Borrower Transitions into Student Loan Repayment: Evidence from Fall 2023 Consumer Survey Data

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This special report launches our new series on student loan payments resumption, which provides a sequence of updates to our previous report, published on November 6, 2023, and draws on novel data collected in October and November 2023.

This first report focuses on borrowers' expectations for repayment capacity in Q4 2023 and is the first view into actual payments made in October on federal student loans that resumed repayment on the first of the month. We show that borrowers were more optimistic about student loan repayment resumption in our Q4 data collection relative to the July 2023 data summarized in the earlier report. We examine the expectations of borrowers for repayment resumption on the eve of the pause coming to an end, their actual payments in October, their reasons for not making payments in October, as well as their expectations for payment regularity in November and December. The trends we identify in the data reflect any debt cancellation granted to nearly 1 million borrowers in 2023, loan payoffs by borrowers, and scheduled monthly payment reductions as a result of the U.S. Department of Education's newest income-driven repayment (IDR) plan: Saving on a Valuable Education (SAVE).

Our analysis draws on data from two consumer surveys that the Consumer Finance Institute (CFI) collected in Q4 2023. The first is a quarterly survey of more than 5,000 consumers — both those with student loans and those without — fielded in late September and early October 2023, which provides a view into borrowers' expectations and concerns regarding payments resumption beginning on October 1. The second set of data are drawn from an ad

[1] The views expressed in this report are solely those of the authors and do not necessarily reflect the views of the Federal Reserve Bank of Philadelphia or the Federal Reserve System. Nothing in the text should be construed as an endorsement of any organization or its products or services. Any errors or omissions are the responsibility of the authors. No statements here should be treated as legal advice. The special reports in this series are available on the Philadelphia Fed website.

hoc survey of more than 2,000 student loan borrowers that was fielded in early November 2023 and provides a view into the actual October 2023 payment patterns of borrowers, their reasons for not making payments (if they did not make them), as well as their expected repayment capacity in November and December. To account for differences in the demographic distributions of our samples and to generate more nationally representative estimates for student loan borrowers, we reweight the survey responses to reflect the American Community Survey along income, education, race, and age categories.

The patterns we identify in the data continue to suggest that the federal student loan borrower pool is highly fractured, with some borrowers comfortably supporting their payments and others experiencing either temporary or continued, chronic repayment struggles. We contribute these key findings from our analysis:

- A larger share of borrowers expected to have a capacity to make their student loan payments once the payment pause ended in late September relative to earlier in the year. Generally speaking, quarterly snapshots of several measures of overall financial well-being and economic sentiment do not indicate that the student loan payments resumption has significantly negatively affected student loan borrowers; their outcomes over the four quarters of 2023 show similar trends to those of consumers without student loans.
- About three-quarters of borrowers with scheduled payments expected to make payments with some consistency over Q4 2023. On the other hand, 11 percent of borrowers expected to miss all three scheduled payments (persistent repayment challenges), and another 11 percent expected to miss at least one of the three scheduled payments (intermittent repayment challenges) in Q4 2023.
- Whether or not borrowers made a payment in October 2023 is highly predictive of their expectations for making payments in November and December 2023, as 81 percent of borrowers expected to broadly maintain their October payment status. That said, some 7 percent of borrowers expected to improve their capacity to make payments toward the end of 2023, while 12 percent of borrowers expected to see their capacity to make payments worsen.
- Of those borrowers who did not make the full scheduled payment in October 2023, the primary reason (for 56 percent of borrowers) was that payments were unaffordable, including for some borrowers enrolled in one of the available IDR plans. Other borrowers indicated that they intended to make payments but did not do so because of servicing frictions (25 percent of borrowers) or because they chose not to make them in October, despite a capacity to do so (21 percent of borrowers).

Our data show that most borrowers have successfully resumed payments and expected to continue being able to make payments through the end of 2023, without a significant burden to their overall economic outcomes or sentiment. On the other hand, there is clear evidence that segments of the student borrower population have not resolved their repayment struggles despite available relief. Our analysis shows that a mix of policy levers could be considered in the current environment to support borrowers as they transition back into repayment, and we discuss those in our concluding remarks.

