

CFI in Focus
Return to Student Loan Repayment and Adjusting to Change

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Student loans are one of the largest categories of household debt in the United States, with over \$1.6 trillion in outstanding debt as of Q1 2024.² During the COVID-19 pandemic, most federal student loans were placed in administrative forbearance (in other words, a “payment pause”), with no payments due and no interest accruing during the pause. After three and a half years of paused payments, repayment on these loans resumed on October 1, 2023, with interest beginning to accrue at the start of the previous month. During the pause, the U.S. Department of Education (ED) made administrative changes that resulted in more than \$100 billion in student debt being canceled, and it introduced the most generous reduced payment plan thus far, the Saving on a Valuable Education (SAVE) income-driven repayment (IDR) plan. As a result, many borrowers experienced significant adjustments to their required debt payments, not only because of the resumption of payments but also because of changes to repayment plans and the servicing environment. This *CFI in Focus* considers the effects of the payments resumption and accompanying administrative changes on household financial health and balance sheets through the lens of Consumer Finance Institute (CFI) consumer surveys, highlighting several findings from a [four-report series](#) on the student loan payments resumption that we published in early 2024.

October 2023 Student Loan Payments Restart

On June 30, 2023, the Supreme Court struck down the Biden administration’s onetime, broad-based student debt cancellation plan. Shortly thereafter, the administration announced a one-year “on-ramp” to repayment, during which time payments would be due but payments missed would not be reported to credit bureaus until October 2024. In all, the pause lasted an unprecedented three and a half years, during which time many borrowers saw material changes in their incomes and others graduated from college having never made payments on student loans. Therefore, many borrowers did not know how large their required monthly payments would be, to which servicer

¹ The views expressed here are those of the author and do not necessarily reflect the views of the Federal Reserve Bank of Philadelphia or the Federal Reserve System. No statements here should be treated as legal advice.

² See the Federal Reserve Bank of New York’s May 2024 [Quarterly Report on Household Debt and Credit](#).

payments should be made, or whether they would be able to afford to make their payments. This uncertainty led to a diversity of expected payment behaviors surrounding repayment during and after the pause, which we've documented in our [report series](#).

To glean insights into borrower experiences with the payments resumption, we rely on CFI's [Labor, Income, Finances, and Expectations \(LIFE\) Survey](#), a quarterly survey that was initiated in 2023 and launched publicly in 2024. As part of CFI's expanded focus on higher education finance, we released a [report on borrower expectations for resumed payments](#) in November 2023 and a [four-part series of reports](#) in January and February 2024, all based on data collected through CFI consumer surveys. Throughout these reports, we also made use of publicly available data from the U.S. Department of the Treasury (Treasury) on payments to ED, which helped us to track aggregate payments on federal student loans.

Our analyses suggest that the student loan market is multifaceted, with many borrowers able to reliably make payments, some borrowers occasionally struggling with repayment, and a minority of borrowers unlikely to successfully resume repayment because of considerable and ongoing financial distress. We summarize insights from each of the reports in our four-part series below.

