Student Debt Cancellation is Essential to Economic Recovery from COVID-19

April 9, 2020

H.R. 748, the Coronavirus Aid, Relief and Economic Security Act (CARES Act), signed into law on March 27, 2020, provided for a 6-month suspension and interest waiver on federally-owned student loans. It also halted all involuntary collections on these loans. These provisions only apply to Department of Education-held loans, excluding 1.9 million Perkins Loan borrowers, 5.98 million commercially held FFEL borrowers, 1.22 million guaranty agency held FFEL borrowers, and all private student loan borrowers.

Student debt exacerbates existing systemic inequities and racial disparities, preventing recovery from extending to already marginalized groups who are still reeling from the effects of the Great Recession. The CARES Act falls far short of providing full relief for hard-working families across the country, especially for veterans, older adults, and low- and moderate-income families, and communities of color who are getting hit hard by this pandemic and were already struggling most with student debt.

- **Today, two in five borrowers are in default or delinquent, and many borrowers are not reducing their principal even after almost a decade of repayment.** Almost one in four (23%) of student loan borrowers still owe more than half of their original loan balance after eight years in repayment. Approximately 7.3 million borrowers were in default by March 2019 and almost 10% of outstanding student debt ($145 billion) was in default. 27% of borrowers of all races and ethnicities who entered higher education in 2003–2004 as undergraduates had defaulted on their student loans by 2016. **Up to 40% of this cohort are projected to default by 2024.**
- Women graduate, on average, with $2,700 more in student loan debt than their male counterparts. **Approximately 34% of all women and 57% of Black women who were repaying student loans reported that they had been unable to meet essential expenses within the past year**. Millions of college-going women are also mothers—an estimated 25% of all college students have dependent children, and over 40% of these parents are single mothers. According the National Women's Law Center. 45% of women in low-paid jobs have at least some college education.
- **Half of all families with Black heads of household aged 25–40 have student** debt, and 85% of Black graduates in 2016 took on debt to finance their undergraduate degree. For Black borrowers who entered higher education in 2003–2004 as undergraduates, almost 49% had defaulted by 2016. Up to 70% of this cohort is projected to default by 2024.
- **Latino students are more likely than their white peers to default on their loans**, with 15% of those in repayment in default, and 29% in serious delinquency. According to UnidosUS, almost 1 in 3 Latino GenZ and millennials have student loans. Latino students are more reliant on private loans than white students.
- In 2015, $66.7 billion of total outstanding student loan debt was owed by 2.8 million borrowers age 60 and older. This is quadruple the number of older borrowers with student loan debt since 2005. **In 2015, about 114,000 adults over 50 had their Social Security income seized to pay defaulted student loans.**
- **In 2016, almost 70% of graduating seniors borrowed to cover the cost of college, at an average amount of almost $30,000.** Nearly half of Millennials who either already own a business or have plans to do so say that their student loan payments have impacted their ability to start a business. Research from the National Association of Realtors shows that the average student loan borrower delays the purchase of their first home by an average of seven years.

As Congress considers how to better protect Americans from the economic fallout of COVID-19, the financial difficulties of 44 million student loan borrowers should be front and center. Student loan borrowers are the medical personnel providing life-saving care to Covid-19 patients, the school teachers learning to educate their students online, and millions of essential workers who are helping to keep this country running. Many borrowers will also face extended periods of unemployment and lost productivity beyond the 6-month suspension period. For many, making regular student loan payments was already a struggle. The national financial impacts of this crisis will only exacerbate their inability to pay.

"CARES 2" Must Include Student Debt Cancellation and Relief for All Borrowers

Broad universal debt forgiveness should be provided for all federal student loan borrowers (including PLUS loan borrowers) with a guaranteed minimum of $20,000 to ensure the benefits of cancellation reach the lowest income and most vulnerable borrowers. By cancelling at $20,000, we can relieve the burden loan burden of the majority of borrowers who are currently in default, and seriously help the household budgets of millions of others. Debt cancellation would enable student loan borrowers to emerge from this crisis ready to fully participate in the new economy – whether purchasing homes, starting small businesses, or simply being better positioned to spend money in their community as businesses and restaurants reopen.

