Millions may struggle to repay student loans if 'pause' expires in May, study says

March 24 2022, by Sean Coffey

Credit: Pixabay/CC0 Public Domain

A new analysis by the nonpartisan California Policy Lab and the Student Loan Law Initiative shows that the student loan pause improved credit standing for most of the 26 million affected borrowers who have had their payments "paused" since March 2020. The analysis also projects what may happen if the pause expires in May, including that at least 7.8 million borrowers are at high risk of struggling to repay their loans.

"The pause was a key way Congress alleviated financial pressures on Americans during the pandemic, and it appears to have worked quite well," explains co-author Evan White, Executive Director at the California Policy Lab. "We hope our analysis provides helpful context for federal officials as they consider how to handle the pause and student loan debt more generally."

"As a result of the pause, the average student loan borrower's overall debt obligations were $210 lower," adds co-author Vikram Jambulapati, a graduate student research fellow at the California Policy Lab. "We also identified other positive impacts for borrowers during the pause, including improved credit scores, decreased delinquencies, and lower use of revolving credit. It's important to keep in mind that the pause coincided with Congress providing a tremendous amount of additional financial stimulus, which also impacted people's financial situations."

"Put plainly, the pause on student loan payments worked," said Professor Dalié Jiménez, Director of the Student Loan Law Initiative at UC Irvine Law. "This new research shows that when people with student debt were thrown an economic lifeline by the government, they caught it—building stronger credit, paying down other debts, and weathering the pandemic while limiting damage to their financial lives."

Key Findings:

Impact of the pause on affected borrowers

- The average credit score among paused borrowers rose from 640 to 668 over 2020 and 2021.
- 44% of paused borrowers reduced their use of credit cards and other revolving credit during the pause, by an average of 23%.
- The average paused loan balance was approximately $36,800, though 31% of borrowers had a balance under $10,000.

- 85% of borrowers who had their federal student loans paused have other debts. The median additional debt owed by these borrowers on auto and mortgage loans, credit cards and non-paused (i.e., ineligible) student loans is $19,121.

Repayment projections if the pause ends in May

- Possible Strugglers: Nearly one in three borrowers (28%, or 7.8 million people) are projected to be at high risk of missing a payment if the pause ends in May. These borrowers owe 25% of paused loans. Borrowers were placed into this group if they were delinquent or in default on any loan in the year prior to the pause; if they were in default on any pause-ineligible loan during the pause; if they had a new collection or bankruptcy appear on their credit report during the pause; or if their most recent credit score is considered "deep subprime."
- Likely Repayers: The authors project nearly one in two borrowers (48%, or 13.5 million people) will be in this group, which owe 51% of the paused loans. Borrowers were placed in this group if they made voluntary payments on their paused loans; paid down principal on other debt during the pause; took out a new mortgage; or if their most recent credit score is considered "prime" or "super prime." The authors caution this grouping does not reflect whether or not repayment would be a financial hardship, but merely whether or not the borrower is likely to begin repayment.
- Unknowns: One in four borrowers (24%, or 6.8 million people) did not exhibit clear positive or negative patterns in their credit records, so were placed in this group. The authors note that repayment of student loans is the more common behavior among student borrowers generally, but that the upheaval from the pandemic may lead some in this group to struggle with repayment.

The analysis uses the University of California Consumer Credit Panel (UC-CCP), an anonymized dataset of consumer credit information from one of the three nationwide credit reporting agencies. The UC-CCP was created in 2020 through a partnership between the California Policy Lab, the Student Borrower Protection Center, and the Student Loan Law Initiative. The UC-CCP has two extracts and this report uses the national extract, which is a 2% nationally representative sample of US adults with credit records. The analysis uses data starting in 2019 through December 2021. It uses quarterly data (end of March, June, September, and December) but in 2020 used monthly data. The data elements include information about consumers, such as their age, zip code, and credit score, and information about their loans, such as the account type, balance, and payment history.

More information: Who benefits from the student loan payment pause and what will happen when it ends? www.capolicylab.org/who-benefi … happen-when-it-ends/

Provided by University of California - Berkeley