

Consumer Responses to the Resumption of Student Loan Payments

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In the wake of the pandemic, the White House suspended required student loan repayments effective March 2020. After about three years, Congress ended the payment pause, and borrowers began receiving bills for payments on October 1, 2023. With student loan balances reaching \$1.6 trillion as of the third quarter of 2023, the resumption of payments had the potential to alter the spending behavior of a considerable share of consumers by reducing the disposable income that would otherwise be available for expenditures. Anecdotal accounts showed that some businesses had braced for a potential weakening in consumers’ willingness to spend, particularly among younger individuals. Between September 27, 2023 and January 17, 2024, the Surveys of Consumers asked 2,242 respondents about their student loans and their behavioral response to the resumption of student loan payments. The results show that a relatively small minority of Americans reduced their spending following the resumption of student loan payments. These patterns are consistent with the continued robustness of aggregate consumer spending in the fourth quarter of 2023.

About 24% of consumers reported having outstanding student loans, which is nearly identical to data from other nationally representative sources (Figure 1). Of these student loan borrowers, about two-thirds reported that their loan payments resumed in October 2023. Possible reasons that payments did not resume in October 2023 include:

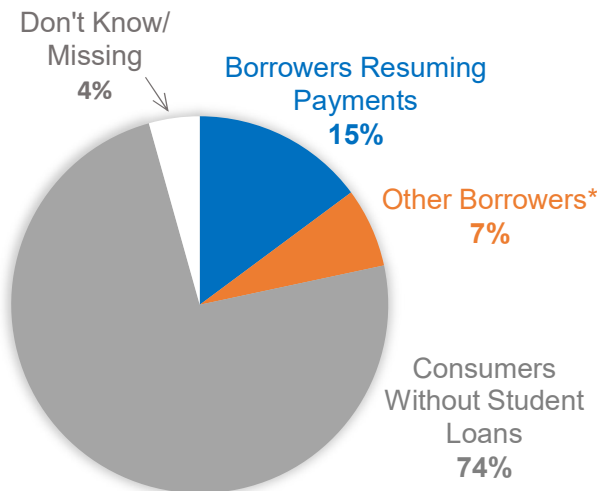
- Borrowers may hold private loans that were not eligible for the pause;
- Borrowers may have made voluntarily payments even if they were eligible for the pause;
- Borrowers may be enrolled in school or within a grace period during which payments are not due;
- Borrowers may be in forbearance due to financial hardship or other reasons.

Overall, about 15% of all consumers resumed payments on student loans, a notable but relatively small share.

For student loan borrowers who resumed payments in October 2023, the survey asked if they would be making any adjustments to their financial decision-making (Figure 2). The most common response, reported by about 40% of student loan borrowers resuming payments, was that they would be reducing spending in response to the restart of student loan payments. A majority of student borrowers resuming payments did not reduce any spending when the payments resumed: about 29% reduced saving, while 20% planned to hold their spending, and about 10% planned no changes at all. All told, only 8% of consumers as a whole reported reducing their spending in response to the resumption of student loan payments.

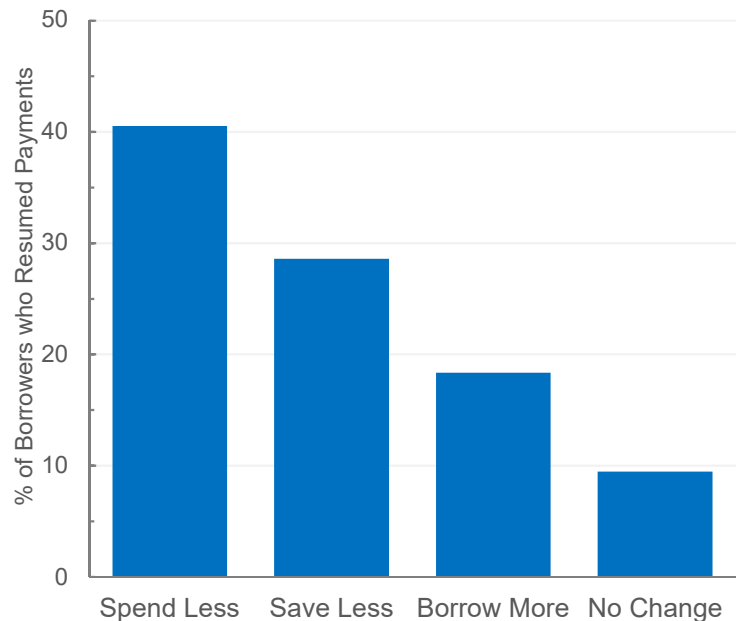
Table 1 displays characteristics of student loan borrowers who resumed payments, those who did not (whether due to continuous payment or continuous non-payment), and consumers without student loans at all. Unsurprisingly, student loan

Figure 1: Shares of Consumers who Did and Did Not Resume Student Loan Payments in October 2023



*Other Borrowers include: (1) Student loan borrowers who made ongoing payments before and after Oct. 2023, and (2) Student loan borrowers who were not making payments before Oct. 2023 and whose payments did not resume at that time. See report text for more details.

