

May 3, 2022

Dear Senator Warren,

We write to address the range of existing proposals to cancel student debt. Expanding on our 2021 paper “Student Debt Cancellation *IS* Progressive”¹, we offer new supplemental analyses in this letter.

Our findings bolster prior research showing that debt cancellation would free millions of borrowers from financial burdens, help close debt and wealth gaps between Black and white households, and eliminate runaway student loan balances for distressed borrowers. Higher levels of cancellation do more towards each of these ends. In sum, every dollar of student debt cancellation counts, but bigger is better for advancing racial equity and economic security.

Key findings include:

- **All amounts of proposed cancellation would reduce loan balances for large shares of borrowers. For each \$10,000 increment of maximum cancellation per borrower:**
 - \$10,000 zeroes out balances for 32% of borrowers (13 million in total)
 - \$20,000 zeroes out 50% of borrowers (20 million in total)
 - \$30,000 zeroes out 61% of borrowers (24 million in total)
 - \$40,000 zeroes out 71% of borrowers (28 million in total)
 - \$50,000 zeroes out 76% of borrowers (30 million in total)

- **Cancellation overwhelmingly benefits low-wealth borrowers because rich people rarely borrow and pay off debt quickly when they do:**
 - \$10,000 reduces the share of people with debt from 15% to 10% in the bottom quintile for wealth and from 20% to 15% in the second-lowest quintile. It makes no difference for the 4% of individuals with debt in the top 10% for wealth.
 - \$20,000 reduces the share of people with debt from 15% to 7% in the bottom quintile for wealth and from 20% to 11% in the second-lowest quintile.
 - \$50,000 reduces the share of people with debt from 15% to just 2% in the bottom quintile for wealth, lower than the 3% still with debt in the top 10% for wealth.

- **Cancellation closes racial gaps in student debt associated with the racial wealth gap:**
 - \$10,000 zeroes out loan balances for 2 million Black borrowers. This reduces the share of Black individuals with student debt from 24% to 17% and closes the Black-white gap in the share of individuals with student debt from 9 percentage points to 6 percentage points.
 - \$20,000 reduces the share of Black individuals with debt to below the present 15% share of white persons with debt.

¹ Eaton, C., Goldstein, A., Hamilton, L. T., Wherry, F. (2021). Student Debt Cancellation *IS* Progressive: Correcting Empirical and Conceptual Errors. *Roosevelt Institute Issue Briefs*. <https://rooseveltinstitute.org/publications/student-debt-cancellation-is-progressive/>

- \$50,000 reduces the share of Black individuals with debt to 6%, reducing the Black-white gap in the share of individuals with debt to just 3 percentage points.
- **Cancellation provides substantial relief to those unable to repay debts because of inequalities in wealth and income that particularly impact Black borrowers:**
 - 66% of Black borrowers owe more than originally borrowed 12 years after starting college.
 - 37% of Latinx borrowers and 30% of white borrowers owe more after 12 years.
 - \$10,000 zeroes out 14% of borrowers who owe more after 12 years.
 - \$20,000 zeroes out 32% of borrowers who owe more after 12 years.
 - \$30,000 zeroes out 46% of borrowers who owe more after 12 years.
 - \$50,000 zeroes out 67% of borrowers who owe more after 12 years.
- **Cancellation would provide substantial relief for borrowers who have experienced default or a 91+ day delinquency:**
 - Over 10 million borrowers with outstanding balances, 23% of all federal loan borrowers, had experienced default or a 91+ day delinquency before the student loan repayment freeze in 2020.
 - \$10,000 zeroes out 45% (5 million) of these distressed borrowers
 - \$20,000 zeroes out 69% (7 million) of these distressed borrowers.
 - \$50,000 zeroes out 95% (9.5 million) of these distressed borrowers, leaving only 509,000 of these borrowers in debt.
- **Cancellation would reduce racial disparities in negative net worth that are amplified by student debt:**
 - 19% of Black people (6 million in total) live in households with negative net worth compared to just 9% of white households.
 - \$10,000 reduces the total of Black people with negative net worth by 14% to 5 million.
 - \$20,000 reduces the total of Black people with negative net worth by 24% to 4.5 million
 - \$50,000 in cancellation reduces the total of Black people with negative net worth by 34% to 4 million.

