Public Service Loan Forgiveness (PSLF), the cancellation benefit may provide little meaningful relief (depending on the amount and timing of the benefit provided and individual circumstances).[67]

For borrowers with multiple outstanding student loans, issues with how cancellation benefits should be applied across a borrower's loans may surface. For example, cancellation benefits could first be applied to any unsubsidized loans or to loans with the highest interest rate to help ensure that borrowers pay less interest over time. Alternatively, the benefits could be applied to enable borrowers to remain current on as many loans as possible.[68] Issues may also arise with how loan cancellation benefits should be applied on an individual loan.

Effects on Other Aspects of Borrowers' Personal Finances

Some observers have argued that student loan debt cancellation may enable some borrowers to make life decisions they may have otherwise been delaying or forgoing[69] due, at least in part, to

than the amount of payments that are being made). In general, under these repayment plans, loan payments are first applied to accrued interest and then to principal. See 34 C.F.R. §§6685.209 and 685.211. This may also be relevant for borrowers who were in deferment or forbearance and did not make payments of interest on their loans during that time.

[67] For example, if a borrower were repaying according to an IDR plan and anticipated receiving $50,000 in loan forgiveness benefits under PSLF, a $10,000 loan cancellation benefit may not have an effect on the borrower's monthly payments nor shorten their anticipated repayment term. For additional information on PSLF, see CRS Report R45389, *The Public Service Loan Forgiveness Program: Selected Issues*.

[68] For additional information on ways in which payments might be applied to multiple loans, see Policy Memorandum to James Runcie, Chief Operating Officer, Federal Student Aid, from Ted Mitchell, Under Secretary, U.S. Department of Education, "Policy Direction on Federal Student Loan Servicing," July 20, 2016, as updated October 17, 2016, pp. 24-26, https://www2.ed.gov/documents/press-releases/loan-servicing-policy-memo.pdf. This policy memorandum was rescinded in April 2017. ED, "Memorandum from Secretary of Education Betsy DeVos to FSA Chief Operating Officer James Runcie Regarding Student Loan Servicer Recompete," press release, April 11, 2017, https://www.ed.gov/news/press-releases/memorandum-secretary-education-betsy-devos-fsa-chief-operating-officer-james-runcie-regarding-student-loan-servicer-recompete.

[69] See, for example, U.S. Congress, Senate Committee on Banking, Housing, and Urban Affairs, Subcommittee on Economic Policy, *The Student Debt Burden and Its Impact on Racial Justice, Borrowers, & the Economy*, written testimony of Attorney General of Massachusetts Maura Healey, 117th Cong., 1st sess., April 13, 2021, p. 11, https://www.banking.senate.gov/imo/media/doc/Healey%20Testimony%204-13-212.pdf.

their student loan repayment obligations.[70] Such life decisions may include starting a family,[71] purchasing a home,[72] or saving for retirement.[73]

The extent to which loan cancelation might enable a borrower to make different life decisions in these types of areas would, of course, depend on a variety of circumstances. For example, whether a loan cancellation policy would enable a borrower to start a family or save for retirement would likely depend on a borrower's individual financial circumstances among other factors. While student loan cancellation may free up financial resources for some borrowers, in order to influence behavior the amounts forgiven would have to be substantial enough to facilitate undertaking other large financial obligations such as homeownership. Additionally, the extent to which a student loan cancellation policy would have a positive effect on a borrower's access to mortgage credit would depend on factors such as a mortgage lender's underwriting criteria[74] and whether the loan cancellation policy were structured such that a borrower's monthly student loan payments were reduced (e.g., their loan was reamortized). Because most mortgage lenders consider a borrower's monthly debt burden (including monthly student loan payments) in their underwriting criteria, a policy that does not reduce a borrower's monthly student loan payments may have a limited effect on a borrower's access to mortgage credit. In addition, depending on an individual borrower's circumstances, their consumer credit score may be negatively or positively impacted under a student loan cancellation policy, which may affect their access to financial products or opportunities (e.g., obtaining an automobile loan or credit card).[75]

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[70] Some argue that broadly available student loan cancellation may have a stimulating effect on the U.S. economy. This report does not attempt to assess the national economic impact of such a policy. For analyses discussing whether student loan debt cancellation may have a stimulating effect on the U.S. economy, see, for example, Scott Fullwiler, Stephanie Kelton, and Catherine Ruetschlin et al., *The Macroeconomic Effects of Student Debt Cancellation*, Levy Economics Institute of Bard College, February 2018, https://www.levyinstitute.org/pubs/rpr_2_6.pdf; and Committee for a Responsible Federal Budget, *Canceling Student Loan Debt is Poor Economic Stimulus*, November 18, 2020, https://www.crfb.org/blogs/canceling-student-loan-debt-poor-economic-stimulus. Some observers also argue that student loan debt should be cancelled in light of rising inflation, while others argue that a broad-based student loan debt cancellation policy would exacerbate inflation. See Alex Gangitano, Aris Folley, and Sylvan Lane, "Rising inflation adds pain to student loan debt," *The Hill*, January 14, 2022, https://thehill.com/policy/finance/589797-rising-inflation-adds-pain-to-student-loan-debt#bottom-story-socials; and Committee for a Responsible Federal Budget, *Cancelling Student Debt Would Add to Inflation*, February 28, 2022, https://www.crfb.org/blogs/cancelling-student-debt-would-add-inflation.

[71] See, for example, Moody's Investors Service, *Government of the United States: FAQ on potential impact of student loan debt forgiveness on US economy and government finances*, Report No. 1190058, October 28, 2019, p. 5.

[72] See, for example, Consumer Financial Protection Bureau, *Data Point: Final Student Loan Payments and Broader Household Borrowing*, June 29, 2018, pp. 15-17, 26-27, https://www.consumerfinance.gov/documents/6631/bcfp_data-point_final-student-loan-payments-household-borrowing.pdf; and National Association of REALTORS and American Student Assistance, *Student Loan Debt and House Report 2017: When Debt Holds You Back*, 2017, p. 11, https://www.nar.realtor/sites/default/files/documents/2017-student-loan-debt-and-housing-09-26-2017.pdf.

[73] TIAA and MIT AgeLab, *Student Loan Debt: The Multigenerational Effects on Relationships and Retirement*, Part 1 of 3: *Repay Now or Save for Later*, 2019, https://tiaa.new-media-release.com/mit-agelab/downloads/TIAA-MIT_Issue_Brief_1_072619.pdf.

[74] See, for example, Freddie Mac, *The Single-Family Seller/Servicer Guide*, §5401.2, https://guide.freddiemac.com/app/guide/section/5401.2. For additional information, see also CRS In Focus IF11761, *The Qualified Mortgage (QM) Rule and Recent Revisions*.

[75] See, for example, Jacob Passy and Andrew Keshner, "Wiping out the nation's student-loan debt could have unintended financial consequences for borrowers"" *MarketWatch*, January 25, 2020, https://www.marketwatch.com/story/wiping-out-the-nations-student-loan-debt-could-have-unintended-financial-consequences-for-borrowers-2020-01-22. For additional information on consumer credit scores, see CRS Report R44125, *Consumer Credit Reporting, Credit Bureaus, Credit Scoring, and Related Policy Issues*.

Effects on Future Student Loan Borrowing

Student loan cancellation, in full or in part, would result in some level of relief for eligible borrowers. Such relief may play a role in an individual's decision to borrow student loans in the future. For some individuals, the financial relief associated with debt cancellation may enable them to return to or continue their postsecondary education, as they could have greater current or future financial resources available to pursue education. In some cases, an individual may borrow additional federal student loans to finance their additional education.