Payment Expectations on the Eve of Repayment Resumption

The first survey we draw on was fielded to a national sample of consumers, 1,014 of whom reported owing federal student loans they borrowed for their own education.[2] As in previous quarters, we asked borrowers about their recent debt payment behavior, as well as whether they expected to be able to resume student loan payments on October 1. In addition to these data on education loan holders, all survey respondents provided their demographic characteristics and information on their employment, income, overall financial stability, and disruptions in income/employment. As mentioned previously, these data are reweighted to be nationally representative, based on income, education, race, and age of the respondents.

More than 1 in 6 borrowers in our data had made a full or partial payment on their student loans in the prior three months: July, August, or September 2023. Of those borrowers who made a payment, about one-half indicated that they had made at least one payment on their student loans prior to July 1, 2023, meaning that at least one-third of borrowers made at least one payment during the payment pause prior to the Supreme Court decision striking down the Biden administration's debt cancellation plan and the Department of Education's final announcement of the payment restart on October 1, 2023. The other half — or about another one-third of all student loan borrowers — resumed making payments after July 1. This is consistent with evidence in **Figure 1**, using data from Table II of the U.S. Department of the Treasury's Daily Treasury Statement, which documents payments received by the Department of Education.[3] Once the payment pause was announced in April 2020, many borrowers continued to make their loan payments, which averaged $3 billion per month through July 2022 and $1 billion to $2 billion per month through May 2023 (compared with more than $7 billion per month in March 2020). Our data suggest that fewer borrowers than previously believed were completely disconnected from the repayment system throughout the COVID-19 pandemic.

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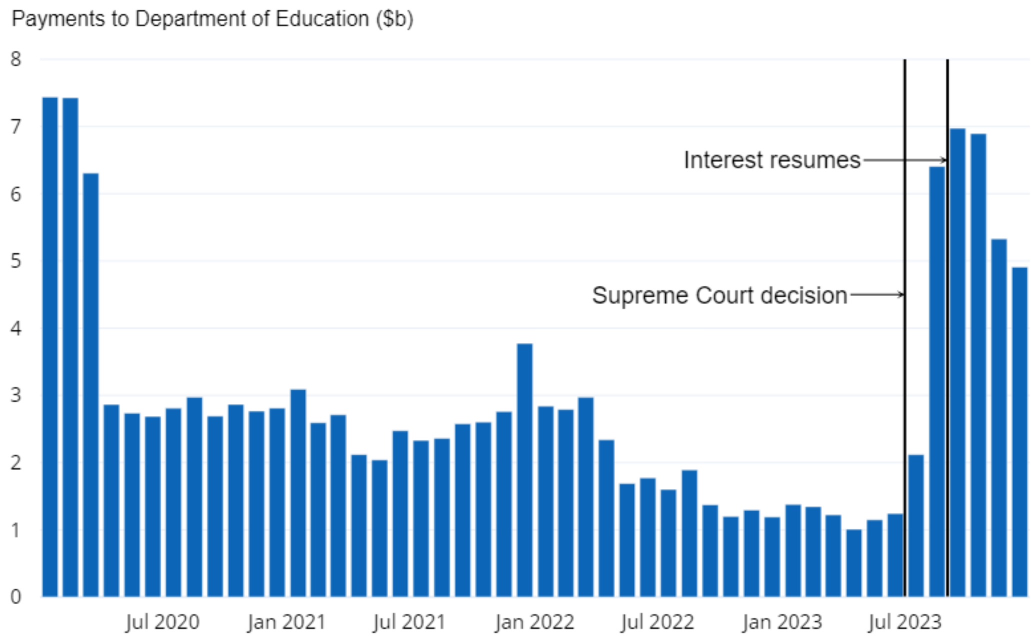
[2] Our analysis sample includes student loan borrowers who borrowed for their own education, whether or not they also owe parent loans. We recognize that borrowers holding only Parent PLUS loans are ineligible for most relief programs provided by the Department of Education. Although our data show higher levels of financial health and security compared with younger borrowers, many parent borrowers persistently struggle to make their student loan payments. Those borrowers could continue to be monitored and potentially considered for available or tailored relief programs.

[3] Payments to the Department of Education primarily reflect student loan payments on federal loans but may include other sources, such as adjustments to aid disbursements and loan origination fees. We use *student loan payments* and *daily receipts* interchangeably.

