Insights on Student Loan Debt from Linked Administrative Records

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Motivation

- Student debt allows more people to attend college, but many policymakers and student advocates argue that the burden of the debt—totaling well over $1 trillion—presents a looming crisis.
- Measuring the effects of student loan debt on consumer behavior requires detailed info on individuals' student loan debts as well as their consumption behavior and income.

Data from Linked Administrative Records

- **Credit bureau records** linked to **Chase checking account** data for 301,000 core customers involved in student loan repayment for December 2015 through November 2016.
  - *Monthly payment history*, including scheduled payment, actual payment, current balance, etc.
  - *Checking account and credit card transactions* including inflows (wage income, check deposits) and outflows (student debt payments).
  - *Demographic data* on age, geography, and income, taken from checking account data.
- **Self-reported race/ethnicity** for residents of FL, LA, and GA from public voter registration files matched with banking records.

Main Findings

1. Although the median student loan borrower is obligated to pay 3.8 percent of their income, many borrowers, especially lower income and younger borrowers, face payment burdens well over 10 percent.

- Young borrowers and low-income borrowers are the most burdened. Median minimum payment for lowest earners is over 11% of income.
- 75% of borrowers over 60 appear to be parents. As a group, they receive substantial help in making payments.

2. Almost 40 percent of individuals involved in student loan repayment are helping someone else pay off their student loan debt, with most helpers holding no student loan debt themselves.

- These helpers are either (a) people who make payments to student loan servicers but do not themselves hold student debt; or (b) people who hold debt but are also making payments on others' loans.
- Non-debt holding helpers tend to be older, with higher incomes. Payments from these helpers are nearly as large as those from actual debt holders.

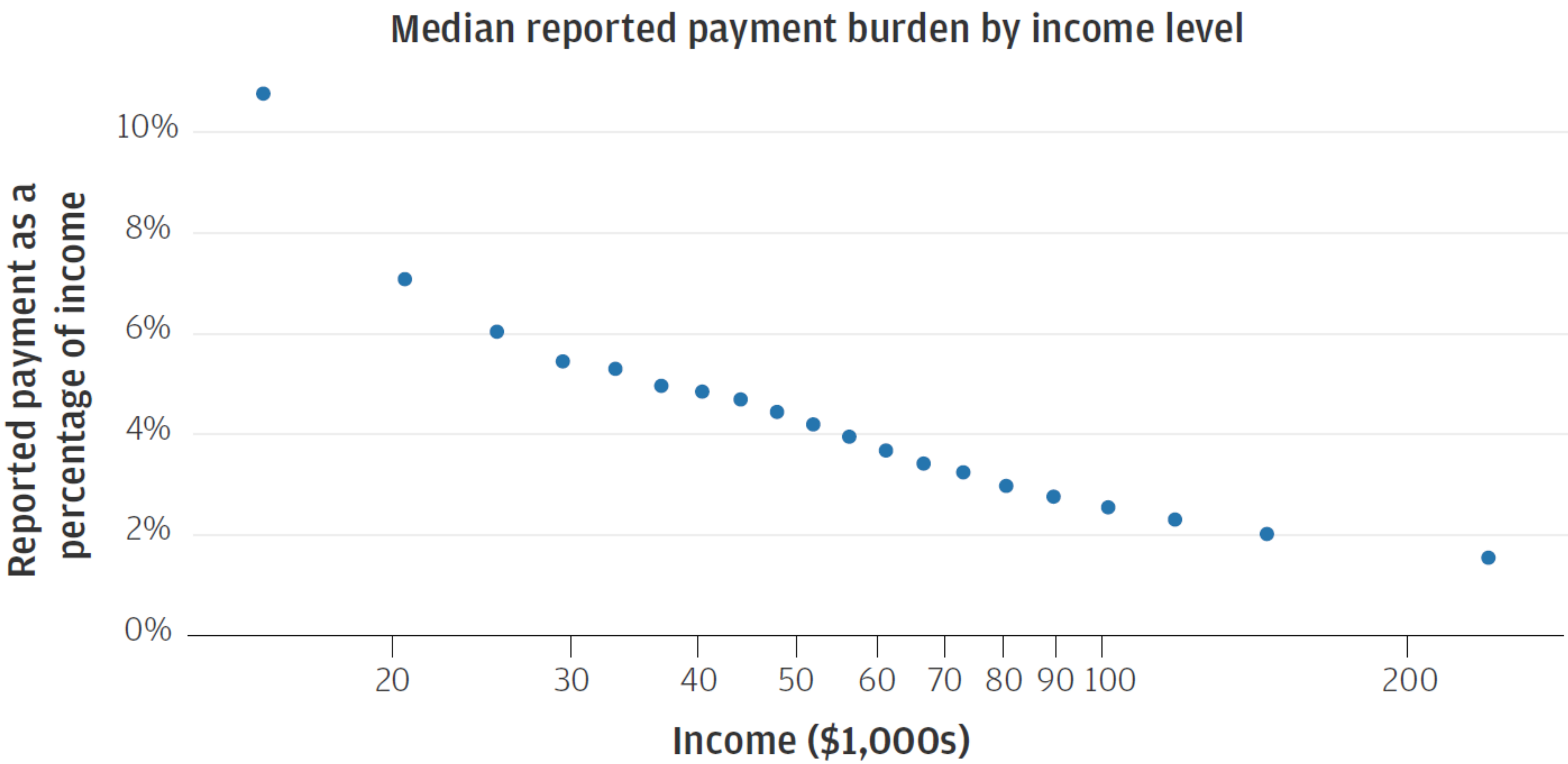
3. Low-income and older borrowers are more likely to be behind on payments or in deferral, and roughly 7% of borrowers are projected not to repay their loans.