Figure 2: How is the Spending of Student Loan Borrowers Responding to the Resumption of Payments? (Among Borrowers Resuming Payments in October 2023)





borrowers are younger and are more likely to have college degrees relative to those without student loans. Among borrowers resuming payments, those making no change to their saving, spending, or borrowing behavior are older and are more likely to have college degrees. Borrowers with other responses have similar demographic characteristics and similar levels of sentiment as one another.

The group of student loan borrowers who have responded by spending on additional credit stands out in contrast. They reported much lower levels of sentiment than all other groups of consumers. This group is also the youngest in age, and, among those with student loans, the least likely to have a college degree and earns lower incomes. Even more concerning, these borrowers also have the weakest income expectations; only 13% expect any gains in income over the next year to exceed inflation, compared with 19% for student borrowers who pulled back spending after the payment pause ended, and 21% for student loan borrowers who did not alter their repayment behavior at that time.

Our data show that borrowers who are already more financially vulnerable—due to their lower incomes, lower educational attainment, and weaker income prospects—have resorted to spending on additional credit to maintain their spending, which suggests they have incurred more financial risk going forward. If members of this group experience income or spending shocks in the year ahead, they could add to the rising delinquencies observed in consumer credit data over the course of 2023. Furthermore, their lower levels of sentiment suggest that their outlook for the future of the economy is more pessimistic than for others, so it is likely these borrowers would not depend on debt-financed spending if their budgets allowed for other options.

Student loan borrowers who report that payments did not resume in October have similarly low incomes and college attainment rates as those who are borrowing more. This, however is not necessarily cause for concern, as many individuals in this group may still be enrolled in school (or recently graduated) and en route to acquiring the credentials for a higher paying job down the line. Indeed, this group has the strongest income expectations of all, perhaps reflecting anticipated improvements in earning power.

While the resumption of student loan repayments may not have generated substantial pullbacks in spending, a measurable minority of consumers may find themselves in a more financially precarious situation with the resumption of payments and the additional burden of new borrowing. This group, however, is only 2% of the total population, so if their household financial stability deteriorates, any increase in financial systemic risk that might arise is unlikely to be substantial.

Table 1: Characteristics of Consumers by Student Loan Status and Response to Resumption of Payments

| | Student Loan Borrowers Restarting Payments | | | | Other Student Loan Borrowers* | Consumers Without Student Loans |
|---|--|-----------|-------------|-----------|-------------------------------|---------------------------------|
| | Spend Less | Save Less | Borrow More | No Change | | |
| Age (average) | 43 | 40 | 39 | 47 | 43 | 56 |
| % with College Degree | 64 | 69 | 58 | 70 | 56 | 48 |
| Household Income (\$, median) | 117,500 | 112,500 | 90,000 | 104,000 | 88,750 | 90,000 |
| Consumer Sentiment (average) | 72.1 | 77.3 | 49.4 | 69.9 | 68.0 | 67.3 |
| % Expecting Next Year's Income Growth to... | | | | | | |
| Keep Pace with Inflation | 36 | 28 | 25 | 22 | 39 | 35 |
| Exceed Inflation | 19 | 23 | 13 | 16 | 21 | 17 |

***Other Borrowers** include (1) Student loan borrowers who made ongoing payments before and after Oct. 2023 (2) Student loan borrowers who were not making payments prior to Oct. 2023 and whose payments did not resume at that time. See report text for more details.



Appendix: Question Text

The next three questions are about student loans. Do you (and your family living here) owe any money or have any student loans for educational expenses?

In March of 2020, the federal government paused student loan repayments. The pause has ended, and payments are due starting in October of 2023. Are any of your student loan payments restarting in October of 2023?

We want to understand how the restart in student loan repayments will affect your financial decision-making. Thinking about your (family's) financial situation this year, will the student loan repayment lead you mostly to decrease spending, mostly to decrease saving, or mostly to increase debt?