Figure 1 — Monthly Payments to Department of Education (January 2020–December 2023)



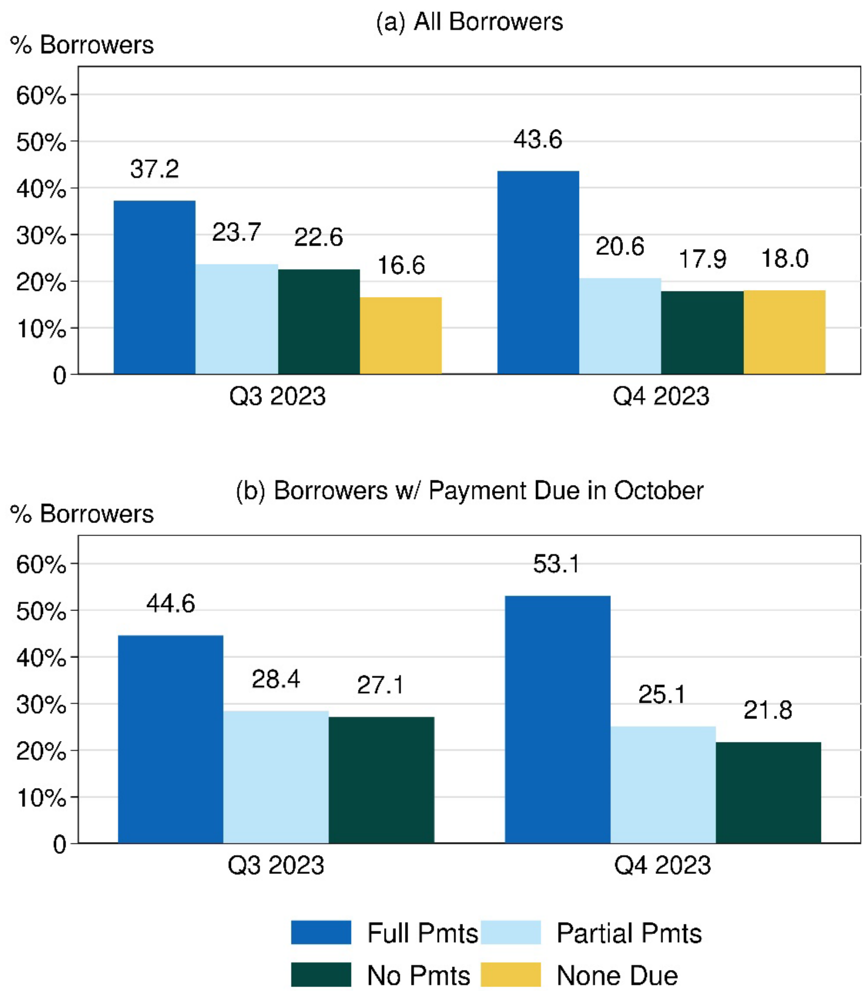
Source: Daily Treasury Statement, Table II

The other half of the borrowers in our survey data resumed their payments after July 1, 2023, and some of those did not resume them at all. This is consistent with the substantial uptick in payments in July and August 2023, as the interest-free period of the payment pause concluded at the end of August. Aggregate payments on federally held loans reached $2 billion in July, more than $6 billion in August, nearly $7 billion each in September and October, and then dropped to $5.5 billion in November. This reduction in November payments reflects both nonpayment because of servicer errors as well as debt cancellation and reductions in scheduled monthly payments because of borrower enrollment in the SAVE IDR plan. An estimated 2 million borrowers have been newly enrolled in SAVE as of November 8.[4]

Considering payment expectations in late September relative to our previous data collection in July 2022, we find that more borrowers expected to make payments; all student loan borrowers in our survey are displayed in panel (a) of **Figure 2**, and borrowers with a payment due are displayed in panel (b). Approximately 53 percent of borrowers with a payment due expected to make a full or partial payment in late September, compared with 45 percent of borrowers in July. Conversely, 22 percent of borrowers with a payment due expected to make no payment in October 2023 when asked in our late September survey, compared with 27 percent of borrowers in our July data.

[4] Borrowers who were previously enrolled in the REPAYE IDR plan automatically saw payment reductions in October because SAVE's features automatically applied to them. Other borrowers had to enroll in SAVE to take advantage of the more generous IDR terms. For more details on enrollment in SAVE, see https://www.ed.gov/news/press-releases/biden-harris-administration-announces-nearly-55-million-borrowers-are-enrolled-save-plan.