- 10% of borrowers over age 50 missed at least 3 months' worth of payments.

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

- Black borrowers have much larger payment shortfalls even when accounting for income and assets and are 2x more likely than Whites to be on track to never pay off their loans.

Finding 1: While the median student loan borrower is obligated to pay 3.8 percent of their income, many borrowers, especially lower income and younger ones, face payment burdens over 10 percent.

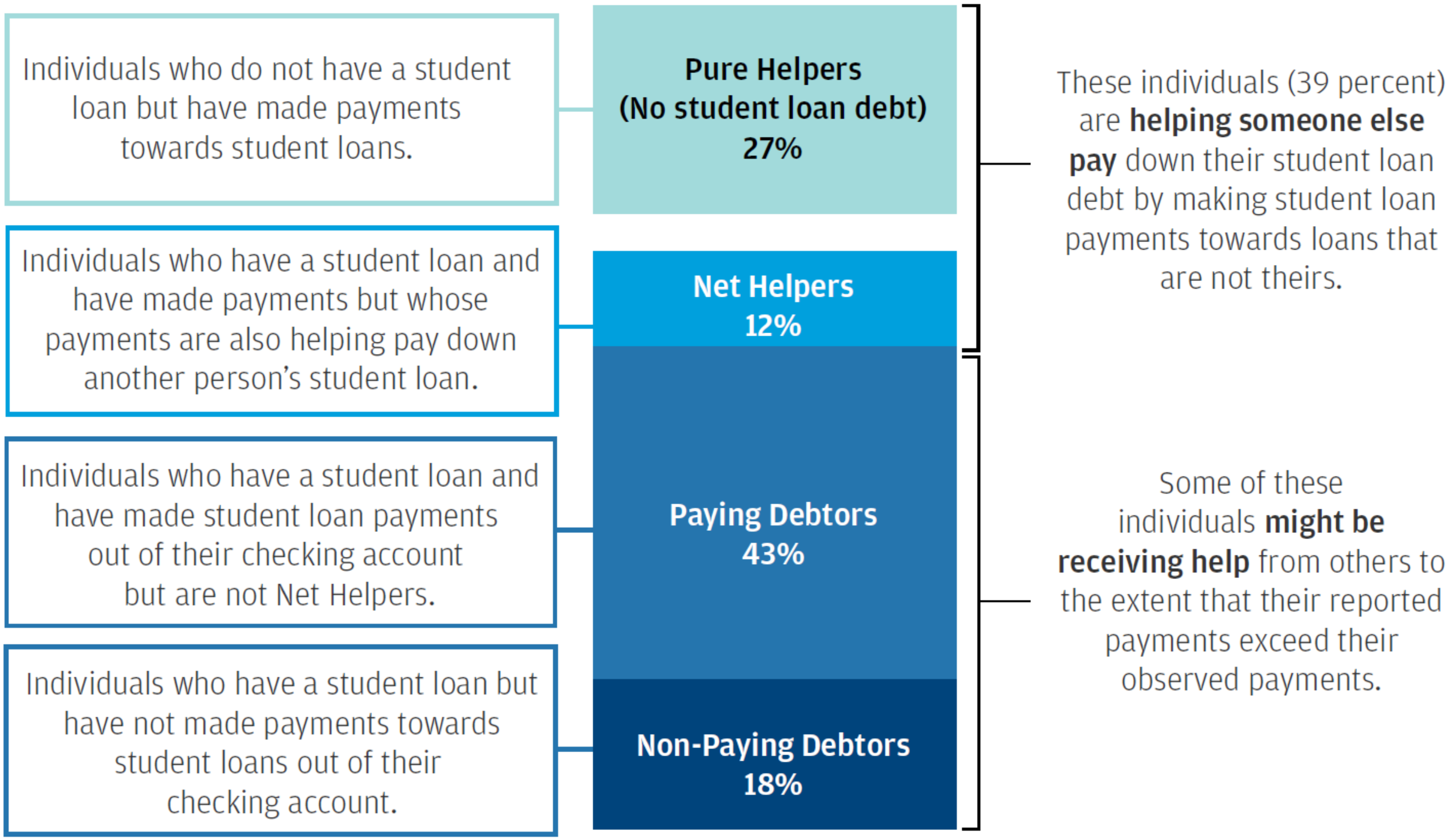