Borrower Expectations Leading into the Payments Resumption

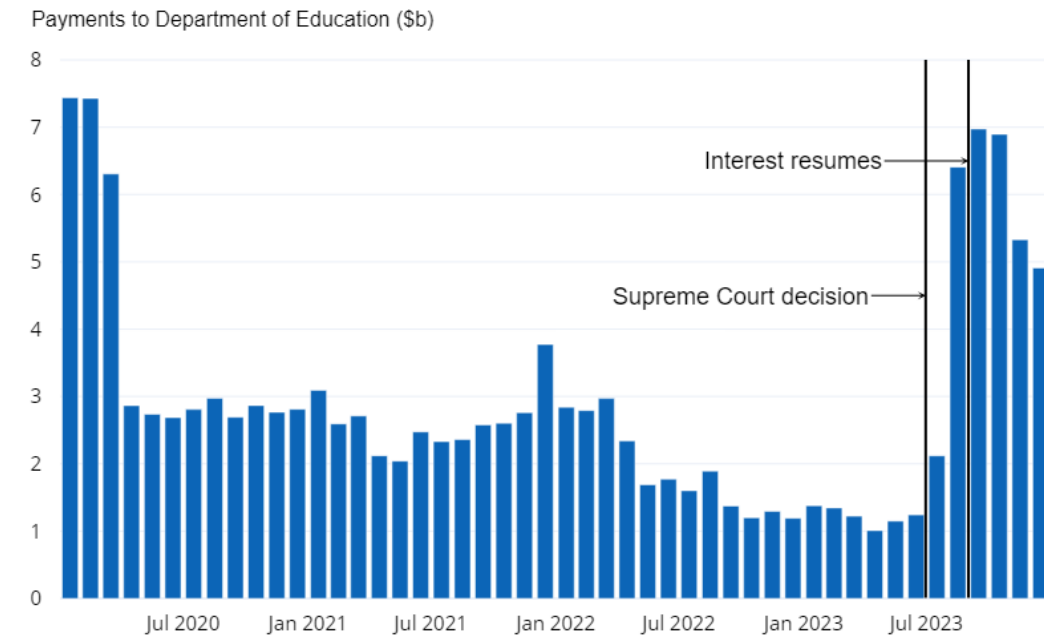
Based on July 2023 survey data, our [November 2023 report](#) shows that borrowers who expected to make regular payments in October 2023 were also quite likely to report making voluntary payments toward the end of the payment pause. Out of all borrowers with a payment due in October, 43 percent reported expecting to make full payments for that month. For borrowers who reported making full payments in the three months before October, that number was 68 percent, while only 34 percent of borrowers who reported not making a payment in the previous three months expected to make full payments in October. The most cited reason for nonpayment (44 percent) among borrowers who reported making no payments in the three months before October was that payments were unaffordable.

These patterns suggest a bifurcated market: Many borrowers expected they could make their payments, while other borrowers who struggled to pay their loans in the past expected to continue to struggle in October. In the following section, we'll see how borrowers' expectations in July were and weren't met by the actual payment resumption in October.

Borrower Experiences During the Payments Resumption

At a high level, data from the Treasury show the cadence of aggregate student loan payments surrounding the payments resumption. From these data, the [first report](#) in our [four-part series](#) showed that a minority of borrowers had been steadily making payments throughout the payment pause, as shown in **Figure 1**. After student debt cancellation was struck down in July 2023, more borrowers started to resume payments, including some making large lump-sum payments aimed at materially reducing their balances prior to the resumption of interest accruing on outstanding balances in September 2023. Once interest resumed and payments became due in October 2023, aggregate payments increased sharply to around \$7 billion monthly, close to prepandemic levels. Payments declined in November and December 2023, ending the year hovering around \$5 billion per month. It's worth noting that we would have expected monthly payments in late 2023 to be lower than, for example, those in early 2020, because of significant scheduled payment reductions for borrowers enrolled in the SAVE plan.

