

Student Loan Debt: Addressing Disparities in Who Bears the Burden

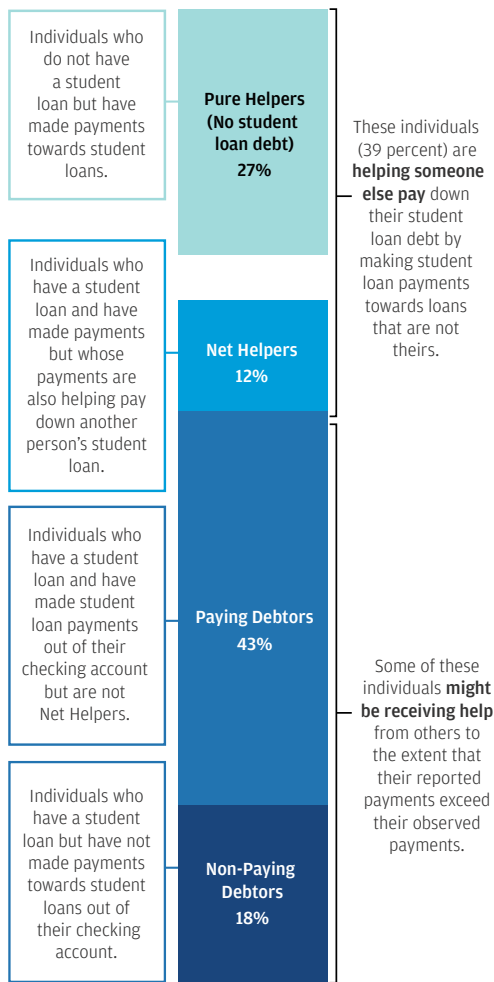
October 2020

American families carry more than \$1.5 trillion in student loan debt. This debt provided many with the opportunity to pursue higher education, but remains for others a large, potentially crippling, financial burden. Additionally, the economic impacts of COVID-19 are likely to exacerbate the burden of student loan debt, particularly for those already most financially vulnerable. JPMC Institute research explores how people of different socioeconomic groups are managing their student debt. We do this by linking administrative banking data, credit bureau records, and public records on race and ethnicity to create a unique data asset that includes the income, demographics, debt balances, and student loan payments of 301,583 individuals.

While most student loan borrowers are not unreasonably burdened by student loan payments, a large number of borrowers are struggling to keep up, and those borrowers are already economically vulnerable: lower-income, older, and especially Black borrowers. Significant disparities exist across racial groups in managing student debt, with Black student loan borrowers having higher student loan balances and repayment burdens and less likely to be making progress on their loans compared to White and Hispanic borrowers. Additionally, the economic impacts of student debt extend to a broader portion of the population than previously thought: almost 40 percent of student loan payers are helping someone else pay off their student loan debt, with most helpers holding no student loan debt themselves. The current de facto repayment system reliant on a network of helpers likely disadvantages those families who were prevented from accumulating wealth by discriminatory practices and policies.

What should be done?

- 1. Address the problem at its root: curb the rise in tuition costs and student loan debt borne by students and their families.** Additionally, reducing racial gaps in income and wealth would boost families' ability to pay for tuition and repay student loan debt among segments of the population most burdened by student loan debt.
- 2. Improve access to and reduce paperwork burden associated with existing payment assistance programs, including income-driven repayment (IDR) programs, such as making annual income recertification easier and increasing efforts to make sure borrowers are aware of their IDR options.** We observe that at least 10 percent of people are making payments that represent more than 10 percent of take-home income, which is above the threshold for IDR programs.
- 3. Consider whether loan limits should be increased in order to enable students to officially take on more of the debt, giving them access to lower interest rates and current payment assistance programs, or the possibility for more payment assistance avenues designed for parents.** Current student loan debt policies and assistance programs may not adequately consider the network of people the borrower may rely on to make their payments and loan origination programs currently make a clear distinction between borrowers and their parents.
- 4. Allow for restructuring or forgiveness of student debt through a bankruptcy-like workout process specific to student debt, as a complement to repayment relief programs.** Targeting discharge—for example to those with limited assets who have been in default for several years—could mitigate potential impact to cost of borrowing.
- 5. Expand efforts to provide targeted debt forgiveness to those most burdened.** Although debt relief is available for graduates entering certain careers and for those who remain in an IDR program for twenty years, targeted student loan debt forgiveness could be a means of rebalancing our investments in public goods like education across communities and insuring against the risk that Black and Hispanic borrowers disproportionately find themselves in a debt trap.