Note: Medians are calculated within twenty income quantiles. Each income bin is represented by its average income. Reported payment is total amount paid toward outstanding student debt during the twelve-month window December 2015 through November 2016. Income refers to take-home income.

Source: JPMorgan Chase Institute

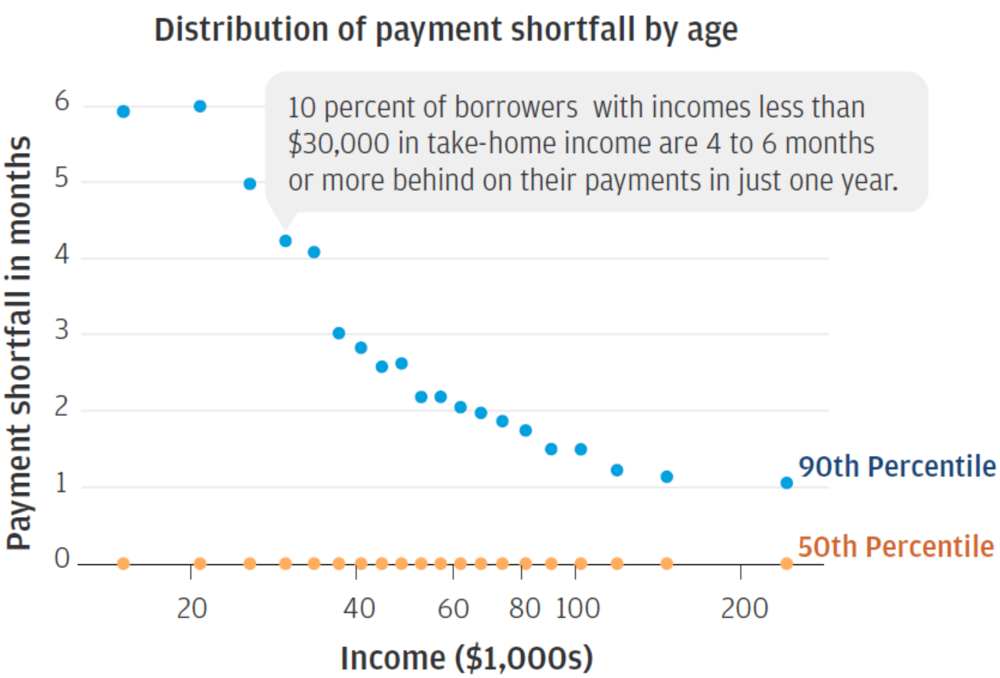
Finding 2: Almost 40 percent of individuals involved in student loan repayment are helping someone else pay off their student loan debt. Most helpers hold no student loan debt themselves.