Figure 1: Aggregate Monthly Payments to the Department of Education, 2020–2023

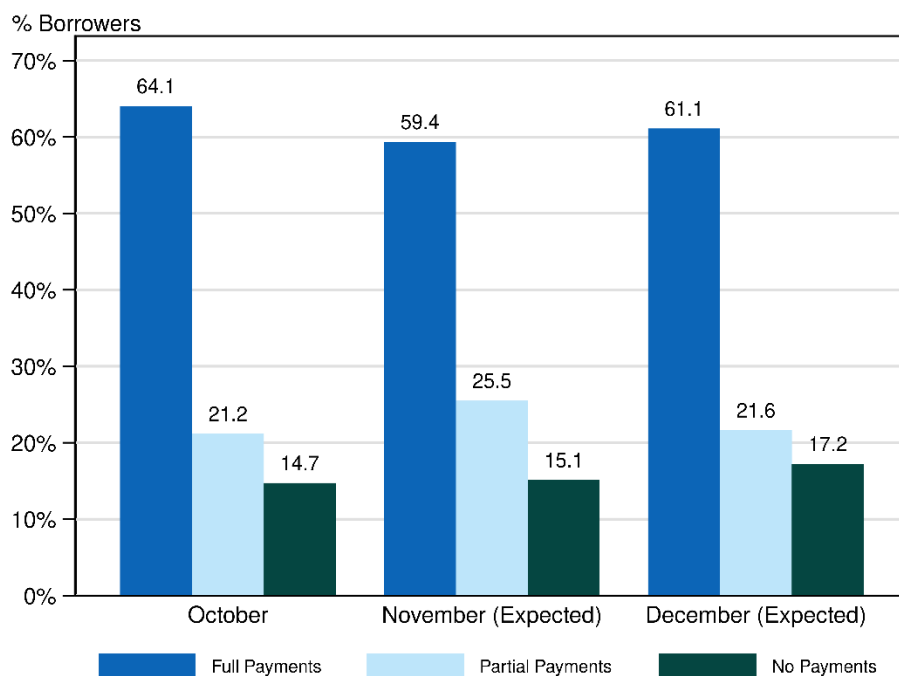


Source: Daily Treasury Statement, Table II

Our analysis of borrower experiences toward the end of the payment pause and early in the payment restart is based on CFI's LIFE Survey as well as on an ad hoc survey of around 2,000

student loan borrowers fielded in early November 2023. From the LIFE Survey, we have data collected in late September and early October 2023 on more than 5,000 consumers. We observed that borrowers surveyed later in the year were more optimistic about making payments in October than borrowers surveyed in July, as described in our [November 2023 report](#). Around 22 percent of borrowers with a payment due expected to make no payment in October in our September data, down from around 27 percent of borrowers in our July data. As shown in **Figure 2**, consumers in our November survey were even more optimistic: Only 15 percent reported making no payment in October, and 15 percent to 17 percent reported expecting to make no payments in November and December.

Figure 2: Actual Payments in October 2023, Expected Payments in November/December 2023



Notes: Sample includes respondents who reported an outstanding government student loan and are in repayment (not in school, in a grace period, or otherwise deferred). Responses are reweighted to reflect the American Community Survey distribution by income, education, race, and age.

Source: Federal Reserve Bank of Philadelphia Consumer Finance Institute Survey Data, November 2023

In total, 52 percent of respondents expected to make full payments in all three months of Q4 2023 (October, November, and December). Among those who did not expect to make full payments, a majority continued to cite unaffordable payments as a key reason. However, a material portion of borrowers who reported making less than a full payment in October cited an inability to contact their servicer (18 percent) or a servicer error (15 percent) as reasons for nonpayment. And around 15 percent cited the fact that delinquency was not currently being reported to credit bureaus as part of the repayment on-ramp as one of the reasons for nonpayment.

In a [report on onetime, lump-sum payments](#) made in excess of scheduled monthly payment amounts, we found that approximately 30 percent of borrowers with federal student loans made lump-sum payments in July–September 2023. Of borrowers who made a lump-sum payment, around 65 percent made a payment of less than \$1,000, and just 4 percent made a payment of more than \$10,000. In total, our survey data suggest that borrowers made a little under \$15 billion in lump-sum payments during the period leading up to the payments resumption, representing a majority of aggregate payments during the period discussed in Figure 1. Although higher-income borrowers were more likely to make a lump-sum payment, close to 50 percent of the total amount of lump-sum payments (\$15 billion) were made by borrowers with an income below \$40,000, which is not surprising given that most borrowers with federal student loans are lower- to moderate-income individuals.

Taken together, these findings suggest that although aggregate monthly payments to ED settled below prepandemic levels by the end of 2023, most borrowers were able to make payments in October 2023 and expected to continue to make payments through Q4 2023. A minority of borrowers made extra payments to pay down balances before the restart. In part, the subsequent decline in aggregate monthly payments appears to be due to idiosyncratic factors surrounding the repayment resumption, including servicing disruptions and the lack of delinquency reporting during the on-ramp period. Other contributing factors in the reduced flow of payments were the targeted debt forgiveness during the pandemic and reduced monthly payments under the new SAVE plan. The following section will show how the SAVE plan could materially reduce monthly payments for borrowers in difficult financial situations, even though borrowers' awareness of the program was limited as of November 2023.