In what follows, we expand on these findings by providing estimates for how much relief reaches different types of borrowers when cancellation is increased by \$10,000 increments from \$10,000 to \$50,000. All estimates are based on the exclusion of borrowers with more than \$150,000 in annual income. It should be noted, however, that income caps at this level would exclude professionals with higher income from low-wealth backgrounds who are disproportionately Black.²

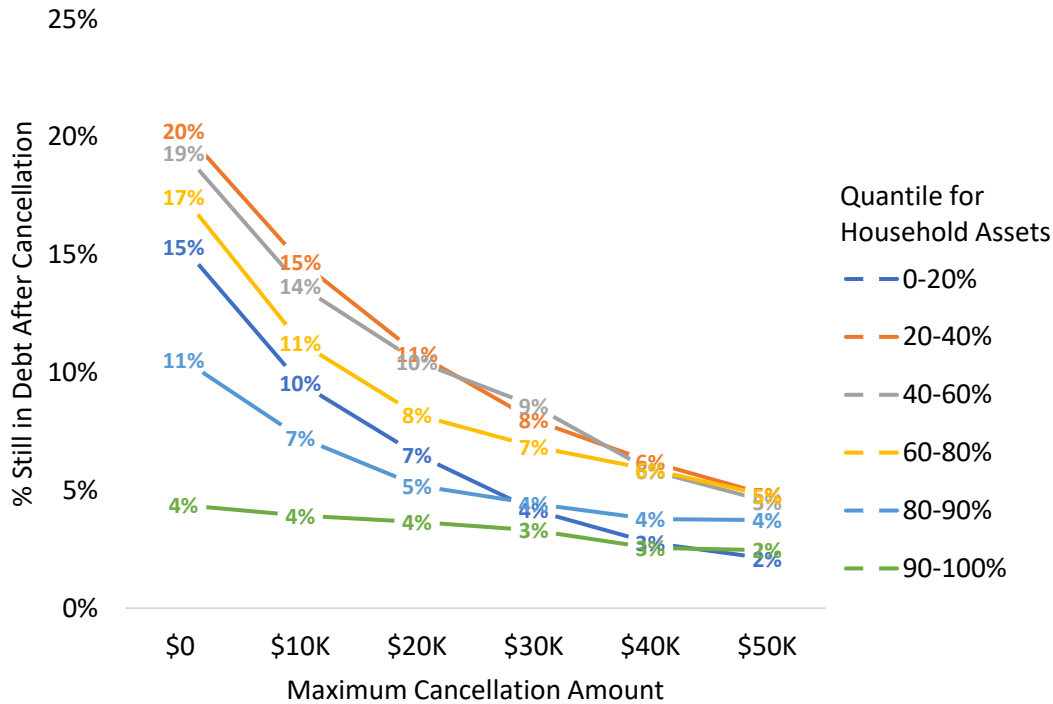
² See Eaton, C., Goldstein, A., Hamilton, L. T., Wherry, F. (2021). Student Debt Cancellation IS Progressive: Correcting Empirical and Conceptual Errors. *Roosevelt Institute Issue Briefs*.
<https://rooseveltinstitute.org/publications/student-debt-cancellation-is-progressive/>

1. Wealth and Racial Inequalities in Student Debt

Low wealth borrowers disproportionately benefit from debt cancellation. Higher wealth individuals receive little debt cancellation under any scenario because they rarely have any student debt at all, let alone large student debts. We illustrate this in Figure 1 which plots the percent of individuals with any student debt by household asset wealth quantile after different levels of cancellation. Household assets are a conservative estimate of wealth because they exclude debts. In this way, asset wealth also captures how debt can block wealth acquisition by preventing borrowers from saving and from buying homes or other appreciating assets.