It has also been suggested that providing broadly available student loan cancellation may result in a *moral hazard* for borrowers—if a current or prospective borrower believes that the federal government will cancel student loan debt, they may have less incentive to mitigate their risk associated with student loan borrowing.[76] For example, if the federal government were to implement a policy to broadly cancel outstanding federal student loans, an individual may borrow a larger amount of student loans or pay down debt more slowly in the future than they would otherwise—based on the expectation that the federal government may cancel loans again. On the other hand, a one-time policy of student loan debt cancellation with clearly articulated policy rationales tied to a specific set of circumstances at the time of implementation may go some way toward mitigating the likelihood of a resulting moral hazard.[77] In addition, aggregate borrowing limits associated with most of the federal student loan programs, especially for undergraduate students, may act as a limit on student loan borrowing. However, Direct PLUS Loans to parents and to graduate and professional students do not have aggregate borrowing limits.[78] Potential moral hazard may be mitigated by combining student loan debt cancellation with other policies to reduce the need for future borrowing to finance postsecondary education (see the "Operation of Existing Loan and Other Financial Aid Programs" section).

Federal Income Tax Implications for Borrowers

Under the Internal Revenue Code (IRC), borrowers whose debt is cancelled or repaid on their behalf must generally include the amount of the cancelled or repaid debt in income when

[76] See, for example, Fiona Greig and Daniel M. Sullivan, *Who Benefits from Student Debt Cancellation?*, JPMorgan Chase & Co., March 2021, https://www.jpmorganchase.com/institute/research/household-debt/who-benefits-from-student-debt-cancellation#:~:text=Findings,targeting%20makes%20cancellation%20less%20regressive.; Moody's Investors Service, *Government of the United States: FAQ on potential impact of student loan debt forgiveness on US economy and government finances*, Report No. 1190058, October 28, 2019, p. 6; Preston Cooper, "The Massive Moral Hazard Problem of Mass Student Loan Forgiveness," *Forbes*, October 28, 2019; Beth Akers, *Biden is right to reject calls to forgive $50,000 in student debt*, American Enterprise Institute, February 19, 2021, https://www.aei.org/education/biden-is-right-to-reject-calls-to-forgive-50000-in-student-debt/; and Committee for a Responsible Federal Budget, *How Long Before Cancelled Student Debt Would Return?*, July 6, 2021, https://www.crfb.org/blogs/how-long-cancelled-student-debt-would-return.

[77] Ben Miller, Colleen Campbell, and Brent J. Coehn et al., *Addressing the $1.5 Trillion in Federal Student Loan Debt*, Center for American Progress, June 2019, p. 8, https://cdn.americanprogress.org/content/uploads/2019/06/11062131/Evaluating-Options-REPORT.pdf?_ga=2.267614791.87152295.1618409100-260387325.1618409100.

[78] Similar arguments regarding a potential moral hazard for individuals who borrow for graduate education have been made with regard to the PSLF program, which provides Direct Loan borrowers who are employed full-time in public service jobs for 10 years while making 120 separate qualifying monthly payments on their loans with the opportunity to have any remaining balance of the principal and interest on their loans forgiven. See, for example, Jason Delisle, "The coming Public Service Loan Forgiveness bonanza," *Economic Studies and Brookings*, vol. 2, no. 2 (September 22, 2017), p. 5. For additional information on borrowing limits under the Direct Loan program, see CRS Report R45931, *Federal Student Loans Made Through the William D. Ford Federal Direct Loan Program: Terms and Conditions for Borrowers*.

determining their federal income tax liability.[79] The HEA and the IRC contain several statutory exceptions specifying that certain student loan cancellation and repayment benefits are to be excluded from taxable income. Prior to 2021, these exceptions included a borrower fulfilling certain service requirements or receiving certain statutorily specified loan discharges due to experiencing hardship. For example, under the HEA, borrowers of FFEL, Direct Loan, and Perkins Loan program loans whose loans are discharged due to a school's closure will not be subject to federal income taxes on the discharged amount.[80] Broad-based student loan debt cancellation under the policy options discussed in this report would result in debt reduction and, thus, a potential tax liability for a borrower. Provided that the debt would be cancelled pursuant to these proposals, borrowers may not qualify for the HEA or IRC exclusions described above.[81]

In March 2021, the American Rescue Plan Act of 2021 (ARPA; P.L. 117-2) amended the IRC to temporarily exclude most discharges of student loan debt from taxation. Specifically, ARPA excludes from gross income qualifying student loans (including those made under the federal student loan programs) *discharged* for almost any reason after December 31, 2020, and before January 1, 2026. Thus, if broad-based student loan debt cancellation occurring after December 31, 2020, and before January 1, 2026, is considered a discharge under the policy options discussed in this report, it would appear to be excluded from a borrower's gross income for federal income tax purposes. However, if broad-based student loan debt cancellation occurring after December 31, 2020, and before January 1, 2026, includes a *payment on behalf of the borrower* (as could be the case with regard to a student loan relief option for borrowers of federal education loans not held by the federal government), it may not fall under the ARPA exclusion from gross income.

In addition, eligible individuals can deduct up to $2,500 in student loan interest from their income, which generally reduces their federal income tax liability.[82] The deduction amount is phased out for taxpayers with income between $70,000 and $85,000 ($140,000 and $170,000 for married joint filers) for 2021.[83] A broad-based student loan cancellation policy may result in some borrowers seeing the amount they can deduct for student loan interest decrease, which generally will increase what they owe in income taxes. However, in many cases, the savings from a student loan cancellation benefit would exceed an increase in the borrower's income tax bill.[84]

[79] 26 U.S.C. §61(a)(11); Treas. Reg. §1.61-12(a).

[80] 20 U.S.C. §§1087(c)(4), 1087dd(g)(4), and 1087e(a)(1). In addition, borrowers of HEA Title IV program loans that are cancelled because a borrower is owed a refund by a school that has not been paid under specified circumstances or because the school a borrower attended falsely certified the borrower's eligibility to borrow or disbursed loan funds without the borrower's authorization will not be subject to federal income taxes on the cancelled amount.

[81] See 20 U.S.C. §§1087(c)(4), 1087dd(g)(4), and 1087e(a)(1); 26 U.S.C. §108(a)(1) and (f). On a case-by-case basis, it is possible that some borrowers may qualify for the insolvency exclusions.

[82] 26 U.S.C. §221.

[83] For additional information, see CRS Report R41967, *Higher Education Tax Benefits: Brief Overview and Budgetary Effects*.

[84] For example, a borrower who deducts $1,000 of student loan interest and is in the 22% tax bracket would save $220 in taxes from the student loan interest deduction benefit in a given year. If the entire balance of their student loan debt was cancelled, they would no longer claim this benefit, meaning their income tax bill would no longer be reduced by $220, all else being equal.

Potential Effects on the Student Loan System and the Federal Government

Cancelling federal student loan debt, in full or in part, may have varying effects on the federal government in general and the federal student loan system in particular. For the federal government as a whole, a policy of cancelling a large swath of federal student loan debt may result in varying budgetary effects, depending on the precise loan cancellation policy implemented, but would ultimately result in significant costs to the government. Widespread student loan cancellation in large amounts (e.g., $50,000 per borrower) may raise fundamental questions about the role of student loans in the federal financial aid strategy, and loan cancellation in large or more modest amounts may raise significant questions about whether existing federal student loan and financial aid programs should be updated to more comprehensively address prevailing concerns about student loan borrowing and debt. In addition, various stakeholders have identified issues in administering currently available student loan forgiveness benefits, such as problems relating to loan services' disclosure and facilitation of enrollment in those programs and ED's fragmented and incomplete guidance to loan servicers regarding program implementation. Similar issues may arise in implementing a widespread student loan cancellation policy, which may result in uneven levels of success in implementing the benefit. If Congress considers passing measures to authorize widely available student loan cancellation, it may also concurrently consider amending existing federal student loan and financial aid programs further to more comprehensively address prevailing concerns about student loan borrowing and debt. In addition, providing widely available federal student loan cancellation benefits may have effects on the current array of federal student loan forgiveness and repayment programs designed to provide a financial incentive to encourage individuals to enter and remain in high-need occupations or public service.