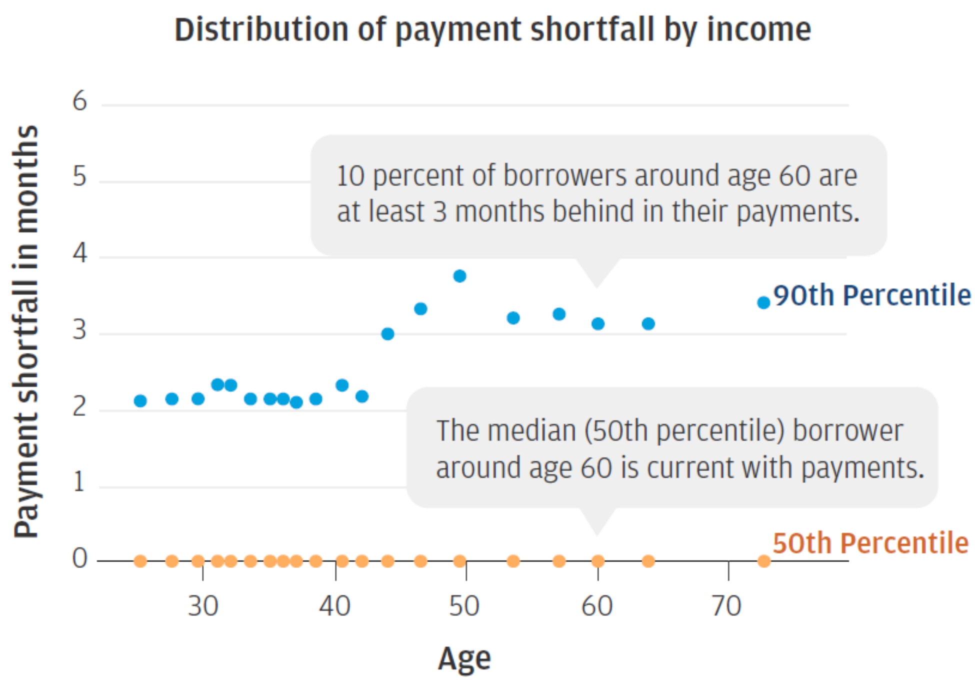
- Student Debt holders may get **help with student loan payments from people who are not officially signed to the loan** (e.g., from parents). We are able to infer “help” by comparing “reported payments” (all payments seen by Experian) to “observed payments” (all payments made out of a debt-holder’s DDA account). That is, the amount paid on the debt by other sources.



Source: JPMorgan Chase Institute

Finding 3: Low-income and older borrowers are more likely to be behind on payments or in deferral, and roughly 7% of borrowers are projected not to repay their loans.

