



# CORONAVIRUS

# EXPLAINER

## CONGRESSIONAL PROGRESSIVE CAUCUS CENTER

## Borrowing From Our Future: The Case for Cancelling Student Debt

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*This explainer features contributions from the following organizations:*



### Background

Around 45 million Americans now hold student loans, an increase of over 10 million since the Great Recession.<sup>1</sup> As of mid July, a staggering 51 million Americans have filed for unemployment due to COVID-19.<sup>2</sup> The current recession has also disproportionately affected Black and Brown families<sup>3</sup> who were already facing disparities in student loan debt.<sup>4</sup> Student debt cancellation is crucial to providing immediate relief to millions of Americans and boosting the economy.

### Student Loan Debt Crisis

**Student Debt is a Crisis for Our Economy.** Americans now owe more in student loan debt than they do for auto loans, credit cards, or any other non-mortgage debt.<sup>5</sup> Roughly 45

<sup>1</sup> Federal Reserve Bank of New York, Student Loan Data and Demographics, 2018

<sup>2</sup> Tami Luhby. "1.3 million Americans filed first-time unemployment claims last week." CNN Business. 16 July 2020.

<sup>3</sup> <https://www.cnn.com/2020/07/16/economy/unemployment-benefits-coronavirus/index.html>

<sup>4</sup> Congressional Progressive Caucus Center. "COVID-19's Impact on Communities of Color." 5 May 2020.

<sup>5</sup> <https://static1.squarespace.com/static/5a5414caf9a61e90a854b98c/t/5eb19effc61d103fb9bb42a9/1588698879972/COVID-19%27s+Impact+on+Communities+of+Color+Coronavirus+Explainer+-+C3.pdf>

<sup>6</sup> Elise Gould and Valerie Wilson. "Black workers face two of the most lethal preexisting conditions for coronavirus—racism and economic inequality."

Economic Policy Institute. 1 June 2020. <https://www.epi.org/publication/black-workers-covid/>

<sup>7</sup> See Fed. Reserve Bank of N.Y., Household Debt and Credit Report: Q1 2018 (May 2018).

million Americans hold federal student loan debt, and over a quarter are behind on their loans.<sup>6</sup> Borrowers typically make payments ranging between \$300 and \$400 a month.<sup>7</sup>

**Small Businesses and Homeownership.** Student debt hampered both families' and the nation's economic stability before the current crisis. Small businesses account for roughly 60 percent of employment activity in the U.S, and the housing market is a driving force in the economy -- accounting for over 12 percent of GDP.<sup>8</sup> Federal Reserve studies show that rising student debt levels help account for decreasing homeownership among young people.<sup>9</sup> Additionally, these studies show that even small increases in student debt levels lead to a meaningful decrease in business formation.

**Debt Collection.** Current federal aid practices and policies hammer the approximately 9 million borrowers who are currently in default or delinquent on their loans. Draconian debt collection and default policies prevent individuals from getting a fresh start. Without obtaining a court order, the government can seize vital safety-net protections such as social security benefits, wages, and tax refunds (including the Earned Income Tax Credit and the Child Tax credit) from defaulted borrowers.<sup>10</sup> Through these coercive collection powers, the federal government often siphons thousands of dollars each year from these borrowers, who are typically very low-income and already experiencing financial distress.

Defaulted borrowers disproportionately attended predatory for-profit institutions and experienced widespread illegal practices by student loan servicers. The government then relies on private debt collectors to use the full weight of the government to wreak havoc on borrowers.

**Student Debt is a Crisis for Black and Brown Borrowers.** Due to decades of structural and systemic racism, Black and Brown communities have been among the hardest hit populations by COVID-19. They are most vulnerable to the devastating health and economic consequences of this crisis, just as they were most impacted by the Great Recession a decade ago.<sup>11</sup> Black students borrow student loans at higher rates, and take on thousands more in debt, due to a history of exclusionary policies that have resulted in persistent racial inequities in income and wealth.<sup>12</sup> Students of color are often targeted by for-profit institutions that line their pockets with taxpayer dollars at students' expense.