Figure 1 shows that with zero cancellation, 15% of individuals in the bottom 20% for asset wealth have student debt. 20% of individuals in the 20th to 40th percentile for household assets have student debt. In comparison, just 4% of people in the top 10% for wealth have any student debt. A \$10,000 cancellation maximum cuts the share of people with student debt in the bottom quintile, from 15% to 11%. A \$10,000 maximum cuts the share with debt from 20% to 15% in the second quintile. In the wealthiest 10%, the share with debt declines only slightly with 4% still holding student debt. Higher maximums continue to cut the share of low-wealth individuals with debt sharply. A \$20,000 maximum cuts the share with debt in half for the bottom three quintiles. A \$50,000 maximum cuts the share with debt to just 2% in the bottom quintile, less than for the wealthiest 10%.

Figure 1: Share of Individuals with Debt After Cancellation by Asset Wealth Quantile



Note: Estimates use 2019 Survey of Consumer Finance data.

Table 1 reports measures of cancellation amounts by race, including the percent and count of people by race who would have federal student loan debts completely zeroed out under different scenarios. Reflecting the racial wealth gap, the table shows that higher levels of

cancellation achieve greater equity in the share of persons with student debt by race. For example, more than \$20,000 in cancellation is required to reduce the share of Black individuals with debt to below the present 15.1% share of white persons with debt.

Table 1: Cancellation Per Person and Persons Left with Debt by Maximum Cancellation Per Borrower Scenarios

	No Cancellation			\$10K Max Per Borrower		
	Debt Per Person	Millions with Debt	% with Debt	Debt Cancelled Per Person	Millions Left with Debt	% Left with Debt
Black	\$7,517	7.5	23.8%	\$1,649	5.2	16.7%
Latinx	\$2,892	5.3	12.4%	\$666	3.4	7.9%
white	\$3,771	24.3	15.1%	\$895	16.9	10.5%
other	\$3,289	2.4	10.9%	\$598	1.4	6.4%
all	\$4,235	39.5	15.4%	\$972	26.9	10.5%

	\$20K Max Per Borrower			\$30K Max Per Borrower		
	Debt Cancelled Per Person	Millions Left with Debt	% Left with Debt	Debt Cancelled Per Person	Millions Left with Debt	% Left with Debt
Black	\$2,867	4.1	13.1%	\$3,858	3.5	11.1%
Latinx	\$1,118	2.0	4.7%	\$1,389	1.8	4.1%
white	\$1,515	12.3	7.7%	\$1,949	9.2	5.7%
other	\$999	1.3	5.8%	\$1,345	0.8	3.8%
all	\$1,655	19.7	7.7%	\$2,154	15.3	6.0%

	\$40K Max Per Borrower			\$50K Max Per Borrower		
	Debt Cancelled Per Person	Millions Left with Debt	% Left with Debt	Debt Cancelled Per Person	Millions Left with Debt	% Left with Debt
Black	\$3,858	2.6	8.2%	\$5,233	2.0	6.4%
Latinx	\$1,389	1.1	2.6%	\$1,774	1.0	2.4%
white	\$1,949	7.2	4.5%	\$2,502	5.8	3.6%
other	\$1,345	0.7	3.1%	\$1,755	0.6	2.6%
all	\$2,529	11.6	4.5%	\$2,810	9.4	3.7%

Note: Estimates use 2019 Survey of Consumer Finance data.

The “No Cancellation” panel of the table shows that those who are Black have substantially more debt per person than other racial groups. We estimate that 7.5 million Black individuals, or 23.8% of all Black adults, had federal student loans as of 2019. Black individuals had \$7,517 in debt per person. We estimate that the average debt per white person is half the average per Black person, at just \$3,771. Cancellation of \$10,000 per borrower zeroes out the debts of 2.3 million Black borrowers but still leaves 5.2 million Black borrowers, or 16.7% of all Black individuals, with debts. After \$20,000 in cancellation, the share of Black borrowers falls to

13.1%, below the pre-cancellation rate of white indebtedness. Cancellation of \$50,000 per borrower reduces the share of Black individuals with debt to 6.4%—just 2.8 percentage points higher than the 3.6% of whites who are left in debt after \$50,000 in cancellation.