Costs to the Federal Government

A policy to cancel some or all federal student debt would impose a significant cost for the federal budget. The exact cost to the federal government of a proposal to provide large-scale federal student loan debt cancellation would depend on numerous facets of the policy. The total amount of debt to be cancelled under a given policy would be a leading determinant of the cost to the government, but it is far from the only factor. While estimating the cost of any single proposal is the role of the Congressional Budget Office, this section of the report discusses the types of factors that could affect the cost of cancellation proposals.

Amount of Debt to Be Cancelled

The primary factor in determining the cost to the federal government of a federal student loan cancellation policy would be the amount of student debt to be cancelled. In general, a greater amount of debt cancellation would result in greater costs to the federal government.[85] Policy choices to define the pool of borrowers eligible for debt cancellation and the size of the benefit amount per borrower would establish the amount of debt eligible for cancellation. For instance,

[85] The relationship between the amount of debt cancelled and the cost to the government is generally positive (i.e., would result in a cost to the federal government). However, as discussed in the "Mitigating Considerations" section below, there could conceivably be instances in which cancelling certain high-cost loans would yield budgetary savings for the federal government.

depending on the specific proposal, the pool of eligible borrowers might include the roughly 37 million Direct Loan borrowers, or it might additionally include the 5.6 million borrowers with FFEL program loans held by ED, the 4.5 million borrowers with commercially held FFEL program loans,[86] the 1.5 million borrowers with Perkins loans, or any combination thereof. Further, the amount of debt eligible for cancellation would vary significantly if the maximum benefit amount per borrower were set at $10,000, $50,000, or another specific amount, or if all of a borrower's debt would be cancelled.

While the total amount of debt cancelled would play a significant role in determining the cost of a particular policy to the federal government, the face value of the amount of debt cancelled would most likely not represent the total budgetary cost to the government. Other considerations, discussed in the following sections, may also shape the budgetary impact of a loan cancellation policy.

Mechanism of Cancellation

In addition to the amount of debt to be cancelled, the mechanism or mechanisms through which federal student loan debt would be cancelled may have an effect on the ultimate budgetary cost to the federal government. Loans held by nonfederal entities (e.g., commercial FFEL program loan holders, IHEs that hold Perkins Loan program loans, or loans made under the PHSA) may require different mechanisms through which to provide debt relief to borrowers than those used for loans held by the federal government. For instance, while the federal government could cancel a certain amount of federally held student loan debt similarly to how it has discharged or forgiven debt under existing programs, providing relief to borrowers with nonfederally held loans could take another form, such as the federal government making payments to nonfederal entities on behalf of borrowers or becoming the holder of such loans (e.g., through a refinancing program) and then subsequently cancelling some or all of the federally refinanced debt. These different options may have different budget implications.

Cancelling federal student loan debt held by the federal government would have budgetary implications with respect to both the amount of principal cancelled and the amount of interest forgone as a result. To the extent that student loan principal amounts are cancelled and future interest is not charged, such forgone revenue would be considered a budgetary cost.[87] Cancelling federally held student debt may have implications for administrative costs as well. While cancellation may result in a reduction of recurring administrative costs (e.g., loan servicing), there would likely be a near-term increase in administrative costs associated with the task of administering the loan cancellation itself.

For federally backed student loan debt that is not held by the federal government (e.g., commercially held FFEL program loans, Perkins Loans held by IHEs), Congress may consider an alternative mechanism for providing relief, such as by authorizing loan payments on behalf of borrowers to the nonfederal entities that hold the loans using federal funds. Such an initiative would be akin to currently existing loan repayment programs for borrowers.[88] The budgetary cost

[86] ED, FSA, Federal Student Aid Data Center, "Location of Federal Family Education Loan Program Loans," FY2022 Q1, https://studentaid.gov/sites/default/files/fsawg/datacenter/library/LocationofFFELPLoans.xls.

[87] Such a policy would likely be considered a *loan modification*, which is any government action that affects the subsidy cost of a loan. The cost of modifications to the Direct Loan program are recorded in the budget under the Federal Direct Student Loan Program Account.

[88] For additional information on student loan repayment programs, see CRS Report R43571, *Federal Student Loan Forgiveness and Loan Repayment Programs*.

of such an approach would reflect the payments made on behalf of borrowers as well as administrative costs, potentially with a small offset to account for the government's decreased exposure for guaranteed loans.[89]

As an alternative to making payments to nonfederal entities on behalf of borrowers, Congress may also consider a policy option in which the federal government refinances nonfederally held loans and subsequently cancels some or all of the newly refinanced debt. Under a refinancing and subsequent cancellation policy, individuals would borrow a federal student loan and use the proceeds to pay off (i.e., retire) their existing federal student loan obligations held by a nonfederal entity. The new federal student loan would be held by the federal government (e.g., ED) and may then be cancelled. ED currently operates a type of loan refinancing program—Direct Consolidation Loans[90]—which may enable borrowers with federal student loans not held by ED to refinance these loans and thereby become eligible for a variety of loan cancellation benefits (e.g., Public Service Loan Forgiveness) for which they would not otherwise qualify.

If the federal government were to refinance and subsequently cancel some portion of formerly nonfederally held student loan debt, there may be several effects on the federal budget. For instance, refinancing loans may raise federal costs for administrative functions and servicing. By originating refinanced student loans, however, the federal government would possess potentially valuable assets with potential future cash flows (e.g., principal and interest payments), though the value of these assets may be reduced by costs associated with certain policies and loans statuses such as interest subsidies, flexible repayment plans, preexisting loan forgiveness programs, and projected borrower default. On the other hand, after the initial step of refinancing student loans, the federal government would incur a significant cost by cancelling some or all of the refinanced debt. The net budgetary impact, then, would depend on the terms and conditions of the refinanced loans and on the share of newly acquired debt being cancelled.

Mitigating Considerations

While the potential cost of a student debt cancellation policy may largely depend on the amount of debt to be cancelled and on the specific method of debt relief, there are additional considerations that may mitigate the budgetary cost of such factors. For instance, while the amount of debt to be cancelled is informative, the net present value of a loan is likely to be different from its outstanding balance.[91] Relatedly, the budgetary value to the federal government of a certain amount of principal balance (e.g., $10,000) held by the federal government is likely to be different from its face value. The budgetary value of $10,000 of principal balance could potentially be greater than $10,000, such as when the government expects the $10,000 to be fully repaid along with interest that exceeds the applicable discount rate,[92] or less than $10,000, such as when the government does not expect future principal and interest payments to net $10,000 in

[89] Under loan guaranty programs such as the FFEL program, the federal government is responsible for paying a portion of unpaid principal to loan holders in the event that a borrower defaults. To the extent that a loan forgiveness policy reduced federally guaranteed principal balances, the government's liability would decrease, providing a marginal offset in cost.

[90] For additional information on Direct Consolidation Loans, including borrower eligibility criteria, see CRS Report R45931, *Federal Student Loans Made Through the William D. Ford Federal Direct Loan Program: Terms and Conditions for Borrowers*.

[91] The net present value of a loan is the present value of estimated cash inflows minus the present value of cash outflows. Present values are calculated by applying a discount rate—in this case, rates of Treasury securities—to future cash flows to account for the time-value of money.

[92] Per the Federal Credit Reform Act of 1990, cost estimates for federal credit programs are estimated by discounting future cash flows back to today's dollars using projected yields on Treasury securities of corresponding maturities.

today's dollars. The latter scenario could materialize if, for instance, a borrower defaults, a borrower repays less than $10,000 due to enrollment in an IDR plan or eligibility for another loan forgiveness program, or the effective interest rate on the loan is lower than the applicable discount rate.

