UNIVERSITY OF CALIFORNIA Student Loan Law Initiative

May 19, 2025

Chairman Bill Cassidy
Ranking Member Bernie Sanders
Committee on Health, Education, Labor, and Pensions
United States Senate
428 Dirksen Senate Office Building
Washington, DC 20510

RE: Economic Analysis of Higher Education Finance Landscape

Dear Chairman Cassidy and Ranking Member Sanders,

The purpose of this letter is to offer a high-level economic analysis of the state of the higher education finance landscape. In particular, this analysis highlights the historic level of student loan borrower distress facing people with student debt and offers critical context and analysis as policymakers consider changes to federal financial aid programs and the student loan safety net that will increase costs for working families, raise the cost of higher education for millions, and likely drive additional student loan delinquency and default.

Nearly 44 million student loan borrowers owe more than $1.7 trillion in student loan debt.[1] Of these borrowers, more than 40 million owe loans owned by the federal government[2]—one of the largest portfolios of outstanding consumer credit in the world. Prior to the pandemic, a broad cross section of experts, including economists, regulators, law enforcement officials, law scholars, and lawmakers—raised alarms about the rapid growth of student debt and the risks this

[1] Federal Reserve Board of Governors, G.19 Consumer Credit (accessed May 9, 2025) https://www.federalreserve.gov/releases/g19/current/. (reporting that Americans owe $1.796 trillion in outstanding student loans); and
Federal Reserve Bank of New York, 2025 Student Loan Update, March. https://newyorkfed.org/medialibrary/Interactives/householdcredit/data/xls/Student-loan-update-2025-Mangrum. (reporting that there are 43,879,800 student loan borrowers nationwide).
[2] U.S. Department of Education, *Federal Student Loan Portfolio* (accessed on May 9, 2025), https://studentaid.gov/data-center/student/portfolio.

market poses for borrowers, their communities, and the economy at large.[3] Concern about these risks, in part, drove Congress to suspend monthly payments, interest charges, and debt collection for all borrowers with loans owned by the federal government—an extraordinary intervention in this market that was subsequently extended via executive action by both President Trump and President Biden.[4]

For more than two years, we have studied the effects of the student loan payment pause on student loan borrowers in California and across the country. In short, we observed that student loan borrowers benefited from the pause in monthly payments across their financial lives– realizing improvements in their credit profiles, buying homes, and otherwise accessing credit to participate more fully in the economy.[5] Unfortunately, the expiration of the payment pause and the end of protections like the one-year onramp to repayment finds these borrowers more deeply in debt than at the start of the pandemic– exposing borrowers and their families to a cascading, negative set of economic consequences should the financial pressure caused by unaffordable loan payments prove too great.[6]

The most recent public data about the federal student loan portfolio suggests that any risks that may have existed prior to the pandemic are only exacerbated by the escalating economic uncertainty, chaos and dysfunction today. According to recent data released by the U.S. Department of Education, barely 1 in 3 federal student loan borrowers are making regular monthly payments.[7] The vast majority of remaining borrowers face a wide range of immediate negative consequences, from spiking monthly payments, to severely damaged credit, to wage garnishment and other forced debt collection.

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[3] For further discussion, *see Testimony of Seth Frotman before the House Committee on Financial Services* (September 10, 2019), https://www.congress.gov/116/meeting/house/109897/witnesses/HHRG-116-BA00-Wstate-FrotmanS-20190910.pdf and *see generally,* Dalié Jiménez & Jonathan Glater, *Student Debt is a Civil Rights Issue: The Case for Debt Relief and Higher Education Reform*, 55 Harv. Civ. Rights & Civ. Liberties 131 (2020).

[4] For further discussion, see, for example, Steinbaum, et. al, *Student Loan Borrowers and Pandemic-Era Interventions in California* (2024), and Fouzia et. al. The Student Loan Payment Pause: Assessing Financial Distress in California (2023). https://www.slli.org/data-briefs.

[5] *Id.*

[6] *Id.*

[7] U.S. Department of Education, *U.S. Department of Education to Begin Federal Student Loan Collections, Other Actions to Help Borrowers Get Back into Repayment* (April 21, 2025), https://www.ed.gov/about/news/press-release/us-department-of-education-begin-federal-student-loan-collections-other-actions-help-borrowers-get-back-repayment.

In total, we estimate that 1-in-12 adults in the United States will be directly, negatively affected by the Trump administration's actions in the student loan market.[8] These borrowers include:

- **More than seven million borrowers who are behind on their monthly payments.** According to the most recent data released by ED, 5.95 million borrowers are between 91 and 180 days past due on a student loan owned by the federal government.[9] An additional 1.49 million borrowers are at least 31 days behind.[10] As described in more detail below, the student loan system only furnishes information about borrowers' delinquencies once they are more than 90 days past due, which can immediately damage credit scores by hundreds of points.