In particular, Black and Latinx students are more likely to borrow and accumulate student loan debt at higher rates. Black borrowers who entered college in 2004 have defaulted at a rate more than three times higher than similar White borrowers on their student debt.<sup>13</sup>

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<sup>6</sup> U.S. Dep't of Educ., Federal Student Aid, Data Center, Federal Student Loan Portfolio; see also, Consumer Fin. Prot. Bureau, Student Loan Servicing: Analysis of Public Input and Recommendations for Reform (Sept. 2015).

<sup>7</sup> Zack Friedman. "Student Loan Debt Statistics In 2020: A Record \$1.6 Trillion." Forbes. 3 February 2020. <https://www.forbes.com/sites/zackfriedman/2020/02/03/student-loan-debt-statistics/#5ec11f281f>

<sup>8</sup> Brent W. Ambrose, Larry Cordell, Shuwei Ma. "The Impact of Student Loan Debt on Small Business Formation." Research Department, Federal Reserve Bank of Philadelphia. July 2015. <https://www.philadelphiafed.org/-/media/research-and-data/publications/working-papers/2015/wp15-26.pdf>; "Why Homeownership Matters: The Triple Bottom Line." FreddieMac. 4 June 2018.

[http://www.freddiemac.com/blog/homeownership/20180604\\_national\\_homeownership\\_month\\_page](http://www.freddiemac.com/blog/homeownership/20180604_national_homeownership_month_page)

<sup>9</sup> Alvaro Mezza, Daniel Ringo, and Kamila Sommer. "Can Student Loan Debt Explain Low Homeownership Rates for Young

Adults?" Consumer & Community Context. Vol. 1, No. 1. Federal Reserve Board Division of Research & Statistics. January 2019.

[https://www.federalreserve.gov/publications/files/consumer-community-context-201901.pdf?mod=article\\_inline](https://www.federalreserve.gov/publications/files/consumer-community-context-201901.pdf?mod=article_inline)

<sup>10</sup> Persis Yu. "Voices of Despair: HOW SEIZING THE EITC IS LEAVING STUDENT LOAN BORROWERS HOMELESS AND HOPELESS DURING A PANDEMIC." National Consumer Law Center. July 2020. [https://www.nclc.org/images/pdf/student\\_loans/voices-of-despair-seizing-eitc-in-pandemic.pdf](https://www.nclc.org/images/pdf/student_loans/voices-of-despair-seizing-eitc-in-pandemic.pdf)

<sup>11</sup> "Borrowers of Color & the Student Debt Crisis." CRL, The Leadership Conference on Civil and Human Rights, NAACP, National Urban League, UNIDOS US.

September 2019. <https://www.responsiblelending.org/sites/default/files/nodes/files/research-publication/crl-quicksand-student-debt-crisis-jul2019.pdf>

<sup>12</sup> Ashley Harrington. "Can Debt Relief and Investment in HBCUs Level the Playing Field for Black Students?" The Education Trust. 16 April 2020.

<https://edtrust.org/resource/can-debt-relief-and-investment-in-hbcus-level-the-playing-field-for-black-students/>

<sup>13</sup> Judith Scott-Clayton. "The looming student loan default crisis is worse than we thought." Brookings Institution. 11 January 2018.

<https://www.brookings.edu/research/the-looming-student-loan-default-crisis-is-worse-than-we-thought/>

Within 12 years of starting school, over half of Black men default on their loans<sup>14</sup> and the typical Black borrower owes more than they originally borrowed, while the average White borrower owes about 65 percent of their original loan balance.<sup>15</sup> Of Latinx borrowers in repayment on their student loans, 15 percent were in default, and another 29 percent were seriously delinquent on their payments.<sup>16</sup>

Finally, student debt is both a cause and consequence of our unconscionable racial wealth gap. Various studies have suggested that different levels of cancellation would begin<sup>17</sup> to close<sup>18</sup> the racial wealth divide. For Black borrowers in particular, cancelling student loans could ease the unequal burden of housing costs, childcare, and help boost household finances at a time when they are more likely to face unemployment and job loss,<sup>19</sup> eviction,<sup>20</sup> and housing insecurity.<sup>21</sup>