Figure 2 — Payment Regularity Expectations, July versus October 2023



Notes: Sample includes respondents who reported an outstanding student loan for their own education. We show statistics for borrowers who expected to have a payment due in October 2023 in panel (b). 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, July 2023 and October 2023

Next, we consider measures of financial health for student loan borrowers compared with nonborrowers over the four quarters of 2023 to ascertain whether the student loan payments resumption appears to have placed a burden on student loan borrowers' finances. For space considerations, figures showing these trends are shown in the **Appendix**, and we briefly summarize them here. We consider the following indicators of financial health and economic expectations: financial security relative to 12 months earlier, concern making ends meet in six months, overall economic sentiment relative to earlier in the year, ability to pay bills when faced with a $400 emergency expense, expected income change next year, hours worked relative to usual, debt balances compared with 12 months earlier, and bank balances (checking, savings, and money market accounts) relative to 12 months earlier.

As the Appendix figure shows, there are notable baseline differences in the levels of most financial health metrics between student loan borrowers and nonborrowers that are primarily the result of differences in demographic composition. But when we compare *trends* in economic sentiment and outcomes (i.e., when comparing the change in sentiment or outcomes for student loan borrowers compared with nonborrowers over the course of 2023), we conclude that student loan borrowers are slightly less likely to be experiencing declines in overall financial health compared with nonborrowers and slightly more likely to be experiencing a slowdown in savings in Q3/Q4 compared with nonborrowers. The latter is consistent with payments resumption and the large volume of lump-sum/excess payments made by borrowers leading up and into the payments restart discussed in the previous section.

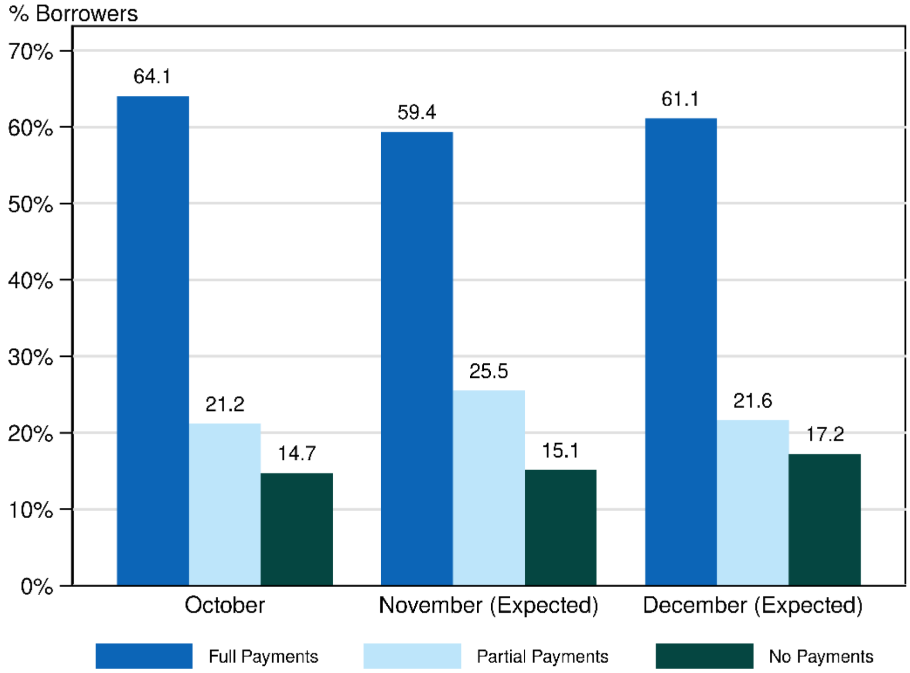
Overall, we note improvements in the reported borrowers' capacity to make their student loan payments in Q4 and few signs of the payment pause coming to an end having caused significant changes in overall financial health for student loan borrowers compared with nonborrowers. Instead, *all* consumers appear to be experiencing slight declines in indicators of overall financial health, and student loan borrowers are not disproportionally affected; in fact, because of their higher education and incomes (on average), student loan borrowers appear somewhat better insulated from financial shocks such as inflation than nonborrowers.

Payments in Q4 2023 and Reasons for Missed Payments

We now turn to our most recent data collection, fielded in early November 2023, that focused on student loan borrowers and their experiences with the payments restart. We analyze a sample of 2,121 student loan borrowers and present statistics on borrowers' actual payments in October and their expectations for payments in November and December in **Figure 3**. As part of this survey, we asked additional questions about repayment status, enrollment in IDR plans, as well as type of loan (e.g., government versus private), so we can focus specifically on borrowers with government student loans in repayment (including those with a $0 scheduled payment because of IDR eligibility).