- **More than five million borrowers who are in default on a student loan and now face forced debt collection by the federal government.**[11] These borrowers may face wage garnishment, the seizure of social security checks and tax refunds (including the Earned Income Tax Credit), and other harsh measures.[12] Before the COVID-19 pandemic, forced collections against student loan borrowers pushed families across the country deep into poverty.[13]

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[8] Appendix, *SLLI Analysis of Student Aid Portfolio Data* (2025). We define "negatively affected" to include borrowers who will see their monthly payment spike at the conclusion of the forbearance put in place to address an injunction blocking access to the Saving on a Valuable Education or SAVE plan (7.84 million), borrowers with federally- held student loans who are behind on a monthly payment (7.44 million borrowers), borrowers in default on a federally held student loan who face forced debt collection (5.3 million), and borrowers in default on a loan owned by a private lender who face forced debt collection (750,000,000 people). In total, this is 21,330,000 unique, negatively affected individuals. According to the U.S. Census Bureau, there were 266,978,268 adults over the age of 18 years old in the United States in 2024. 21,3300,00/266,978,268= .08 or ~1-in-12 adults. U.S. Census Bureau, National Population by Characteristics: 2020-2024 (April 2025), https://www.census.gov/data/tables/time-series/demo/popest/2020s-national-detail.html.

[9] Appendix, *SLLI Analysis of Student Aid Portfolio Data* (2025).

[10] *Id.*

[11] *Id.*

[12] *Id.*

[13] For further discussion, see, for example, Government Accountability Office, *Improvements to Program Design Could Better Assist Older Student Loan Borrowers with Obtaining Permitted Relief* (2016), https://www.gao.gov/products/gao-17-45. ("...an increasing number of older Americans subject to Social Security offsets received benefits below the federal poverty guideline. In fiscal year 2004, about 8,300 borrowers in the 50 and older age category had benefits below the poverty guideline compared to almost 67,300 in fiscal year 2015.")

- **At least eight million borrowers who face an immediate spike in monthly payments due to the Trump Administration's response to ongoing litigation.** Borrowers who had enrolled in the Saving on a Valuable Education or SAVE plan, a repayment option that ties borrowers' monthly payments to their incomes, have been forced into a forbearance since a federal appeals court temporarily blocked the plan.[14] The Trump Administration is expected to scrap the proposal as part of a new rulemaking already underway, forcing these borrowers into higher-cost alternatives and raising monthly payments by hundreds of dollars or more.[15]Additionally, the House Education and Workforce recently advanced a reconciliation proposal that would eliminate the SAVE plan and force borrowers currently enrolled in the plan into a more expensive repayment option.[16]

Each of these borrowers will experience some degree of financial hardship, including payment shocks and damage to their credit. For borrowers whose loans become past-due, including nearly six million people who are currently at least 91 days past due on a federal student loan, the consequences will be dramatic. The Federal Reserve Bank of New York recently found that a student loan delinquency can tank a borrower's credit score by 87 to 171 points.[17] Such a blow is enough to make borrowers of every credit tier subprime. Scores currently below 620 would drop to below 533 after delinquency (a decrease of 87 points on average for the credit tier) while scores currently above 760 would drop to 589 and above (a decrease of 171 points on average).

The cascading negative effects of damaged credit will be felt across borrowers' financial lives. Once a borrower's credit becomes subprime, they will face substantially more difficulty buying a house or a car, opening a credit card, obtaining a personal loan, or accessing other forms of traditional credit. Their car and home insurance rates are also likely to increase, and the negative information on their credit report may make it difficult to find a new place to rent. The average

[14] *Id.*
[15] See, U.S. Department of Education, *Intent To Receive Public Feedback for the Development of Proposed Regulations and Establish Negotiated Rulemaking Committee* (FR Doc. 2025-05825), https://www.federalregister.gov/documents/2025/04/04/2025-05825/intent-to-receive-public-feedback-for-the-development-of-proposed-regulations-and-establish.
[16] https://edworkforce.house.gov/uploadedfiles/ans_el_recon_01_xml.pdf
[17] Mangrum, D. and C. Wang, Federal Reserve Bank of New York, *Credit Score Impacts from Past Due Student Loan Payments,* (Mar. 26, 2025), https://libertystreeteconomics.newyorkfed.org/2025/03/credit-score-impacts-from-past-due-student-loan-payments/ [https://perma.cc/S98X-Z896]..

student loan borrower, who had a credit score of 684 in 2024,[18] would see their score decrease by 165 points upon delinquency, becoming deep subprime with a new score estimate of 519. The borrower would suddenly be locked out of buying a home using a conventional mortgage, their interest rate for an auto loan could more than double, and the cost of a personal loan could increase more than eightfold (see Figure 1).