While not likely to be common, it is plausible that cancelling certain debt could potentially achieve budgetary savings for the federal government for some borrowers. For example, consider a borrower enrolled in an IDR plan whose income is sufficiently low that the required monthly payment is $0 for the entire term of the loan until the balance is forgiven. The cost to the government of maintaining the loan over its lifetime, such as compensation to the loan servicer, may exceed administrative expenses associated with cancelling the loan earlier in its term. As a result, the budgetary effect of cancellation may be net savings for the government for some borrowers.

A more common example may also illustrate how the budgetary cost of cancellation may be less than the face value of the cancelled debt. A borrower could make regular payments on their loan but eventually have some amount of debt forgiven even absent a broad loan cancellation policy due to the terms of an IDR plan or another loan forgiveness program such as PSLF, or to types of loan discharge such as discharge due to the borrower's death or total and permanent disability. While cancelling such a loan may not achieve budgetary savings for the federal government, the budgetary cost of cancellation would be the marginal cost of cancellation in comparison to the forgiveness or discharge that would have been granted in its absence.[93] For example, if a borrower is on track to receive full loan forgiveness in 2024 under PSLF, and instead has the whole debt cancelled under a blanket cancellation policy in 2023, the cost to the government of that policy would be the extra expense of the earlier cancellation (i.e., forgone principal and interest payments).

Impact of Costs

Given the finite nature of budgetary resources, a policy that increases net costs to the government necessarily requires tradeoffs to be made. For instance, to accommodate increased spending in one area, the government may decrease spending for other programs and priorities. Alternatively, Congress and the President could seek to increase tax revenue to offset the increased spending. Absent a reduction in other spending or an increase in revenue sufficient to offset the new spending, the government may engage in increased deficit spending, which shifts the fiscal burden for paying for the new spending from current taxpayers and program beneficiaries to future ones.

Additionally, it is plausible that a policy providing widespread student loan debt cancellation could have effects on the economy broadly, which may in turn have implications for other federal revenues or entitlement spending. Such considerations, however, are beyond the scope of this report.

[93] While the federal government does not know the outcome of every loan in advance, for cost estimation purposes it estimates the initial subsidy cost of each cohort of loans and then issues re-estimates annually in the United States Budget, *Federal Credit Supplement*. The *subsidy cost* of a direct loan is the net present value of loan disbursements minus repayments of principal and interest, adjusted for estimated defaults, recoveries, prepayments, and fees.

Effects on the Underlying Student Loan and Other Financial Aid Programs

In addition to effects on the federal budget, broadly available student loan debt cancellation may have other effects on and implications for the federal government and the federal student loan system. These include implications for the continued operation of the federal student loan programs, the extent to which federal financial aid programs might be altered to address prevailing concerns about student loan borrowing and debt, and the potential effects on the current array of federal student loan forgiveness and repayment programs designed to provide a financial incentive to encourage individuals to enter and remain in high-need occupations or public service. Some policy considerations may arise only in scenarios in which a large amount of student loan debt is cancelled, while other considerations are more broadly applicable and may arise despite the scope of any cancellation benefit provided.

Operation of Existing Loan and Other Financial Aid Programs

A policy of widespread cancellation of large amounts of student loan debt (e.g., $50,000 per borrower) may raise fundamental questions about student loan policies and the role of student loans in the federal financial aid strategy. Cancelling a large portion of debt in the federal student loan programs, which is the government's primary tool to aid students and their families in paying for postsecondary education,[94] would potentially raise the question of whether federal student loans should remain the primary tool moving forward.

Alternative approaches to providing federal assistance for postsecondary education, such as relying more heavily on federal grant aid or moving toward a tuition- or debt-free aid model—which do not require as significant of investments in post-disbursement administration as the loan programs (e.g., loan servicing)—may be more streamlined. If there were ongoing interest in providing this level of support for college financing, and available resources to do so, Congress could reconsider the role of loans in the federal student aid approach.

If a widespread cancellation of large amounts of student loan debt was enacted as a one-time occurrence, varied equity concerns might arise about why existing borrowers are chosen to benefit from a cancellation policy that has not been made available to prior or future borrowers. More generally, a mass debt cancellation event may prompt questions about why finite federal resources should be expended for this purpose, to the exclusion of other federal assistance programs.

While a policy of cancelling student loan debt would decrease the current federal student loan portfolio by potentially significant amounts and would provide relief to at least some individuals with current outstanding student loan debt, absent congressional action, the various federal student loan programs would continue to operate, and individuals would continue to be eligible to borrow federal student loans to finance the cost of their postsecondary education. Factors that have been cited as contributing to the current amount of outstanding student loan debt or that may make repaying student loan debt difficult for some individuals would presumably still exist and may cause future borrowers to face similar issues. Such factors include, but are not limited to,

[94] In terms of dollar amount disbursed and number of students assisted annually, the Direct Loan program is currently the largest federal student aid program. In FY2021, about $83.3 billion in Direct Loans were made to 7.2 million recipients and about $27.2 billion in Pell Grants (the next largest federal student aid program) were made to 6.2 million recipients. ED, FSA, *FY2021 Annual Report*, November 19, 2021, pp. 15-16.

increasing college prices,[95] the absence of aggregate borrowing limits on Direct PLUS Loans,[96] and the increasing availability and utilization of student loan repayment plans that allow borrowers to make monthly payments of less than the interest that accrues on their loans (negative amortization).[97]

Should Congress consider authorizing widely available student loan cancellation, it may concurrently consider amending the federal student loan and financial aid programs to further address concerns about student loan borrowing. Such changes may help mitigate the need for future widely available loan cancellation policies. Policy options to address some of these suggested by advocates and stakeholders include proposals to provide debt-free[98] or tuition-free college;[99] double the amount of the maximum Pell Grant[100] available;[101] limit the amount of student loans individuals may borrow, especially with respect to Direct PLUS Loans;[102] and simplify and adjust the targeting of available loan repayment plans.[103]

Loan Cancellation Benefits Administration

Implementing a policy through which the federal government cancels all or a portion of outstanding federal student loans may present administrative difficulties. Numerous issues with the administration and loan servicing environment of the largest federal student loan program—the Direct Loan program—have been previously identified. For example, the CFPB has identified problems relating to loan servicers' disclosure of and facilitation of enrollment in existing student loan forgiveness programs and breakdowns in customer service.[104] Loan servicers have reported

[95] See, for example, Fiona Greig and Daniel M. Sullivan, *Who Benefits from Student Debt Cancellation?*, JPMorgan Chase & Co., March 2021, https://www.jpmorganchase.com/institute/research/household-debt/who-benefits-from-student-debt-cancellation#:~:text=Findings,targeting%20makes%20cancellation%20less%20regressive.

[96] See, for example, President's FY2021 budget request for the U.S. Department of Education, "Student Loans Overview," p. R-12, https://www2.ed.gov/about/overview/budget/budget21/justifications/r-sloverview.pdf.

[97] Ben Miller, Colleen Campbell, and Brent J. Cohen et al., *Addressing the $1.5 Trillion in Federal Student Loan Debt*, Center for American Progress, June 2019, pp. 17-, https://cdn.americanprogress.org/content/uploads/2019/06/11062131/Evaluating-Options-REPORT.pdf?_ga=2.267614791.87152295.1618409100-260387325.1618409100.

[98] See, for example, S. 672 (116th Congress).

[99] See, for example, H.R. 4674 (116th Congress).

[100] For additional information on the Pell Grant program, see CRS Report R45418, *Federal Pell Grant Program of the Higher Education Act: Primer*.