The relief given to Direct student loan borrowers under CARES 1 should be extended to all borrowers, including Perkins borrowers, borrowers with privately held FFEL Loans, and borrowers with state or private loans. The financial fallout from COVID-19 doesn't care who owns a borrower's loan debt. Nearly nine million borrowers were left with at least one loan that is outside of the relief granted by CARES 1, leaving those borrowers without relief at the apex of the pandemic. There is no reason for this disparity – in fact, the same borrower may have some loans that are covered, and some that are not, leading to confusion and possible disruptions in payment.

Immediate relief should be provided to all students who were defrauded by predatory, for-profit colleges, like Corinthian or ITT Tech, and who have pending claims before the Department of Education. Currently, over 200,000 claims are awaiting review by the Department. Many of these claims have been on hold for a year a more despite the documented evidence of abuses by the institutions. This sector is known for its poor labor market outcomes and it is likely that these borrowers were already struggling and will be among those hit hardest by the public health crisis.

All borrowers in repayment at the end of the crisis should be auto-enrolled in an income-based repayment plan that sets monthly payments based on 8% of discretionary income. This plan should provide tax-free loan forgiveness and discharge of debt after the borrower has made income-based payments for 15 years (including any payments made on IBR prior to the crisis). This would not only leave students better off and prevent millions of defaults, it would improve our economy by freeing up income for productive purposes. Many borrowers have been in repayment for over a decade with no end in sight. This is also consistent with streamlined approaches that have been adopted by the mortgage industry after the foreclosure crisis to efficiently resolve distressed mortgage borrowers' needs through simple loan workouts and avoid the costly process of foreclosure.

The Current Crisis Requires More Accountability for For-Profit Colleges

In the wake of the 2008 recession, enrollment in predatory for-profit colleges exploded, climbing 64% between 2007 and 2010. With little accountability and even less oversight, schools like ITT Tech, Corinthian Colleges, and the Art Institutes saw big enrollments and even bigger profits despite the fact that they were doing very little to educate students.

As Congress moves to stabilize colleges and universities in the wake of COVID-19, there must be measures in place to ensure that for-profit colleges cannot use federal stimulus dollars to grow enrollment while neglecting program quality and student needs. Further, as higher education shifts online for an unknown period and traditional programs close, there must be oversight to ensure that borrowers are still being educated, as well as recoup any loan dollars spent to attend programs that closed during the pandemic.

For-profit colleges should be restricted in their use of funds. No stimulus dollars should be used for advertising, market, recruitment, CEO salaries, or stock buybacks. For-profit colleges should also be restricted from receiving funds through the SBA Paycheck Protection Program.

For-profit schools that have program-level enrollment increases of more than 10% must take at least 15% of revenues from private sources. For-profit colleges should be putting stimulus dollars into helping their students and improving their program quality, not into recruitment and advertising budgets. If a for-profit college sees a large increase in enrollments post-COVID, they should be required to show that the increase is a result of their program quality – not their public relations campaign. To do so, they must demonstrate that at least 15% of their revenues come from sources other than Title IV, the GI Bill, and other federal aid.

Rules regarding online instruction should be enforced and tightened. On April 1, 2020 the Department of Education announced a Notice of Proposed Rulemaking for distance education rules. Presumably, given the outcome of other rulemakings under Secretary DeVos, this rulemaking will make it easier for unscrupulous and predatory online programs to recruit borrowers, despite their poor outcomes.

As more schools migrate online, distance education should receive more scrutiny, not less. Student loan borrowers deserve no less than the education they would have received in person, regardless of the delivery system.

Borrowers attending programs that close must be eligible for a closed school discharge. As schools move online, programs that require in-person training will be required to close. Other programs may close as schools grapple with the coming loss of state funding in the next legislative cycle. Unless they elect to transfer to a similar program that recognizes previously earned credits, borrowers in those programs must get their loans discharged, even if the school remains open. This will allow them to enter new, more viable programs without significant student loan debt.