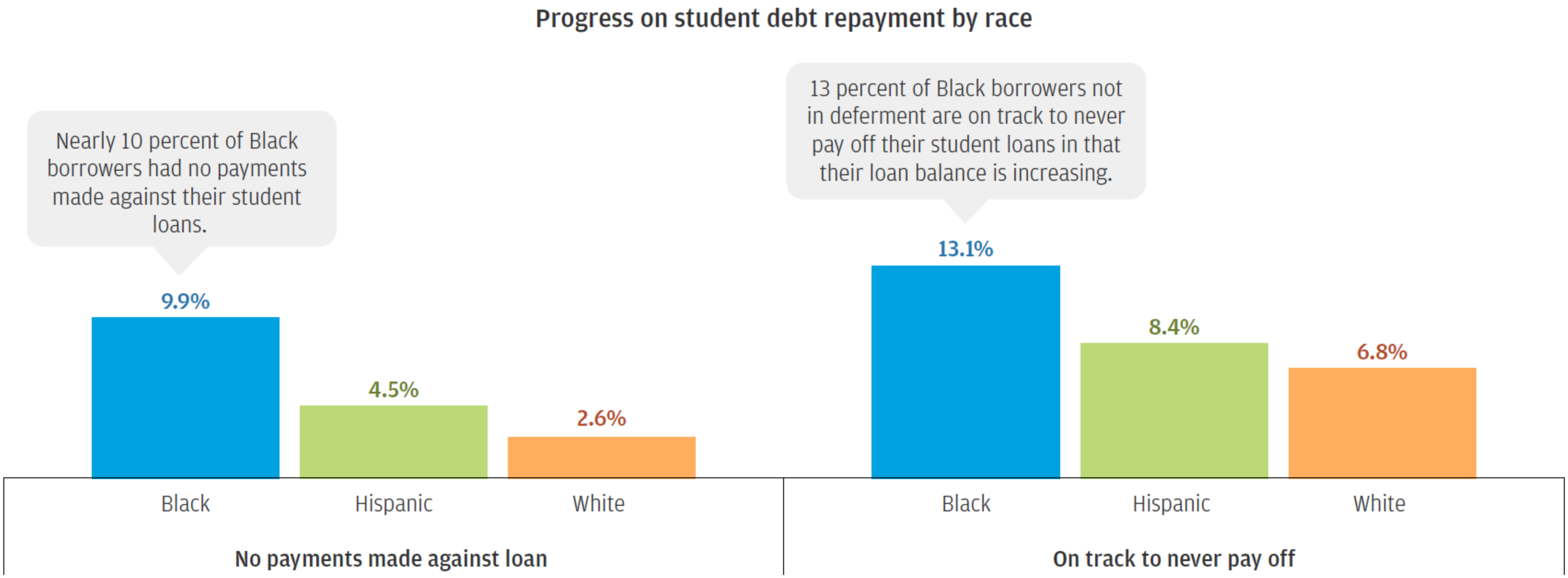




Note: Percentiles are calculated within twenty income and age quantiles, respectively. Each bin is represented along the x-axis by its average value. Payment shortfall is the difference between all scheduled and reported payments during the twelve-month window December 2015 through November 2016, divided by average monthly scheduled payment. Income refers to take-home income.

Source: JPMorgan Chase Institute

Finding 4: Compared to White and Hispanic student loan borrowers, Black borrowers are less likely to be making progress on their loans.



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

Implications

1. **Certain segments of the student borrower population are especially burdened by debt**: low-income households, the elderly, and Black borrowers in particular.
2. **Many borrowers are only able to keep up with their payments because they receive substantial financial help from someone else not legally tied to the debt.** 24 percent of borrowers have someone else making all of their payments.
3. **Significant disparities exist across racial groups.** Black borrowers appear to be struggling to re-pay, especially relative White borrowers, according to every metric we explore: payment burden, payment shortfall, deferral rates, and time to pay off. This is likely due to long-running disparities in income and assets, which in turn results in fewer outside helpers available to Black borrowers.
4. **The economic impacts of COVID-19 could potentially exacerbate the burden of student loan debt, particularly for those already most burdened.** COVID-19 may lower the return to higher education through weaker labor markets and increased effective cost of schooling. Weaker labor markets (for both students and parents) may increase how much debt students need to take on. Hardest hit on this front is likely those already struggling: low-income, elderly, and Black borrowers.
5. **Targeted assistance programs should be expanded.**
   A. **Help additional borrowers benefit from current programs, e.g., IDR.** We observe that at least 10 percent of people are making payments that represent more than 10 percent of take-home income, a common threshold for IDR programs. But IDR is also potentially risky due to negative amortization, interest capitalization, and the uncertainty of relief 20 years in the future.
   B. **New debt-relief programs may be needed.** For example, make student debt was dischargeable in bankruptcy (or similar program) 10 years after repayment has begun (i.e., after graduation). Struggling borrowers likely have few assets above current thresholds that would be forfeited.
   C. **Current relief programs don't capture financial networks (e.g., family resources)**. This has implications for how debt loads are balanced between parents and students, and for solving racial disparities in managing debt.
6. **Loan origination programs might want to rebalance eligibility of loans between students and parent.** We observe younger borrowers making payments on loans that are not in their name, which could include Parent PLUS loans. What are the redistributive implications if these loans are ultimately paid by the students themselves?