Borrower Awareness of and Enrollment in the SAVE Plan

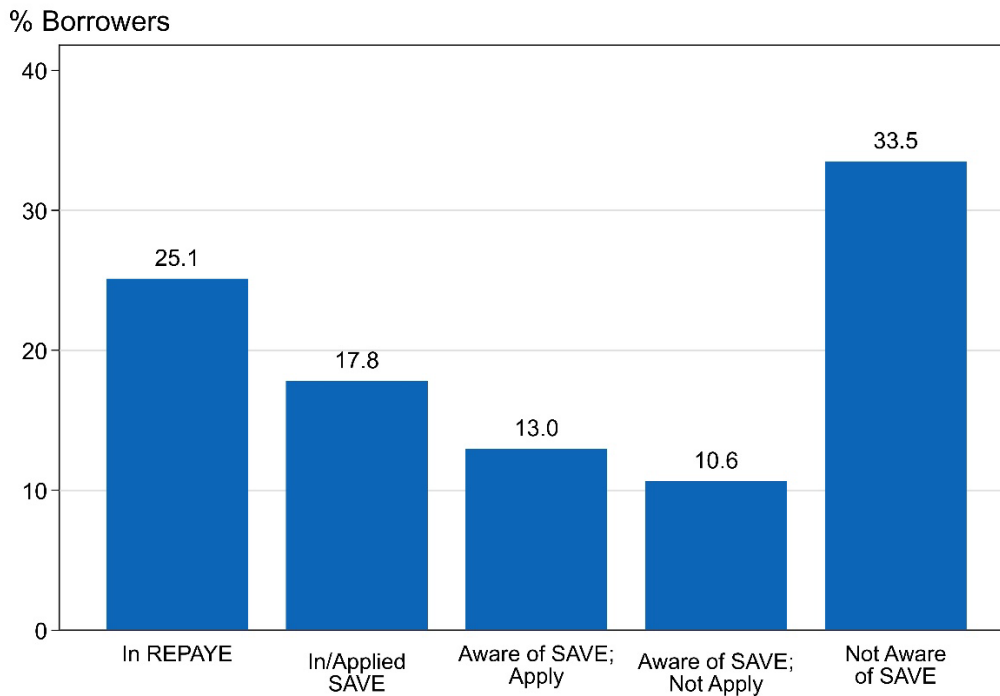
Traditionally, IDR plans limit monthly payments to some fraction of a borrower's income, with the effect of stretching out the repayment term for most borrowers and forgiving any outstanding balance remaining after the required number of payments. The Biden administration's new SAVE plan replaces an existing IDR plan, Revised Pay as You Earn (REPAYE), and borrowers in REPAYE were automatically enrolled in SAVE. The most significant features of SAVE are that any interest not covered by monthly payments is forgiven as long as the borrower makes minimum payments and that payments are capped at 10 percent of a borrower's discretionary income (or income above a specified cutoff).³

This implies that a borrower making less than the cutoff will be considered to have \$0 of discretionary income and thus have a \$0 scheduled monthly payment. It also means that borrowers enrolled in SAVE will not see their balances grow as long as they make their minimum payments. Furthermore, repayment terms are capped at 20 years for borrowers with only undergraduate loans and 25 years for borrowers with graduate loans. Taken together, the features of this plan imply that eligible borrowers holding eligible federal loans whose monthly payment before enrolling in SAVE was greater than 10 percent of their discretionary income could see their monthly payments reduced by enrolling in SAVE.

Initially, we asked respondents about their awareness of and intention to apply for SAVE after providing only a brief description of the program. Some 43 percent of our respondents were already enrolled in REPAYE or were enrolled in or had applied to SAVE, as shown in **Figure 3**.