We find that 64 percent of borrowers made at least their full scheduled payment (including a $0 payment) and another 21 percent made a partial payment in October, with 15 percent of borrowers making no payment at all. Compared with expectations in late September displayed in Figure 2, these statistics are encouraging and show that realized payments may be stronger than borrower expectations earlier in the year. It is important to note the caveat that there are minor differences in the samples for this ad hoc survey, relative to the quarterly survey fielded in July, so the comparison should be made with appropriate caution; that said, we do not believe that sample differences explain the improvement in payment patterns.

Figure 3 — Actual Payments in October, Expected Payments in November/December

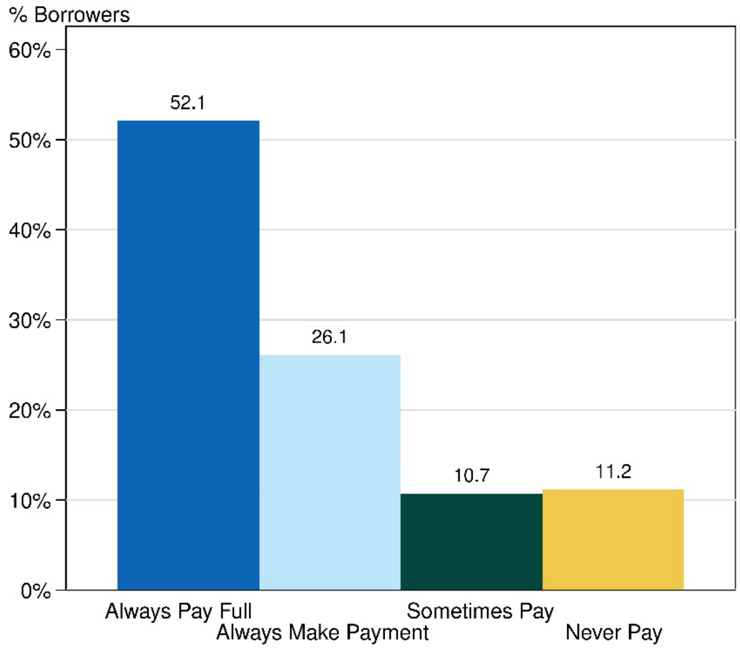


Notes: Sample includes respondents who reported an outstanding government student loan and are in repayment (not in school, in a grace period, or otherwise deferred). Responses are reweighted to reflect the American Community Survey distribution by income, education, race, and age.

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

Having asked the borrowers not only about their October payments but also about their expectations for payments in the last two months of 2023, we note that the share of borrowers expecting to make a payment in November and December was slightly lower, with about 17 percent of borrowers not expecting to make a payment in December. As presented in **Figure 4**, most borrowers' payment patterns over the three months that we asked about were consistent: 52 percent of borrowers expected to always make a full payment ("Always Pay Full"), 26 percent of borrowers expected to always make a payment (but not necessarily always a full payment; "Always Make Payment"), 11 percent of borrowers expected to sometimes pay and to miss payments in other months ("Sometimes Pay"), and 11 percent of borrowers neither made a payment in October nor expected to make payments in November or December ("Never Pay"). In other words, about three-quarters of borrowers expected to make payments with some consistency over Q4 2023, while the remaining one-quarter of borrowers was split relatively evenly between those who expected to struggle with payments intermittently and those who expected to struggle with payments consistently in Q4 2023.