Fig 1. *Estimated Interest Rate Impacts from a Student Loan Delinquency-Related Credit Score Decrease*[19]

	Before Delinquency (Credit Score: 684)	After Delinquency (Credit Score: 519)
New Auto Loan	**6.70%**	**13.00%**
Used Auto Loan	**9.63%**	**18.95%**
Personal Loan	**28.69%** (range 11.50 - 35.99%)	**251.15%** (range 141.72 - 438.96%)
Conventional Mortgage	**~ 7.55%**	Don't qualify
Credit Card Balance	**18%**	**23%**
Rental Approval	Very likely	May need cosigner/guarantor, larger security deposit, or proof of substantial savings
Job Application	Likely positive to no impact	Could adversely impact (unless borrower is in a state with restrictions on credit checks for employment)

[18] Mangrum, D. and C. Wang, Federal Reserve Bank of New York, *2025 Student Loan Update,* (Mar. 2025), https://www.newyorkfed.org/medialibrary/Interactives/householdcredit/data/xls/Student-loan-update-2025-Mangrum [https://perma.cc/E97P-7JBJ].

[19] Interest rate estimates come from current industry and government sources that differentiate by credit tier. Luthi, B., Experian, *Average Car Loan Interest Rates by Credit Score,* (Oct. 14, 2024), https://www.experian.com/blogs/ask-experian/average-car-loan-interest-rates-by-credit-score/ [https://perma.cc/AE7Q-U42F]; Scheckel, M. et al., Business Insider, *Average Personal Loan Interest Rates,* (May 5, 2025), https://www.businessinsider.com/personal-finance/personal-loans/average-personal-loan-interest-rates [https://perma.cc/TU3B-HFPU]; DeNicola, L., Experian, *Average Mortgage Rates by Credit Score,* (Jan. 29, 2025), https://www.experian.com/blogs/ask-experian/average-mortgage-rates-by-credit-score/ [https://perma.cc/85CD-GAQ7]; Consumer Financial Protection Bureau, *The Consumer Credit Card Market,* (Oct. 2023), https://files.consumerfinance.gov/f/documents/cfpb_consumer-credit-card-market-report_2023.pdf [https://perma.cc/EY7P-X3ZQ] (using annual effective interest rates and comparing "prime" to "deep subprime" which the CFPB defines as a credit score of 579 or less, p. 12, 57-58).

Locked out of conventional lending products, borrowers who need to access credit could then be forced to turn to payday loans, auto title loans, contracts for deed, and other predatory loan products that can have interest rates as high as 662 percent[20] and trap them in inescapable cycles of debt—on top of a student loan debt that was burdensome enough to push the borrower into delinquency in the first place.

These negative effects are the result of a deeply dysfunctional student loan system[21] that routinely punishes borrowers for systemic failures and gross mismanagement by the private-sector student loan companies who are paid by the federal government to manage borrowers' accounts and advise them about their repayment options. As lawmakers are conducting oversight over the student loan system, it is also critical to remember that many servicing errors may never be captured in student loan portfolio data and that our estimate that nearly 1-in-12 U.S. adults will be negatively affected by the Trump Administration's student loan policy may understate the magnitude of this harm.

Looking ahead, lawmakers are also considering extraordinary changes to the Title IV financial aid programs and the student loan system that will magnify these negative effects, harming even more student loan borrowers through vastly higher monthly payments and a scaled back student loan safety net.

For example, a recent analysis by the Student Borrower Protection Center estimates that the reconciliation proposal approved by the House Education and Workforce Committee in April 2025 would increase costs for students and student loan borrowers across the country.[22] Based on SBPC's review of this proposal, contrasted with the benefits and protections available to borrowers under the Saving on a Valuable Education (SAVE) repayment plan, **the authors found that a typical borrower will see monthly student loan costs spike by hundreds of dollars per**

[20] Rios, C., Center for Responsible Lending, *Red Alert Rates: Annual Percentage Rates on $400, Single-Payment Payday Loans in the United States,* (Jun. 2023), https://www.responsiblelending.org/sites/default/files/nodes/files/research-publication/crl-red-alert-rates-payday-rate cap-map-jun2023.pdf [https://perma.cc/UE28-B7NV].
[21] Dalié Jiménez & Jonathan Glater, *Student Debt is a Civil Rights Issue: The Case for Debt Relief and Higher Education Reform*, 55 Harv. Civ. Rights & Civ. Liberties 131 (2020).
[22] Student Borrower Protection Center, Preliminary Economic Analysis on Student Loan Repayment (2025), https://protectborrowers.org/wp-content/uploads/2025/04/Economic-Analysis-of-EW-Recon-Markup_04-29-2025.p df [https://perma.cc/3AS9-83HK].