[101] See, for example, Gender Equity Policy Institute, *Tackling the Student Debt Crisis: An Analysis of Congressional Proposals to Increase Pell Grants*, September 2021, https://thegepi.org/wp-content/uploads/2021/09/GEPI-Tackling-Student-Debt-Crisis-1.pdf and Letter from 10,000 Degrees, Advancing Academic, and Alabama Possible, et al. to The Honorable Rosa DeLauro, Chairwoman House Appropriations Labor-HHS-Education Subcommittee, et al., May 18, 2020, https://ticas.org/wp-content/uploads/2020/06/Pell-Joint-Letter_2020.pdf.

[102] See, for example, President's FY2021 budget request for the U.S. Department of Education, "Student Loans Overview," p. R-12, https://www2.ed.gov/about/overview/budget/budget21/justifications/r-sloverview.pdf.

[103] Policy proposals largely focus on amending the IDR plans. See, for example, S. 821 (117th Congress); Diane Cheng and Jessica Thompson, *Make It Simple, Keep It Fair: A Proposal to Streamline and Improve Income-Driven Repayment of Federal Student Loans*, The Institute for College Access and Success, May 2017, https://ticas.org/files/pub_files/make_it_simple_keep_it_fair.pdf; and Michelle Dimino, Shelbe Klebs, and Michael Itzkowitz et al., *Fixing Our Broken Student Loan System*, Third Way, August 11, 2021, https://www.thirdway.org/memo/fixing-our-broken-student-loan-system.

[104] Identified issues include, for example, problems relating to loan servicers' disclosure of and facilitation of enrollment in certain student loan benefits programs and breakdowns in customer service. Consumer Financial Protection Bureau, *Student loan servicing: Analysis of public input and recommendations*, September 2015. See also the "Loan Servicing and FSA Oversight Issues" section of CRS Report R44845, *Administration of the William D. Ford Federal Direct Loan Program*. ED has taken steps to address some of these issues. Perhaps most notably, through its

receiving fragmented, incomplete, and untimely guidance from ED with respect to implementing existing loan forgiveness programs.[105] Similar issues may arise in implementing a widespread student loan cancellation policy, may cause confusion among borrowers and loan servicers, and may result in uneven levels of success in implementing a loan cancellation benefit.

Should a loan cancellation policy apply to all types of federal student loan programs, each of which involves varying entities tasked with administering them (e.g., ED and its contractors, IHEs, private lenders, GAs), additional issues may arise. One overarching issue may be the current fragmented nature of federal student loan program administration.[106] For example, each entity that administers aspects of a federal student loan program may have varying experience in administering the student loan forgiveness and repayment benefits that are currently available. Each entity may also have different infrastructures (e.g., information technology systems). Such disparate administrative arrangements may result in irregular or inefficient implementation of a loan cancellation benefit. The federal government, however, has experience in coordinating more narrowly tailored student loan cancellation benefits (e.g., ED has experience coordinating death and total and permanent disability discharge benefits across the Direct Loan, FFEL, and Perkins Loan programs and across all entities tasked with administering those loan programs). It may be relatively well positioned to coordinate a larger-scale cancellation benefit.

Existing Federal Student Loan Repayment and Forgiveness Programs

A policy of widespread cancellation of large amounts of student loan debt (e.g., $50,000 per borrower) may fundamentally change the operation of and need for the current federal framework of providing student loan repayment or forgiveness benefits for individuals completing many types of specified service. Currently, over 30 operational federal programs provide such benefits, many of which are designed to provide a financial incentive to encourage individuals to enter and remain in high-need occupations or public service.[107] Some may question the utility of or

Next Gen Initiative, ED seeks to "modernize the office of Federal Student Aid's technology, processes, and operations to improve student, parent, and borrower experiences and outcomes." For additional information, see ED, Office of Federal Student Aid Data Center, "Next Gen FSA," https://studentaid.gov/data-center/next-gen, accessed March 25, 2022.

[105] See, for example, U.S. Government Accountability Office, *Public Service Loan Forgiveness: Education Needs to Provide Better Information for Loan Servicer and Borrowers*, GAO-18-547, September 2018, pp. 16-17; and Danielle Douglas-Gabriel, "Weeks later, servicers still waiting on Education Dept. guidance for loan forgiveness expansion," October 28, 2021, pp. https://www.washingtonpost.com/education/2021/10/28/pslf-waiver-education-department/.

[106] Implementation of a large-scale student loan cancellation policy may affect workflows for those entities tasked with administering the student loan programs. For example, entities may experience an initial increase in labor hours and administrative costs associated with applying a one-time loan cancellation benefit to student loans. This may be followed by a decrease if an entity has fewer borrower accounts to service due to total debt cancellation or the borrower being in repayment for a shorter period due to partial cancellation. These potential impacts could have implications for the number of jobs required by a particular entity. The extent to which these impacts may affect the number of jobs required depends on a variety of circumstances. For instance, a decrease in customer support functions may require a private lender or ED-contracted loan servicer to lay off some employees who fulfill those duties. However, in some instances, a lender or ED-contracted loan servicer may assign an employee who might otherwise be laid off to work on different functions, thereby mitigating job loss. Such effects and implications on workflows would seemingly be more pronounced under a policy to cancel all or a large portion of outstanding federal student loan debt than under a narrower debt cancellation policy, potentially resulting in greater industry disruption and consolidation, especially for individual lenders and loan servicers for which federal student loans represent a large portion of their business activities. See, for example, Brazos Higher Education Authority, Inc., "Taxable Student Loan Program Revenue Bonds, Senior Series 2020-1A; Tax-Exempt Student Loan Program Revenue Bonds, Senior Series 2020-1A (AMT); and Tax-Exempt Student Loan Program Revenue Bonds, Subordinate Series 2020-1B (AMT)," March 1, 2020, p. 22, https://emma.msrb.org/ES1463020.pdf.

[107] For additional information, see CRS Report R43571, *Federal Student Loan Forgiveness and Loan Repayment*

necessity for the ongoing existence of such programs in the wake of widespread student loan cancellation in large amounts.

In addition, there may be other noteworthy ways in which widespread student loan cancellation (in large or more modest amounts) could potentially either undermine or work in conjunction with this current federal framework. If borrowers' student loan debt burden were significantly lessened under a policy of broadly available student loan debt cancellation, some individuals may be less likely to enter and remain in professions and service deemed desirable by federal policymakers, as the financial incentive to do so could be reduced. On the other hand, some borrowers may be more likely to do so because they may be able to take lower paying jobs as a result of the financial burden associated with student debt being lessened.

For example, under the Teacher Loan Forgiveness (TLF) program, Direct Loan and FFEL program borrowers employed full-time for five consecutive years as a teacher in a low-income school or educational service agency may receive up to $5,000 of loan forgiveness in general, and up to $17,500 of loan forgiveness is available for special education teachers and secondary school math and science teachers.[108] The purpose of the program is "to encourage individuals to enter and continue in the teacher profession."[109] Depending on the amount and timing of the benefit provided and individual circumstances, loan cancellation may provide sufficient relief so as to render the TLF benefit irrelevant to some borrowers; thus, they may pursue employment in professions or endeavors outside of teaching. Conversely, a cancellation benefit may provide relief sooner than the TLF program, which could free up some individuals' personal financial resources and enable them to enter into lower paying jobs, such as teaching, when they would not have otherwise done so. For individuals with student loan debt amounts larger than the maximum TLF benefit, a loan cancellation policy may provide additional student loan debt relief benefits.

Potential Effects on Institutions of Higher Education

In addition to borrowers, the federal government, and the student loan system generally, IHEs may be impacted by federal student loan cancellation policies. IHEs could potentially feel the secondary effects of cancellation policies with respect to consumer demand for higher education and institutional accountability measures. Additionally, depending on the pool of student loans eligible for cancellation under a specific policy option, the balance sheets of IHEs that hold federally backed student loans may be directly affected by the cancellation policy.