Figure 4 — Borrower Payment Consistency in Q4 2023

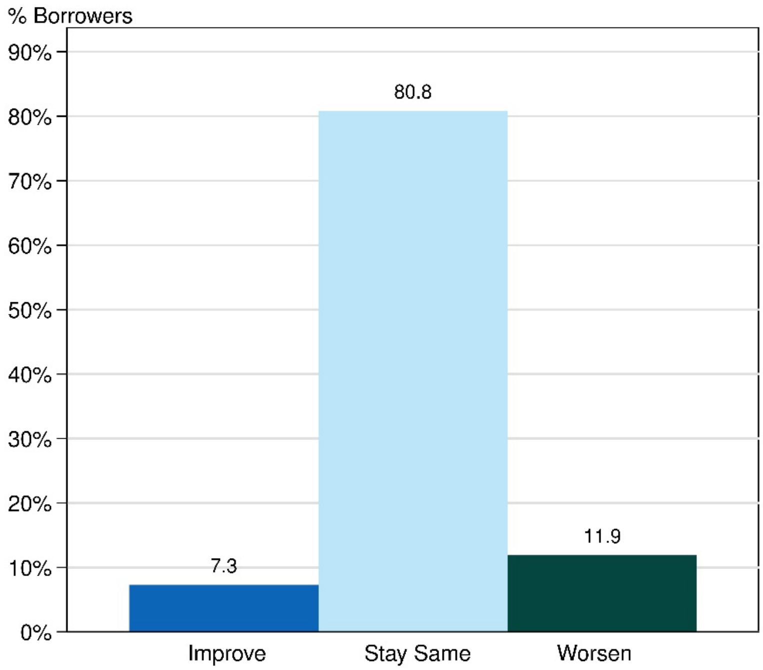


Notes: Sample includes respondents who reported an outstanding government student loan and are in repayment (not in school, in a grace period, or otherwise deferred). Payment patterns are detected based on responses regarding actual payments in October and expected payments in November and December 2023. 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

As stated previously, whether or not borrowers made a payment in October 2023 is a reliable predictor of their likelihood of making payments in November and December 2023. In **Figure 5**, we use the same responses regarding payment regularity in October and expected payment regularity in November and December to show that 81 percent of borrowers expected to broadly maintain their October payment status. That said, some 7 percent of borrowers expected to improve their capacity to make payments toward the end of 2023, while 12 percent of borrowers expected to see their capacity to make payments worsen. Borrowers who expected their payment capacity to worsen were more likely to have less than a two-year college degree, have private student loans (only or in addition to government student loans), and be part of the non-Hispanic white population.

Figure 5 — Changes in Borrower Payment Capacity from October to End of Q4 2023



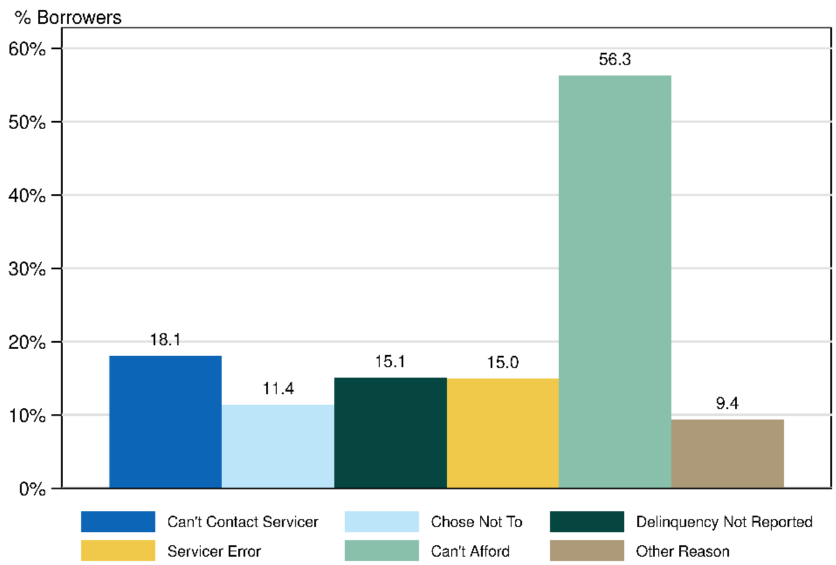
Notes: Sample includes respondents who reported an outstanding government student loan and are in repayment (not in school, in a grace period, or otherwise deferred). Payment patterns are detected based on responses regarding actual payments in October and expected payments in November and December 2023. 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

As in our May 2022 report and November 2023 report on borrower expectations of payments resumption, expected future repayment capacity is strongly correlated with current payment consistency. This means that a portion of borrowers expected to return to delinquency and default because they could not make their payments, even with the availability of current relief programs. Other borrowers expected to exit delinquency and make payments as servicing frictions resolved and as continued enrollment in the SAVE IDR plan reduced scheduled payments for more borrowers. As shown in **Figure 6**, more than one-half (56 percent) of borrowers who did not make full payments in October 2023 did so because they could not afford them. This share was even higher for borrowers who did not make any payments at all (63 percent). Interestingly, about one-quarter of the borrowers who found payments in October unaffordable were enrolled in one of the available IDR plans. Some of the borrowers who found October payments unaffordable may have subsequently enrolled in the SAVE IDR plan to reduce their payments in November and December, as our data show that they were most likely to expect to improve their payment capacity through Q4 in our analysis.

