Financial Hardship Among Student Borrowers

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Presentation by Marshall Steinbaum

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Question

As part of its ongoing rulemaking on relieving burdens associated with student debt, the Department of Education asked

“What are potential types of hardship that borrowers may continue to face [in spite of existing Income-Driven Repayment and cancellation policies] and how might the Department address those cases of hardship?”

To answer this question, we analyzed student borrower credit reports from the 2% national sample of the University of California Consumer Credit Panel to see how variation in student indebtedness corresponds to six measures of hardship:

- Credit Score (−)
- Homeownership (−)
- Credit Utilization (+)
- Severe Delinquency (+)
- Adverse Legal Proceedings (+)
- Auto Loan Amortization (−)
We have two policy recommendations:

1. Reduce student debt to zero for borrowers in the bottom half of the income distribution of student borrowers, corresponding to household incomes below $71,000.

2. Reduce student-debt-to-income ratios to at most 30% for borrowers between the median and the 90th percentile of the income distribution of student borrowers, corresponding to household incomes between $71,000 and $131,500.
## Summary Statistics for the Analysis Sample

<table>
<thead>
<tr>
<th></th>
<th>2020Q1</th>
<th>2023Q2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Borrowers</td>
<td>572,455</td>
<td>824,480</td>
</tr>
<tr>
<td>Median Income (in 2021 $)</td>
<td>$70,235</td>
<td>$71,860</td>
</tr>
<tr>
<td>Median Student Loan Balance ($)</td>
<td>$20,377</td>
<td>$20,330</td>
</tr>
<tr>
<td>Median student-debt-to-income ratio</td>
<td>0.297</td>
<td>0.289</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Income Quantile</th>
<th>2020Q1 Mean</th>
<th>Upper limit</th>
<th>2023Q2 Mean</th>
<th>Upper limit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bottom 50p</td>
<td>$48,017</td>
<td>$70,235</td>
<td>$49,072</td>
<td>$71,860</td>
</tr>
<tr>
<td>Next 40p</td>
<td>$94,291</td>
<td>$131,591</td>
<td>$95,584</td>
<td>$131,731</td>
</tr>
<tr>
<td>Top 10p</td>
<td>$162,944</td>
<td>$250,000</td>
<td>$162,392</td>
<td>$250,000</td>
</tr>
</tbody>
</table>
Homeownership

Definition: borrower observed to have a mortgage loan outstanding.
Credit Utilization

Definition: total outstanding balance on unsecured loans, as a share of total credit limit on unsecured loans.
Severe Delinquency

Definition: borrower observed to have at least one loan with payment 90+ days past due.
Adverse Legal Proceedings

Definition: whether a borrower has a ‘public record’ (bankruptcy, foreclosure, alimony, small claims) filed in the previous three years.
Auto Loan Amortization

Definition: total outstanding balance on auto loans, as a share of original loan amount