Market for Postsecondary Education

As providers of a consumer service (i.e., postsecondary education), IHEs may potentially be affected by a change in consumer demand for higher education following widespread student loan debt cancellation. As discussed in the "Effects on Future Student Loan Borrowing" section above, some observers have suggested that a possible effect of such a policy could be that some borrowers who benefitted from debt cancellation may be more likely to return to or continue with postsecondary education. Similarly, more individuals may opt to pursue postsecondary education if they perceive debt cancellation as a likelihood in the future. Some have also argued that if individuals perceived they could receive student loan debt forgiveness in the future, they may be

Programs.

[108] For additional information on the TLF program, see ED, FSA, "Teacher Loan Forgiveness," https://studentaid.gov/manage-loans/forgiveness-cancellation/teacher, accessed March 25, 2022.

[109] HEA §428J(a).

willing to pay more for their education and market conditions may enable IHEs to raise their prices.[110]

Institutional Accountability

A number of federal accountability and informational measures for IHEs concern the loan debt owed by students. A policy of broad federal student loan debt cancellation may impact or limit the usefulness of these measures.

Under the HEA, an institution's cohort default rate (CDR) generally measures the percentage of an IHE's FFEL and Direct Loan recipients[111] who enter into repayment in a given fiscal year and default within three years after entering repayment.[112] An IHE's eligibility to participate in the HEA Title IV student aid programs can be affected by high CDRs.[113] For example, IHEs with CDRs of 30% or more for three consecutive years may lose eligibility to participate in the Direct Loan and Pell Grant programs for the fiscal year in which the determination is made and for the two succeeding fiscal years. This CDR is the primary federal institutional accountability mechanism tied to the performance of federal student loans.[114]

The student loan payment pause implemented in response to the COVID-19 pandemic will likely lower institutions' CDRs for the next several years, as most student loan borrowers are not required to make payments during this period and, thus, the likelihood of their defaulting on their student loans is minimal.[115] Some have raised concerns that this payment pause will, therefore, diminish the usefulness of the CDR as an indicator of student borrower outcomes and as a means of holding IHEs accountable for those outcomes.[116]

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[110] See, for example, Lindsey M. Burke, *Democratic Plan To Forgive Student Loans Could Raise Tuition and Hurt Those at the Bottom*, The Heritage Foundation, February 23, 2021, https://www.heritage.org/education/commentary/democratic-plan-forgive-student-loans-could-raise-tuition-and-hurt-those-the; and Katherine Wiles, *Would Canceling $10,000 in Student Debt Really Help That Much?*, Marketplace, November 23, 2020, https://www.marketplace.org/2020/11/23/would-canceling-10000-in-student-debt-really-help/.

[111] PLUS Loans to graduate and professional students and to parents of dependent undergraduate students are excluded from the CDR calculation.

[112] HEA §435(m).

[113] For additional information on CDRs and institutional Title IV eligibility, see CRS Report R43159, *Institutional Eligibility for Participation in Title IV Student Financial Aid Programs*.

[114] A CDR is calculated separately to measure institutional accountability within the Perkins Loan program; HEA §462(e). In addition, for the PHSA loan programs (excluding the HEAL program), a participating school's default rate for the applicable loan program may not exceed 5%. The default rate for these programs is a lifetime default rate—that is, the default rate measures the percentage of the principal amount of all loans made by the school under the applicable program that have entered repayment and defaulted at any point during the life of the loan. See, for example, 42 C.F.R. §57.216a.

[115] Default is defined as the failure of a borrower to "make any installment payment when due, or to meet other terms of the promissory note, if the Secretary finds it reasonable to conclude that the borrower ... no longer intend[s] to honor the obligation to repay, provided that this failure persists for 270 days." 34 C.F.R. §685.102(b). See also 34 C.F.R. §682.200(b).

[116] See, for example, Lindsay Ahlman and Debbie Cochrane, *COVID-19 Student Loan Repayment Relief is Critical, But Two Consequences Need to be Addressed to Protect Borrowers*, The Institute for College Access and Success, November 11, 2020, https://ticas.org/accountability/covid-19-student-loan-repayment-relief-is-critical-but-two-consequences-need-to-be-addressed-to-protect-borrowers/; and Kristin Blagg and Erica Blom, *Postpandemic Federal Higher Education Accountability: Exploring Conceptual Frameworks for Performance Measures*, Urban Institute, August 16, 2021, p. 2, https://www.urban.org/sites/default/files/publication/104680/postpandemic-federal-higher-education-accountability.pdf.

A policy to broadly cancel at least some student debt may further diminish the usefulness of the CDR, as debt cancellation would likely reduce the number of defaults that would have otherwise occurred. As a result, some institutions that would have otherwise failed to meet the CDR requirements may satisfy them in light of student debt cancellation. This could potentially reduce pressure on such institutions to adopt changes aimed at reducing CDRs or revisit their default management plans.

Additionally, informational tools intended to help consumers make informed decisions about pursuing higher education, such as ED's College Scorecard, include data about the student loan debt of students who attended each IHE. Some measures, such as the median amount of student debt owed by borrowers at graduation, may not be affected by broad student debt cancellation.[117] Others, such as the proportion of former students who currently owe less than they did upon entering repayment, would likely be significantly affected by widespread debt cancellation. As a result, the statistics presented to consumers may not accurately convey borrowers' ability to repay amounts borrowed or the amount of debt likely to be borrowed by future students, who would enroll and borrow after the debt cancellation had already occurred. This could diminish the value of federal informational tools such as the College Scorecard in helping prospective students make informed decisions about postsecondary education options.

Institutions as Loan Holders

Under the Perkins Loan program (authorized under the HEA) and Health Professions Student Loans, Loans for Disadvantaged Students, Primary Care Loans, Nursing Student Loans, and the Nurse Faculty Loan Program (all authorized under the PHSA), loans were made to students using a combination of capital from the federal government and from IHEs. In many cases, IHEs are the holders of these programs' loans. If loans made under these programs and held by IHEs were to be eligible for cancellation with reimbursement from the federal government—such as by having the federal government make payments on behalf of borrowers or by refinancing such loans into federal loans—IHEs that hold such loans could potentially be affected in a number of ways.

On the one hand, a prepayment of loan principal[118] may result in IHEs receiving less income revenue from future interest payments, as interest would accrue on a smaller amount of principal. This may diminish the amount of interest revenue they may deposit into their revolving loan funds.[119] For IHEs participating in the PHSA Loan programs, lower interest income may curtail their ability to make future program loans. For IHEs participating in the Perkins Loan program, lower interest income may curtail the amount of funds they may retain during the program's wind-down.[120]

[117] However, if student debt cancellation were also provided to borrowers who are still enrolled, the median amount of debt owed by such borrowers upon their eventual graduation would likely be lower than it would be in the absence of such a policy.

[118] A prepayment of loan principal could be the product of a policy that would have the government either make a one-time payment on behalf of each eligible borrower or a policy that would enable borrowers to refinance their institutionally held loans with the federal government and use the proceeds to retire their institutionally held loans.

[119] A revolving loan fund is a pool of capital that is loaned to borrowers and replenished by the repayment of principal, interest payments, and fees, enabling subsequent loans.

[120] Authority to make new loans under the Perkins Loan program expired on September 30, 2017. As the program winds down, IHEs are to return the federal government's share of their revolving loan funds, and IHEs may retain the remaining portion (e.g., their institutional capital contributions and a proportional share of interest from loans) of the fund for their own use.

Nevertheless, IHEs may receive payments from the federal government for loans that would otherwise not have been paid in full by borrowers. The guaranteed repayment of a certain amount of principal could potentially mitigate the prepayment cost of forgone interest income.