Other borrowers reported reasons for payments of less than the full scheduled amount consistent with a strained servicing environment, with some indicating that they intended to make their full scheduled October student loan payment but did not, either because their servicer made a billing error (15 percent) or because they could not contact their servicer (18 percent). Responses to this question were not mutually exclusive, so a combined 25 percent of borrowers experienced some degree of servicing frictions in October 2023. And some borrowers reported responses consistent with strategic payment delay/avoidance behavior; 11 percent could have afforded their full payment but chose not to make it, and 15 percent did not make a full payment because the delinquency will not be reported to credit bureaus until October 2024 (21 percent of borrowers with either response).

Figure 6 — Reasons for Not Making Full Payments in October



Notes: Sample includes respondents who reported an outstanding government student loan, are in repayment (not in school, in a grace period, or otherwise deferred), and reported making less than the full scheduled payment in October 2023. Answers are not mutually exclusive and do not add up to 100 percent. 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, July 2023

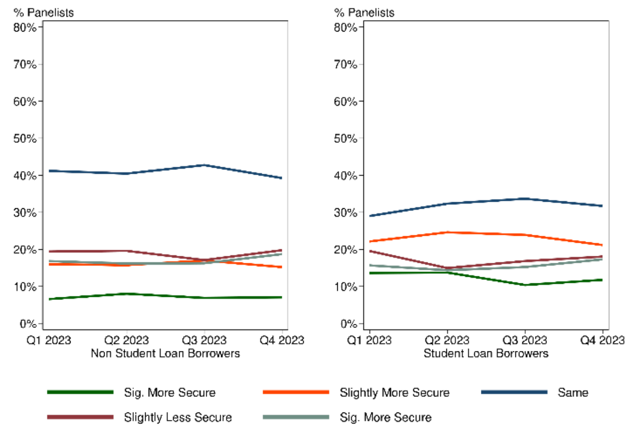
Conclusion

Student loan borrowers experienced quite an adjustment in fall 2023, not only because of the payments resumption on most federal student loans, but also because of the availability of debt relief programs such as Fresh Start and the SAVE IDR plan. The CFI survey data show that the majority of borrowers have successfully resumed payments, and most expected to continue being able to make payments through the end of 2023, without a significant burden to their overall economic outcomes or sentiment. On the other hand, there is clear evidence that borrower distress has not been eliminated by the on-ramp provided thus far, with some 22 percent of borrowers anticipating missing at least one of their scheduled payments in Q4 (11 percent of borrowers expecting to miss all three scheduled payments, and another 11 percent planning to miss at least one of the three scheduled payments). Of the borrowers who made less than their full payment in October 2023, about one-half did so because they found their scheduled payment to be unaffordable, about one-quarter experienced servicing frictions, and about one-fifth strategically skipped or postponed their payments because missed payments will not be reported until October 2024.

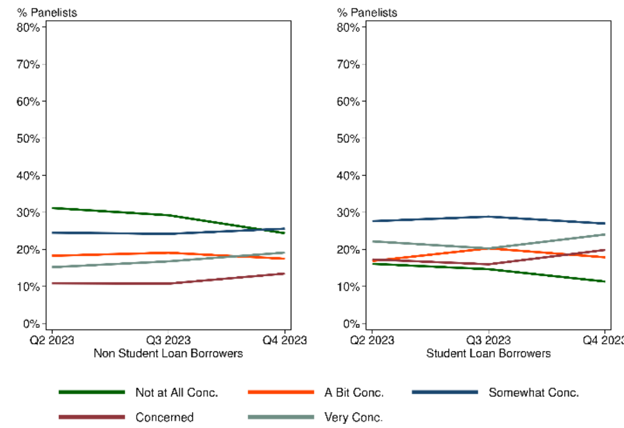
The overall effect on future delinquency levels is ambiguous because some borrowers expected their payment capacity to worsen in late 2023, and other borrowers expected to resume payments as servicing frictions resolved and continued enrollment in the SAVE IDR plan reduced scheduled payments for even more borrowers. It is our hope that servicers and policymakers may be able to use patterns in the early payments resumption months detailed in this report series to predict which borrowers are most likely to struggle with the return to repayment and target them in outreach and relief programs. Our data suggest that a mix of policy levers could be considered in this environment. For borrowers who only occasionally miss payments, temporary forbearance — implemented with as much flexibility and as few frictions as possible — may be sufficient to get them back on track. Reduced payment plans such as IDR may be helpful for borrowers with persistent repayment struggles and a capacity to support reduced payments, while balance reductions may be helpful for the minority of borrowers who appear to chronically struggle with student loan repayment despite available relief programs.