Our estimates of the proportion of persons with debt are likely conservative for each racial group. This is a limitation of the 2019 Survey of Consumer Finance (SCF), which is nonetheless the best available data for estimation of federal student debt by race. The first panel of Table 1 shows our estimation from SCF suggests just 39.5 million borrowers held federal student debt in 2019.³ However, 45 million borrowers owed outstanding balances on federal student loans at the end of 2020 according to administrative data that were provided in 2021 to Senator Warren by the Federal Student Aid (FSA) agency of the US Department of Education.⁴ Our measure of debt and debt cancellation *per person* are also lower than the average debt or debt cancellation *per borrower*. But as we noted in our previous paper, using a per person measure for assessing the distribution of debt and progressivity of cancellation because it captures the fact that high-income, wealthy, and white persons are comparatively less likely to rely on educational borrowing and entirely pay off debt faster.

2. Borrowers Unable to Pay Down Existing Debts

In the last two decades, large shares of borrowers have been unable to pay down any of their outstanding student loan balance. The Department of Education has incorporated a version of this measure into its school-level College Scorecard database as a key indicator of whether students leave schools with manageable student debts. Such borrowers can end up owing more than they originally borrowed via compounding interest on their debts.⁵ We assess the extent to which cancellation eliminates debt for such borrowers using student-level data from the Department of Education’s representative Beginning Postsecondary Student (BPS) survey of the 2004 entering college cohort.⁶ All levels of cancellation provide relief for these borrowers. But only higher levels of cancellation completely zero out debts for majorities of these borrowers.

Again, Black borrowers were the most likely to show signs of financial distress in owing more than they originally borrowed 12 years after starting college. But borrowers from all racial groups struggled to repay any debt at alarming rates. We detail this in Figure 2 which plots the percent of students from each BPS survey racial category who owed more than they originally borrowed. Remarkably, 66% of Black borrowers owed more than they originally borrowed 12 years after starting college – more than double the share of white borrowers. Over one third of all borrowers owed more than originally borrowed, including 41% of American Indian and Alaska Native borrowers, 38% of multi-racial borrowers, and 36% of Latinx borrowers.

³ SCF estimates for total US borrowers with federal student loans can vary based on how household level survey responses are used to estimate the frequency of borrowing per person. We simply apply household-level frequency rates to total adult population by race: <https://github.com/HigherEdData/Student-Debt-Cancellation-IS-Progressive>.

⁴ <https://www.warren.senate.gov/imo/media/doc/Education%20Department%20Response%20to%20Sen%20Warren%20-%204-8-21.pdf>

⁵ Miller, Ben. 2017. “New Federal Data Show a Student Loan Crisis for African American Borrowers.” Center for American Progress, October 16, 2017. <https://www.americanprogress.org/issues/education-postsecondary/news/2017/10/16/440711/new-federal-data-show-student-loan-crisis-african-american-borrowers>.

⁶ Our figure replicates these prior estimates from page 11 of the following study: https://protectborrowers.org/wp-content/uploads/2021/09/SBPC_Driving_Runaway_Debt.pdf

Figure 2: Share of students owing more than originally borrowed 12 years after starting college