Appendix. Selected Statistics on Student Loan Borrowers

Table A-1 and **Table A-2** present median cumulative HEA Title IV amounts borrowed by undergraduate and graduate certificate and degree completers in AY2015-2016. Estimates are disaggregated by borrower race or ethnicity, pre-enrollment income, degree type attained, and type of institution attended. Estimates are also presented for three different borrowing amount categories: (1) $1 to $10,000; (2) $10,001 to $50,000; and (3) greater than $50,000. This information is intended to supplement student loan borrowing data presented in **Figure 5**, **Figure 6**, **Figure 7**, and **Figure 8**.

Table A-1. Percentage of Individuals Who Borrowed Title IV Student Loans and Completed an Undergraduate or Graduate Certificate in AY2015-2016 and Median Amounts Borrowed in Title IV Loans through June 30, 2016

By Cumulative Amount Borrowed and Borrower Race/Ethnicity, Pre-enrollment Income, Undergraduate Degree Type, and Institution Type

		Median Amounts Borrowed			
	Percentage Who Borrowed	All Borrowers	Individuals Who Borrowed $1-$10,000	Individuals Who Borrowed $10,001-$50,000	Individuals Who Borrowed Above $50,000
Total		$20,020	$5,500	$25,000	$57,161
Borrower Race/Ethnicity					
American Indian or Alaska Native	61	15,746	5,500	23,370	57,500
Asian	64	19,000	5,500	22,000	56,784
Black or African American	77	22,625	5,881	25,990	56,975
Hispanic or Latino	52	15,625	5,500	23,250	56,500
Native Hawaiian/Other Pacific Islander	65	22,000	—[a]	29,000	55,918
White	61	20,844	5,500	25,000	57,257
More than One Race	69	22,618	5,000	26,000	57,500
Income: Dependent Undergraduate[b]					
Highest 20 Percent	50	20,750	5,500	24,976	—[a]
Upper Middle 20 Percent	55	20,700	5,500	25,000	52,500
Middle 20 Percent	57	19,000	5,500	25,000	53,250
Lower Middle 20 Percent	57	18,500	5,500	24,000	55,125
Lowest 20 Percent	56	15,832	5,500	24,500	54,406
Income: Independent Undergraduate[c]					
Highest 20 Percent	60	20,000	5,250	24,440	57,130
Upper Middle 20 Percent	63	21,125	5,500	24,850	57,417
Middle 20 Percent	66	22,129	6,250	25,022	57,500

	Percentage Who Borrowed	Median Amounts Borrowed			
		All Borrowers	Individuals Who Borrowed $1-$10,000	Individuals Who Borrowed $10,001-$50,000	Individuals Who Borrowed Above $50,000
Lower Middle 20 Percent	67	20,500	6,097	24,769	57,228
Lowest 20 Percent	59	21,089	5,675	25,409	57,499
Undergraduate Degree Type					
Certificate	64	10,511	6,500	17,156	57,161
Associate's Degree	46	15,000	4,959	21,125	56,405
Bachelor's Degree	67	26,284	5,500	27,000	57,169
Institution Type					
Public Less-than-Four-Year	39	11,828	5,000	19,347	—[a]
Private Nonprofit Less-than-Four-Year	81	13,907	6,859	18,432	—[a]
Private For-Profit Less-than-Four-Year	83	11,386	7,666	17,406	55,440
Public Four-Year	61	23,387	5,500	26,000	57,430
Private Nonprofit Four-Year	68	26,300	5,500	27,000	55,691
Private For-Profit Four-Year	85	32,523	6,334	29,895	57,431

Source: CRS analysis of U.S. Department of Education, National Center for Education Statistics, 2015-2016 *National Postsecondary Student Aid Study* (NPSAS:16).

Notes: Includes cumulative amounts borrowed for undergraduate education in Subsidized and Unsubsidized Loans under the Direct and FFEL programs, and Perkins Loans. Excludes amounts borrowed for PLUS Loans by parents of dependent undergraduate students.

a. There were too few observations for reliable estimates to be produced. This does not mean that the true value of median amounts borrowed is zero.

b. Income is defined as total income of parents of dependent students in 2014, which is what was used to determine federal student aid eligibility in AY2015-2016; quintiles are based on students who borrowed at least $1 in Title IV loans. For dependent undergraduate students, The "Lowest 20 Percent" includes those borrowers with incomes between $0 and $24,204; the "Lower Middle 20 Percent" includes those with incomes between $24,205 and $51,884; the "Middle 20 Percent" includes those with incomes between $51,885 and $83,366; the "Upper Middle 20 Percent" includes those with incomes between $83,367 and $127,381; and the "Highest 20 Percent" includes those with incomes above $127,382.

c. Income is defined as total income of independent students and their spouses in 2014, which is what was used to determine federal student aid eligibility in AY2015-2016; quintiles are based on students who borrowed at least $1 in Title IV loans. For independent undergraduate students, the "Lowest 20 Percent" includes those borrowers with incomes between $0 and $5,000; the "Lower Middle 20 Percent" includes those with incomes between $5,001 and $13,710; the "Middle 20 Percent" includes those with incomes between $13,711 and $24,723; the "Upper Middle 20 Percent" includes those with incomes between $24,724 and $48,634; and the "Highest 20 Percent" includes those with incomes above $48,635.

Table A-2. Percentage of Individuals Who Borrowed Title IV Student Loans and Completed a Graduate Degree or Certificate in AY2015-2016 and Median Amounts Borrowed in Title IV Loans through June 30, 2016

Cumulative Amount Borrowed at the Undergraduate and Graduate Levels by Borrower Race/Ethnicity, Borrower Pre-enrollment Income, Graduate Degree Type, and Institution Type

		Median Amounts Borrower			
	Percentage Who Borrowed	All Borrowers	Individuals Who Borrowed $1-$10,000	Individuals Who Borrowed $10,001-$50,000	Individuals Who Borrowed Above $50,000
Total		$50,872	$5,500	$28,157	$89,462
Borrower Race/Ethnicity					
American Indian or Alaska Native	61	—[a]	—[a]	—[a]	—[a]
Asian	25	69,430	—[a]	20,500	115,083
Black or African American	86	76,109	6,500	30,500	92,093
Hispanic or Latino	81	49,445	6,500	30,500	87,470
Native Hawaiian/Other Pacific Islander	48	—[a]	—[a]	—[a]	—[a]
White	69	44,694	5,500	27,343	86,985
More than One Race	63	45,618b	—[a]	30,936	100,167
Income[c]					
Highest 20 Percent	63	30,236	5,500	23,573	81,899
Upper Middle 20 Percent	70	42,847	4,000	28,950	85,291
Middle 20 Percent	68	54,500	5,000	30,125	86,024
Lower Middle 20 Percent	65	53,886	5,500	29,000	77,633
Lowest 20 Percent	58	82,505	5,820	34,855	111,371
Graduate Degree Type					
Post-baccalaureate Certificate	61	36,623	—[a]	28,303	96,255
Master's Degree	64	45,413	5,500	28,425	78,757
Doctor's Degree (research or scholarship fields)	54	71,500	4,000	26,469	113,512
Doctor's Degree (professional practice)	78	147,446	—[a]	27,343	165,310
Institution Type					
Public Four-Year	61	42,734	5,250	27,000	79,248
Private Nonprofit Four-Year	67	55,750	6,125	28,900	99,534
Private For-Profit Four-Year	80	75,042	4,000	32,252	92,093

Source: CRS analysis of U.S. Department of Education, National Center for Education Statistics, 2015-2016 *National Postsecondary Student Aid Study* (NPSAS:16).