month, or thousands of dollars per year.[23] According to this estimate, a typical family of four will pay nearly $5,000 more per year should this bill become law.[24]

Other independent estimates project that the House's reconciliation bill would raise costs by $12,000 for a typical borrower over ten years by eliminating the ability of low- and middle-income students to access subsidized federal loans,[25] while also cutting up to $1,500 per year in Pell Grant awards for nearly a quarter of Pell recipients,[26] and cutting eligibility entirely for over 900,000 students.[27] Taken together, these changes alone will force millions of families to incur more debt, particularly high-interest private student loans, or forego higher education altogether.

As this committee performs critical oversight over the Trump Administration's stewardship of the student loan system, we appreciate the opportunity to provide timely analysis of the economic effects of this administration's policies. If you have any questions about this analysis, please do not hesitate to contact us.

Sincerely,

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[23] *Id.*
[24] *Id.*
[25] Zampini, M., and Bruecker, E., *House Republican Proposal to Eliminate Subsidized Student Loans Would Spike College Costs for Low-Income Students*, The Institute for College Access and Success, , (May 2025), https://ticas.org/affordability-2/subsidized-loans-reconciliation2025/ [https://perma.cc/C8JH-SC8B].
[26] Brown, C. and Keller, M., House Proposes $1,500 Cut to Max Pell for Students Taking 12 Credits, (Apr. 2025), https://www.ncan.org/news/699766/House-Proposes-1500-Cut-to-Max-Pell-for-Students-Taking-12-Credits.htm.
[27] McKibben, B. and Huelsman, M., The Hope Center Statement on the House Budget Reconciliation Bill Cutting Student Aid, (Apr. 2025), https://hope.temple.edu/statements-announcements/hope-center-statement-house-budget-reconciliation-bill-cutting-student-aid [https://perma.cc/YVG3-2PB2].

APPENDIX
SLLI Analysis of Student Aid Portfolio Data

Table 1. Borrowers by IDR Plan (Federal Portfolio)		
	Borrowers (Millions)	% total
ICR	1.19	9.1%
IBR	2.81	21.4%
PAYE	1.3	9.9%
SAVE	7.84	59.7%
TOTAL IDR	**13.14**	**100.0%**

Source: FSA, Portfolio by Repayment Plan, Federally Managed FY25Q2 (accessed May 9, 2025); https://studentaid.gov/sites/default/files/fsawg/datacenter/library/DLPortfoliobyRepaymentPlan.xls [https://perma.cc/3R27-AENJ]

Table 2. Delinquent Borrowers by Delinquency Status (Federal Portfolio)		
	Borrowers (Millions)	% Total DQ
31-90 Days Delinquent	1.49	20.0%
91-180 Days Delinquent	5.95	80.0%
181-270 Days Delinquent	0	0.0%
271-360 Days Delinquent	0	0.0%
TOTAL	7.44	100.0%

Source: FSA, Portfolio by Delinquency Status, Federally Managed FY25Q2 (accessed May 9, 2025); https://studentaid.gov/sites/default/files/fsawg/datacenter/library/DLPortfoliobyDelinquencyStatus.xls [https://perma.cc/HK7J-JCVZ]

Table 3. Borrowers in Default		
	Borrowers (Millions)	% Total Default
Default (Federally Managed)	5.3	87.6%
Default (FFEL)	2.8	46.3%
Default (ED-held FFEL)	2.05	33.9%
Est. Default (Commercial FFEL)	0.75	12.4%
TOTAL	6.05	100.0%

Source: FSA, Portfolio by Loan Status FY25Q2 (accessed May 9, 2025); https://studentaid.gov/sites/default/files/fsawg/datacenter/library/PortfoliobyLoanStatus.xls

Estimated defaulted commercial ffel is calculated by subtracting the number of borrowers with defaulted ED-held FFEL from the total number of borrowers with defaulted FFEL loans

Table 4. Negatively Affected Borrowers (by negative effect)		
	Borrowers (Millions)	% Total
Default (total)	6.05	28.36%
Delinquent (Federal Portfolio)	7.44	34.88%
SAVE Forbearance	7.84	36.76%
Total Negatively Affected	**21.33**	**100.00%**

Source: Tables 1-3; Office of Federal Student Aid, *IDR Plan Court Actions: Impact on Borrowers* (updated April 28, 2025); https://studentaid.gov/announcements-events/idr-court-actions ("Borrowers who enrolled in or applied for the SAVE Plan remain in forbearance, unless they obtained a different status.")