Appendix

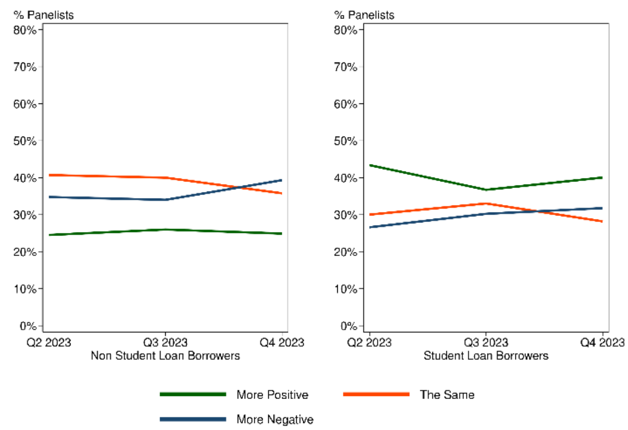
Financial Security Relative to 12m Earlier



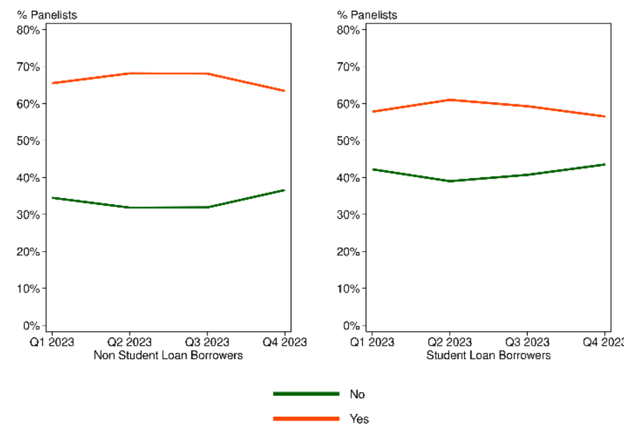
Concern over Making Ends Meet Next 6 Months



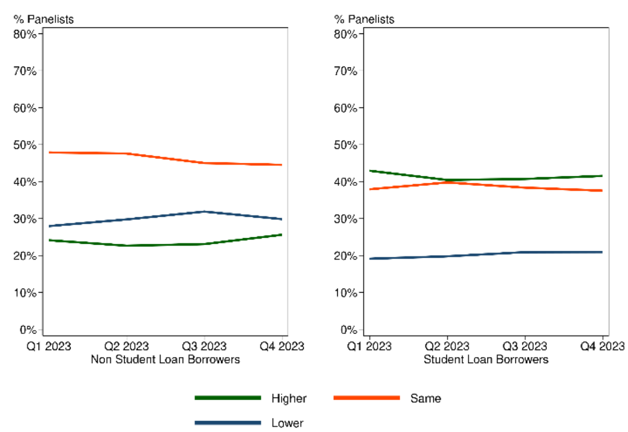
Sentiment vs Beginning of Year



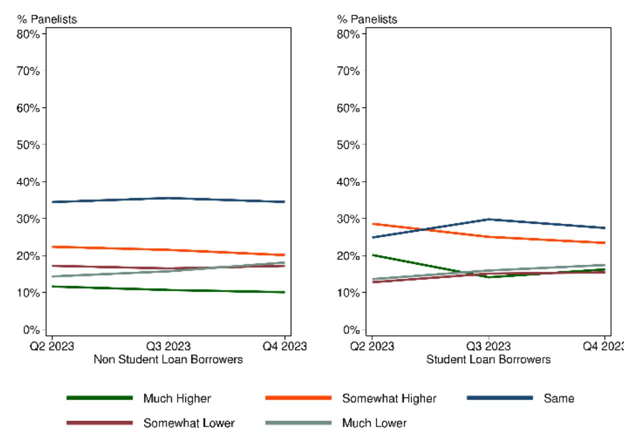
Ability to Pay All Bills w/ $400 Expense



Debt Balance vs 12m Earlier



Bank Balances vs 12m Earlier



Notes: Student loan borrower sample includes respondents who reported an outstanding student loan for their own education in the particular quarter; remaining respondents are classified as nonstudent loan borrowers. 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; January, April, July, and October 2023