Notes: Includes cumulative amounts borrowed for undergraduate education or graduate education in Subsidized and Unsubsidized Loans, and PLUS Loans to graduate and professional students, under the Direct and FFEL programs, and Perkins Loans. Excludes amounts borrowed for PLUS Loans by parents of dependent undergraduate students.

a. There were too few observations for reliable estimates to be produced. This does not mean that the true value of median amounts borrowed is zero.

b. Standard error for the estimate is greater than 30% of the estimate, but less than 50%. This estimate should be viewed and interpreted with caution.

c. Income is defined as total income of students and their spouses in 2014, which is what was used to determine federal student aid eligibility in AY2015-2016. The "Lowest 20 Percent" includes those borrowers with incomes between $0 and $5,397; the "Lower Middle 20 Percent" includes those with incomes between $5,398 and $21,685; the "Middle 20 Percent" includes those with incomes between $21,686 and $43,567; the "Upper Middle 20 Percent" includes those with incomes between $43,568 and $81,003; and the "Highest 20 Percent" includes those with incomes above $81,004.

Table A-3 presents selected descriptive statistics and estimates of federal student loan borrowing and debt for students who began postsecondary education in AY2003-2004. This information is disaggregated by borrower race or ethnicity, income, and degree type. This information is used to illuminate the CRS analysis of distributional effects of student loan cancellation policies found in the "Distributional Effects on Subgroups of Borrowers" section.

Table A-3. Selected Descriptive Statistics and Estimates of Federal Student Loan Borrowing and Debt for Students Who Began Postsecondary Education in AY2003-2004

By Race/Ethnicity, Income, and Degree Type

	Number of Students[a]	Share of Total Number of Students[a]	2015 Median Cumulative Amount Borrowed for Undergraduate or Graduate Education	Percentage of Students Who Borrowed for Undergraduate or Graduate Education Through 2015	Median Outstanding Balance, in Principal and Interest, in 2015	Percentage of Borrowers with Outstanding Balance, in Principal and Interest, in 2015[b]
Total	3,623,600	100%	$16,251	63%	$17,199	75%
Race/Ethnicity						
American Indian or Alaska Native	22,700	<1%	$10,375[c]	57%	$18,925[c]	69%
Asian	162,100	4%	$17,500	54%	$18,350	64%
Black or African American	498,400	14%	$17,034	79%	$22,101	88%
Hispanic or Latino	526,300	15%	$11,626	60%	$15,788	74%
Native Hawaiian/Other Pacific Islander	13,900	<1%	—[d]	64%	—[d]	84%
White	2,254,300	62%	$17,000	61%	$16,310	71%
Other	45,200	1%	$18,250	56%	$19,298	84%
More than One Race	100,600	3%	$15,221	67%	$17,827	75%
Income						
Dependent Undergraduate[e]						
Highest 20 Percent	522,400	14%	$18,488	55%	$17,675	70%
Upper Middle 20 Percent	517,000	14%	$17,344	64%	$17,196	73%
Middle 20 Percent	523,000	14%	$16,875	69%	$16,350	72%

	Number of Students[a]	Share of Total Number of Students[a]	2015 Median Cumulative Amount Borrowed for Undergraduate or Graduate Education	Percentage of Students Who Borrowed for Undergraduate or Graduate Education Through 2015	Median Outstanding Balance, in Principal and Interest, in 2015	Percentage of Borrowers with Outstanding Balance, in Principal and Interest, in 2015[b]
Lower Middle 20 Percent	521,000	14%	$17,500	70%	$20,206	74%
Lowest 20 Percent	512,200	14%	$15,187	69%	$17,337	79%
Independent Undergraduate[f]						
Highest 20 Percent	198,300	5.5%	$16,688	39%	$17,090	78%
Upper Middle 20 Percent	208,500	6%	$11,104	46%	$16,679	80%
Middle 20 Percent	209,100	6%	$12,688	68%	$18,744	78%
Lower Middle 20 Percent	208,400	6%	$11,126	67%	$16,583	72%
Lowest 20 Percent	203,100	6%	$8,084	68%	$12,860	79%
Degree Type[g]						
No Degree	1,821,000	50%	$11,925	59%	$15,546	76%
Undergraduate Certificate	346,000	10%	$6,625	62%	$9,551	66%
Associate's Degree	336,400	9%	$16,000	64%	$19,053	80%
Bachelor's Degree	1,120,100	31%	$22,599	70%	$22,367	73%

Source: CRS analysis of U.S. Department of Education, National Center for Education Statistics, 2003-2004 *Beginning Postsecondary Students Longitudinal Study*, Second Follow-Up (BPS:04/09).

Notes: Federal student loan amounts include Subsidized and Unsubsidized Loans, and PLUS Loans to graduate and professional students, under the Direct and FFEL programs, and Perkins Loans. Excludes amounts borrowed for PLUS Loans by parents of dependent undergraduate students.

a. Column may not sum due to rounding.

b. This is the percentage of individuals who borrowed federal student loans through 2015 and held an outstanding balance in principal and interest as of 2015.

c. The standard error for such estimate is greater than 30%, but less than 50% and should be viewed and interpreted with caution.

d. There were too few observations for reliable estimates to be produced. This does not mean that the true value of these measures is zero.

e. Income is defined as total income of parents of dependent students in 2002, which is what was used to determine federal student aid eligibility in AY2003-2004. For dependent undergraduate students. A student's dependency status in the measurement year (2015) could be different than the student's dependency status at the beginning of their postsecondary education (2003-2004). Quintile groupings for "Total Number of Students," "Share of Total Number of Students" and "Percentage of Students Who Borrowed for Undergraduate or Graduate Education Through 2015" are based on the total number of students. The "Lowest 20 Percent" includes those borrowers with incomes between $0 and $25,505; the "Lower Middle 20 Percent" includes those with incomes between $25,506 and $45,041; the "Middle 20 Percent" includes those with incomes between $45,042 and $67,064; the "Upper Middle 20 Percent" includes those with incomes between $67,065 and $97,668; and the "Highest 20 Percent" includes those with incomes above at $97,669 or higher. Quintile groupings for all other measures are based on students who borrowed at least $1 in federal student loans as of 2015. The "Lowest 20 Percent" includes those borrowers with incomes between $0 and $24,959; the "Lower Middle 20 Percent" includes those with incomes between $24,960 and $42,582; the "Middle 20 Percent" includes those with incomes between $42,583 and $63,676; the "Upper Middle 20 Percent" includes those with incomes between $63,677 and $90,838; and the "Highest 20 Percent" includes those with incomes at $90,834 or higher.

f. Income is defined as total income of independent students and their spouses in 2002, which is what was used to determine federal student aid eligibility in AY2003-2004. A student's dependency status in the measurement year (2015) could be different than the student's dependency status at the beginning of their postsecondary education (2003-2004). Quintile groupings for "Total Number of Students," "Share of Total Number of Students," and "Percentage of Students Who Borrowed for Undergraduate or Graduate Education Through 2015" are based on the total number of students. For independent undergraduate students, the "Lowest 20 Percent" includes those borrowers with incomes between $0 and $6,015; the "Lower Middle 20 Percent" includes those with incomes between $6,016 and $14,180; the "Middle 20 Percent" includes those with incomes between $14,181 and $24,718; the "Upper Middle 20 Percent" includes those with incomes between $24,719 and $44,520; and the "Highest 20 Percent" includes those with incomes at $44,521 or higher. Quintile groupings for all other measures are based on students who borrowed at least $1 in federal student loans as of 2015. The "Lowest 20 Percent" includes those borrowers with incomes between $0 and $5,000; the "Lower Middle 20 Percent" includes those with incomes between $5,001 and $11,608; the "Middle 20 Percent" includes those with incomes between $11,609 and $19,900; the "Upper Middle 20 Percent" includes those with incomes between $19,901 and $31,269; and the "Highest 20 Percent" includes those with incomes at $31,270 or higher.

g. Degree type represents the highest level of degree attainment by the student through June 30, 2009.

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