³ Discretionary income is defined as adjusted gross income less 225 percent of the federal poverty line for the borrower's household size. For example, in 2023, the federal poverty line was \$14,580 for a single borrower, so the income below which no payments were due in that year was \$32,805. In other words, a borrower making less than \$32,805 would have been considered to have a discretionary income of \$0. The income threshold is higher for larger household sizes, e.g., \$67,500 in 2023 for a family of four.

Figure 3: Enrollment in and Awareness of the SAVE Plan, November 2023



Note: Sample includes all respondents with federal student loans in repayment.

Source: Federal Reserve Bank of Philadelphia Consumer Finance Institute Survey Data, November 2023

About 10 percent of the respondents in our survey were aware of SAVE and not planning to apply, and 34 percent were not aware of SAVE, while 13 percent were aware of SAVE and planning to apply. Subsequently, we explained the program in more detail and asked respondents who had not already applied to or been enrolled in SAVE about their intention to apply. Of these respondents, 32 percent said they intended to apply to SAVE, while 40 percent said they did not. The most common reasons given for not intending to apply were (a) that SAVE is not affordable and (b) hesitation toward extending the loan term by enrolling in SAVE.

Those who reported that they were planning on applying to SAVE were estimated to be the most likely to experience scheduled payment reductions if they applied. We nevertheless found that 50 percent of borrowers who were unaware of SAVE and 47 percent of borrowers who were aware of SAVE but not planning to apply even after we explained the program would potentially lower their monthly payments under SAVE. Forty-two percent of borrowers who were unaware of SAVE and 31 percent who were not planning to apply were estimated to have a \$0 monthly payment under SAVE. While the desire to not extend the payment term can be rational for many borrowers, the

combination of the forgiven interest and the forgiveness of the remaining balance after 20 or 25 years of payments means that SAVE is likely to be cheaper for a borrower if it significantly lowers their monthly payment, especially since borrowers can always pay more than the minimum. Therefore, both the lack of awareness and lack of understanding of the SAVE plan's features could be limiting factors to voluntary enrollment in SAVE, which might otherwise prevent financial distress for some borrowers.

Household Budget Adjustment Expectations

How will household budgets adjust to the student loan payments restart? Broadly, borrowers could adjust spending, borrowing, savings, or income in a number of combinations in response to resumed payments. It is challenging to elicit precise information about how the payments restart will directly cause household budget adjustments, but our survey data suggest some broad patterns of expected budget changes. The finding that jumps out: The average borrower expected material increases in earned income and borrowing, a reduction in savings, and a substitution from discretionary spending to essential spending. This implies that most borrowers expected to compensate for the resumed student loan payments largely by increasing their available funds and changing the composition of their consumption, rather than by cutting spending.

While the budget changes we observe are significant and suggestive of borrowers working to free up available funds to make student loan payments, we can observe similar trends of smaller magnitude in borrowers who weren't expected to resume payments. This suggests that other factors — both economic and personal — were also influencing household budgets around this time. Overall, our findings would have important macroeconomic implications if borne out by further research because they suggest the effects will be seen relatively more in a modest expansion of labor supply and a reduction of the savings rate and relatively less in terms of a reduction in aggregate demand.

Conclusion

Federal student loan borrowers represent a broad swath of the American population and have vastly differing abilities to cope with the resumption of scheduled monthly payments. Some borrowers have been making payments consistently — even when it was not required during the pandemic pause — and others made sizable lump-sum payments in advance of the resumption of interest and required payments. While those borrowers are likely in good shape to resume

payments, other borrowers made no payments during the pandemic pause and may have struggled to restart them. Our survey data suggest that the SAVE plan is likely to reduce or eliminate payments for the many borrowers in the latter group, thereby materially lessening the budget impacts of the payments resumption. Borrowers in the direst financial situations will qualify for \$0 monthly payments under SAVE, including essentially everyone with an income under \$33,000. Based on the survey data we have gathered so far, even for borrowers resuming payments of more than \$0, a material decline in consumption for most borrowers appears unlikely. That said, the lack of awareness of the SAVE plan among borrowers in November 2023 and the reluctance of some to enroll may limit the plan's ability to reduce payment burdens for borrowers and necessitate additional study.