## Student Debt Cancellation: An Economic Boost that Improves Quality of Life

**Boost the Economy.** In 2018 and 2019, two separate studies — one from the Levy Economics Institute and one from Moody's — showed that cancellation would have a positive effect on the economy by serving as an immediate stimulus and, over the long-term, create jobs and increase homeownership and small business formation.<sup>22</sup> The Levy Institute study found that full cancellation of student loan debt would increase the real GDP between \$86 billion and \$108 billion a year for 10 years as well as create 1.2 - 1.5 million jobs per year.<sup>23</sup>

**Improves Lives.** From daily expenses, to living expenses, to auto loans, to credit cards, the stress of any debt can take a toll on one's well-being and personal finances. A study by the National Bureau of Economic Research shows that federal student debt cancellation — even for borrowers who were not paying monthly — catalyzes significant improvement in a wide range of life outcomes.<sup>24</sup> The study shows that cancelling student loans increased borrowers' incomes by \$3,000 over three years. It also enabled them to pay down other debts, and increased geographic mobility and their ability to pursue better jobs. Student debt cancellation will remove the stress and burden weighing on millions of Americans' shoulders and create positive changes in their lives.

**Older Borrowers.** Student debt cancellation isn't just a tool to help younger people. It would also provide crucial relief to the 40,000 older borrowers who had their Social Security

<sup>14</sup> Mark Huelsman. Debt to Society: The Case for Bold, Equitable Student Loan Cancellation and Reform. Demos. 6 June 2019. <https://www.demos.org/research/debt-to-society>

<sup>15</sup> Ben Miller. "New Federal Data Show a Student Loan Crisis for African American Borrowers." Center for American Progress. 16 October 2017. <https://www.americanprogress.org/issues/education-postsecondary/news/2017/10/16/440711/new-federal-data-show-student-loan-crisis-african-american-borrowers/>

<sup>16</sup> Demos. "Latinos, Student Debt, and Financial Security." 26 October 2016. <https://www.demos.org/research/latinos-student-debt-and-financial-security>

<sup>17</sup> Sullivan, Meschede, Dietrich, et al. "Less Debt, More Equity: Lowering Student Debt While Closing the Black-White Wealth Gap." ISASP, Demos. 2015. <https://heller.brandeis.edu/iasp/pdfs/racial-wealth-equity/racial-wealth-gap/less-debt.pdf>

<sup>18</sup> Marshall Steinbaum. "Student Debt and Racial Wealth Inequality." Jain Family Institute. 7 August 2019. <https://phenomenalworld.org/media/pages/analysis/student-debt-racial-wealth-inequality/55155716-1577199400/marshall-steinbaum-student-debt-and-racial-wealth-inequality-final-8-7-19.pdf>

<sup>19</sup> Elise Gould and Valerie Wilson. "Black workers face two of the most lethal preexisting conditions for coronavirus—racism and economic inequality." Economic Policy Institute. 1 June 2020. <https://www.epi.org/publication/black-workers-covid/>

<sup>20</sup> Sarah Kleiner, Pratheek Reba, Joe Yerardi. "COMMUNITIES OF COLOR POISED TO LOSE THEIR HOMES AS EVICTION MORATORIUMS LIFT." The Center for Public Integrity. 11 July 2020. <https://publicintegrity.org/health/coronavirus-and-inequality/communities-of-color-homes-coronavirus-evictions-moratoriums-lift/>

<sup>21</sup> Joint Center for Housing Studies of Harvard University. "RENTER COST BURDENS BY RACE AND ETHNICITY." 2020. [https://www.jchs.harvard.edu/ARH\\_2017\\_cost\\_burdens\\_by\\_race](https://www.jchs.harvard.edu/ARH_2017_cost_burdens_by_race)

<sup>22</sup> Scott Fullwiler, Stephanie Kelton, Catherine Ruetschlin, and Marshall Steinbaum. "THE MACROECONOMIC EFFECTS OF STUDENT DEBT CANCELLATION." Levy Economics Institute. February 2018. [http://www.levyinstitute.org/pubs/rpr\\_2\\_6.pdf](http://www.levyinstitute.org/pubs/rpr_2_6.pdf)

<sup>23</sup> Ibid.