Source: JPMorgan Chase Institute

Although the median student loan borrower's payment obligation is 3.8% of their take-home income, lower income and younger borrowers face burdens well over 10% of take-home income. In dollar terms, the median borrower making \$30,000 a year pays only \$1,000 less per year on student loans than a borrower making \$117,000. The median scheduled payment burden for the lowest income group (around \$16,000 annual take-home income) is 11.5% and for the highest income group (\$250,000 annual take-home income) is 1.5%.

Almost 40% of student loan payers are helping someone else pay off their student loan debt, with 27% holding no student loan debt themselves, which underscores the extent to which student loan repayment is a shared family burden beyond the direct borrower.

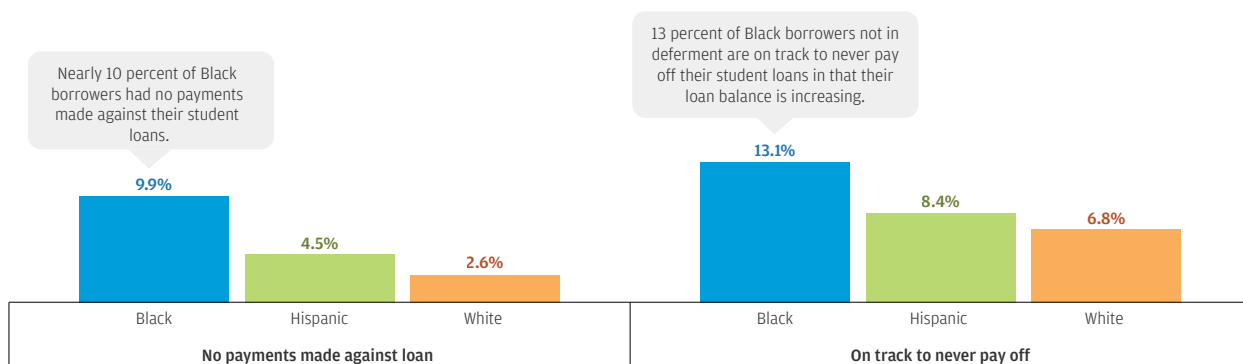
Low-income and older borrowers are more likely to be behind on payments or in deferral, and roughly 7 percent of borrowers are projected not to repay their loans.

Black student loan borrowers face comparatively higher student loan repayment burden but receive less help from others with student loan repayment, likely due to systemic conditions such as racial gaps in income and assets.

Black borrowers are more likely to face a student debt "trap," exhibiting larger payment shortfalls and an increase in their loan balances over time. Nearly 20% of Black borrowers are in deferral, 2x the rate for Hispanic (10%) and White (8%) borrowers. Approximately 13% of Black borrowers are projected to never pay off the debt, which is twice as likely as White borrowers.

Compared to White and Hispanic student loan borrowers, Black borrowers are less likely to be making progress on their loans.

Progress on student debt repayment by race



Note: The sample is restricted to borrowers who do not have a student loan in deferral or forbearance during the twelve-month window December 2015 through November 2016. Borrowers projected to never pay off debt have increasing balances over the twelve-month sample period; that is, interest charges over the course of the year are larger than total payments made. Income refers to take-home income.

Source: JPMorgan Chase Institute

Read more: <http://www.jpmorganchase.com/corporate/institute/household-debt-student-loan-debt>.

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