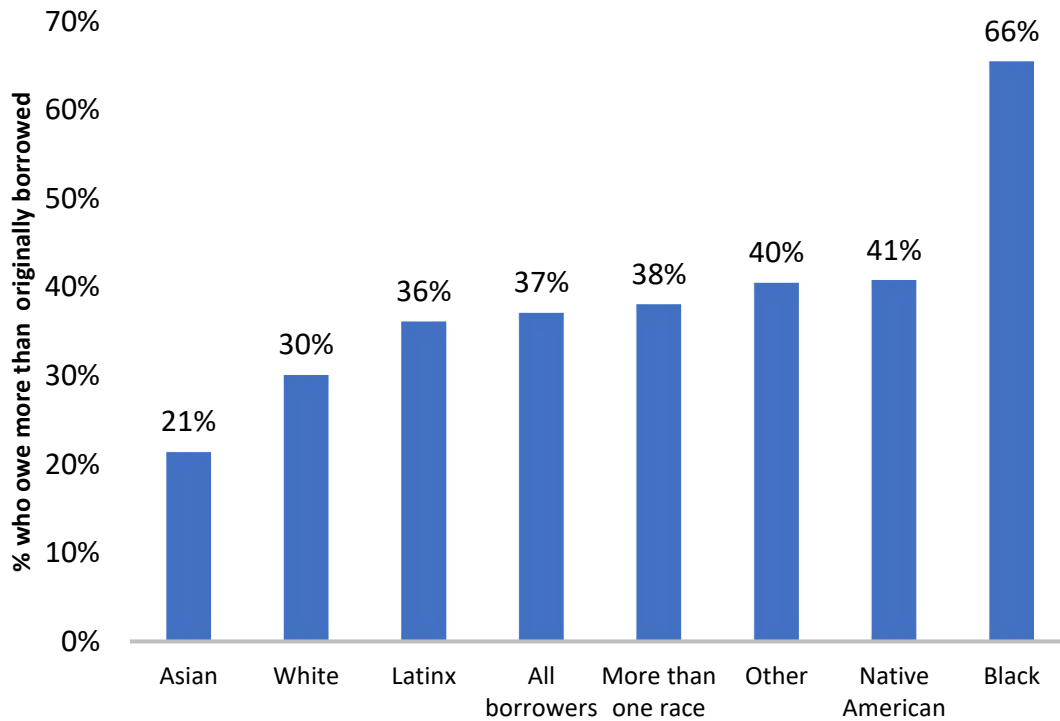
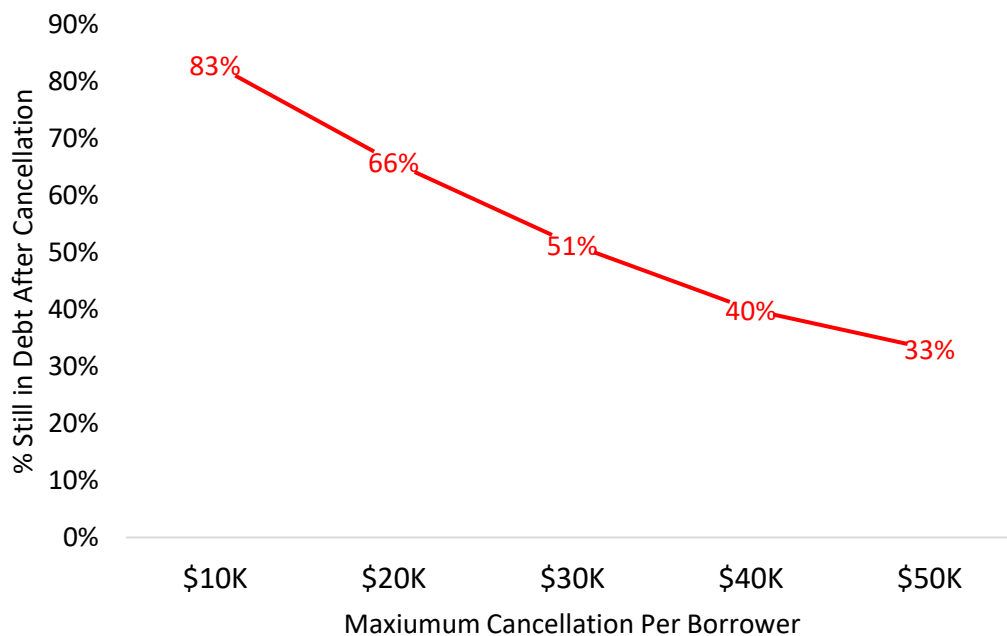


Figure 3: Share of Black borrowers owing more than originally borrowed still in debt after cancellation