<sup>24</sup> Marco Di Maggio, Ankit Kalda, and Vincent Yao. "Second Chance: Life without Student Debt." National Bureau of Economic Research. March 2020. <https://www.nber.org/papers/w25810>

garnished in 2015 due to student loans,<sup>25</sup> and the 37 percent of U.S. residents over 65 that are in default on their student loans.<sup>26</sup>

## Key Policy Recommendations

In addition to the myriad economic benefits, there is bipartisan support for student debt cancellation. Sixty-three percent of Americans support permanently reducing student loan debt by at least \$20,000.<sup>27</sup>

As millions of borrowers suffer from student loan debt, advocacy groups and lawmakers are working to find relief for borrowers, especially during this crisis. On March 27, 2020, the third coronavirus relief package, the [CARES Act](#), was signed into law. The CARES Act suspended student loan payments for 6 months with no interest accrual and is set to expire on October 1, 2020. While the CARES Act paused payments on 80 percent of federal student loans through September 30, 2020, more than nine million borrowers with commercial Federal Family Education Loan (FFEL), Perkins loans, and private student loans were left out.<sup>28</sup> Via a presidential memorandum signed on August 8, President Trump instructed Secretary DeVos to suspend student loan payments and interest charges through December 31, 2020 for borrowers with loans owned by the Department of Education. This executive action left unanswered important questions about the fate of protections for defaulted borrowers, borrowers working in public service, and borrowers experiencing financial hardship. Importantly, millions of federal student loan borrowers were once again left out of the relief package including those whose debt is held by private creditors, rather than the federal government.

Introduced by the House Democratic leadership, the [Heroes Act](#), which passed in the House on May 15, 2020, provides borrowers with additional relief. It will extend suspension of payments and interest accrual to all federal student loan borrowers through September 30, 2021. While the Heroes Act took a step forward when it provided \$10,000 in student debt cancellation, a last-minute change to the bill limited that assistance to only borrowers who were “economically distressed” before the pandemic.<sup>29</sup> This limitation excludes 25 million Americans — more than half of all borrowers.<sup>30</sup> It would also exclude struggling low-income borrowers who make small, non-zero payments on an Income Driven Repayment plan (IDR), such as those paying only \$20 per month.<sup>31</sup> Instead of the Senate Republicans voting on the Heroes Act and supporting the positive provisions to extend suspension of payments, on July 27, 2020, they released the [Safely Back to School and Back to Work Act](#) as part of their [HEALS Act](#), which includes a proposal from Senator Lamar Alexander that will let the student loan suspension provided in the CARES Act expire.<sup>32</sup>

Reps. Ayanna Pressley, Ilhan Omar, and Alma Adams are leading the effort in Congress to cancel student loan debt. In May, 2020, Reps. Pressley, Omar, and Adams, along with 28 other

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<sup>25</sup> Office for Older Americans & Office for Students and Young Consumers. “Snapshot of older consumers and student loan debt.” Consumer Financial Protection Bureau. January 2017. [https://files.consumerfinance.gov/f/documents/201701\\_cfpb\\_OA-Student-Loan-Snapshot.pdf](https://files.consumerfinance.gov/f/documents/201701_cfpb_OA-Student-Loan-Snapshot.pdf)

<sup>26</sup> Kaitlin Mulhere. “Age 60 Nearing Retirement...and Still Stuck With Student Debt.” Money. 5 January 2017.

<https://money.com/money/4624350/older-borrowers-student-debt-retirement/>

<sup>27</sup> Center for Responsible Lending. “New Bipartisan Poll Shows Strong Support for Student Loan Debt Cancellation During COVID-19 Pandemic.” 12 May 2020. <https://www.responsiblelending.org/media/new-bipartisan-poll-shows-strong-support-student-loan-debt-cancellation-during-covid-19>

<sup>28</sup> Michael Calhoun and Ashley Harrington. “The next COVID-19 relief bill must include student debt cancellation.” Brookings. 3 June 2020.

<https://www.brookings.edu/research/the-next-covid-19-relief-bill-must-include-student-debt-cancellation/>; Tariq Habash. “The CARES Act Leaves Behind Millions of Student Loan Borrowers.” Student Borrower Protection Center. 27 March 2020.

<https://protectborrowers.org/the-cares-act-leaves-behind-millions-of-student-loan-borrowers/>

<sup>29</sup> Defined as those in default, delinquent, in forbearance, under certain kinds of deferral, or who would qualify for a \$0 payment in an income-driven repayment (IDR) plan as of March 12, 2020.

<sup>30</sup> Michael Stratford. “House Democrats scale back student debt relief plan over cost concerns.” Politico Pro. 14 May 2020.

<https://subscriber.politicopro.com/education/article/2020/05/house-democrats-scale-back-student-debt-relief-plan-over-cost-concerns-1936835>

<sup>31</sup> Americans for Financial Reform. “Joint Statement: Narrowing Student Debt Cancellation in Heroes Act Leaves Out Millions.” 14 May 2020.

<https://ourfinancialsecurity.org/2020/05/joint-statement-narrowing-student-debt-cancellation-in-heroes-act-leaves-out-millions/>

<sup>32</sup> Americans for Financial Reform. “Joint Letter: AFR, 55 Orgs Oppose Senate Bill that Fails to Protect Student Borrowers.” 28 July 2020.

<https://ourfinancialsecurity.org/2020/07/joint-letter-afr-55-orgs-oppose-to-senate-bill-that-fails-to-protect-student-borrowers/>

members of Congress, led a [letter](#) calling for the universal, one-time, student loan debt cancellation of at least \$30,000 per borrower in the next COVID-19 relief package. Additionally, on July 20, 2020, Rep. Madeleine Dean introduced an amendment to the National Defense Authorization Act (NDAA) which passed the House, would provide relief to \$4.5 million private student loan borrowers by providing up to \$10,000 in immediate assistance to pay down the student loan.<sup>33</sup>

Americans for Financial Reform, the Center for Responsible Lending, Demos, and Freedom to Prosper led more than 100 community, civil rights, consumer, and student advocacy organizations led a letter calling on Congress to cancel student loan debt in the next coronavirus relief package.<sup>34</sup>

## Conclusion

When the CARES Act suspension expires on October 1, millions of Americans will be saddled with student loan payments that they simply cannot afford at a time of deepening economic contraction, unemployment, and an accelerating pandemic. But even a further suspension is not sufficient. As long as Americans assume that their debt burden will remain, their already limited resources, including any additional stimulus checks, will go towards paying down that debt instead of back into the economy as intended. Reducing overall student debt burdens is thus an essential component of any successful recovery going forward.

In this moment of crisis, we cannot afford the constraints student loan debt places on individuals and the economy. The right approach is broad-based debt cancellation for all student loan borrowers, as removing limitations based on economic distress would not only avoid unfair cutoffs but also enable easier implementation. Congress should use this crucial tool to reduce expenses during the ongoing labor shocks and economic turmoil.

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<sup>33</sup> Adam S. Minksey. "House Passes Bill To Cancel \$10,000 In Private Student Loans For Every Borrower." Forbes. 20 July 2020. <https://www.forbes.com/sites/adamminksey/2020/07/20/proposal-cancel-10000-in-private-student-loans-for-every-borrower/#71757180220a>

<sup>34</sup> Americans for Financial Reform. "Sign-on letter: 103 orgs call for canceling student debt to tackle economic fallout." 15 July 2020. <https://ourfinancialsecurity.org/2020/07/sign-on-letter-101-orgs-call-for-canceling-student-debt-to-tackle-economic-fallout/>