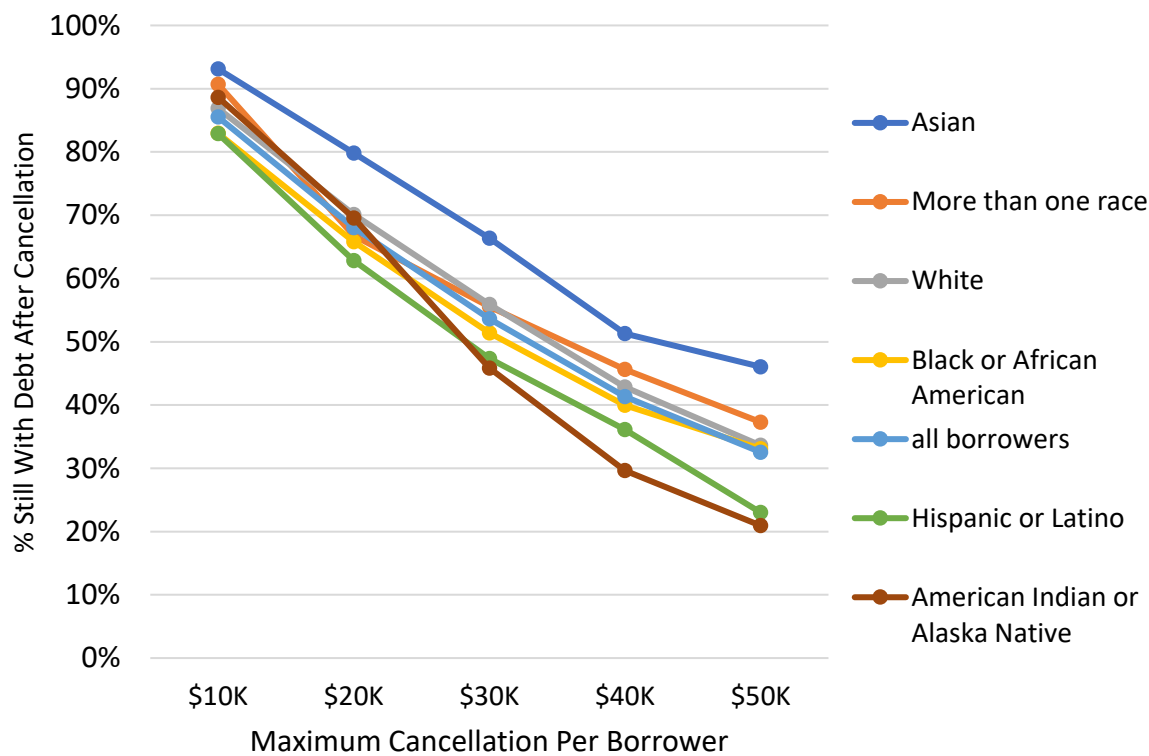


Note: Authors' estimates in Figures 2 and 3 use NCES Power Stats to analyze Beginning Postsecondary Student survey data for the 2004 entering college cohort (N=12,044).

All levels of cancellation provide substantial relief for borrowers who owe more today than they originally borrowed. Black borrowers who remain in debt after cancellation demand particular attention given the 66% of Black undergrad borrowers who owe more than they originally borrowed before cancellation. Figure 3 plots the shares of these borrowers who still have debt after different levels of cancellation. This shows that 17% of Black borrowers who owe more than initially borrowed are zeroed out by \$10,000 in cancellation, leaving 83% of these borrowers still in debt. Increasing cancellation to a \$30,000 maximum zeroes out balances for nearly half of these distressed borrowers. A \$50,000 maximum for cancellation zeroes out balances for 67% of these borrowers, leaving just 33% in debt.

Borrowers from other racial groups are less likely to owe more after 12 years. But among those who do owe more, balances are zeroed out at equivalent rates for white borrowers and higher rates for Latinx borrowers. We plot the shares of these borrowers who still have debt after different levels of cancellation in Figure 4. This shows that \$10,000 in cancellation completely zeroes out debts for 14% of these borrowers, including 17% of Latinx borrowers, and 11% of Native American borrowers in this distressed group. Cancellation of up to \$50,000 per borrower would zero out balances for 67% of borrowers from all racial groups.

Figure 4: Share of borrowers owing more than originally borrowed still in debt after cancellation



Note: Authors' estimates using NCES Power Stats to analyze Beginning Postsecondary Student survey data for the 2004 entering college cohort (N=12,044).⁷

Partial cancellation would likely be beneficial even for borrowers whose debts are not completely zeroed out. But low wealth and Black, Latinx, and Native American borrowers are

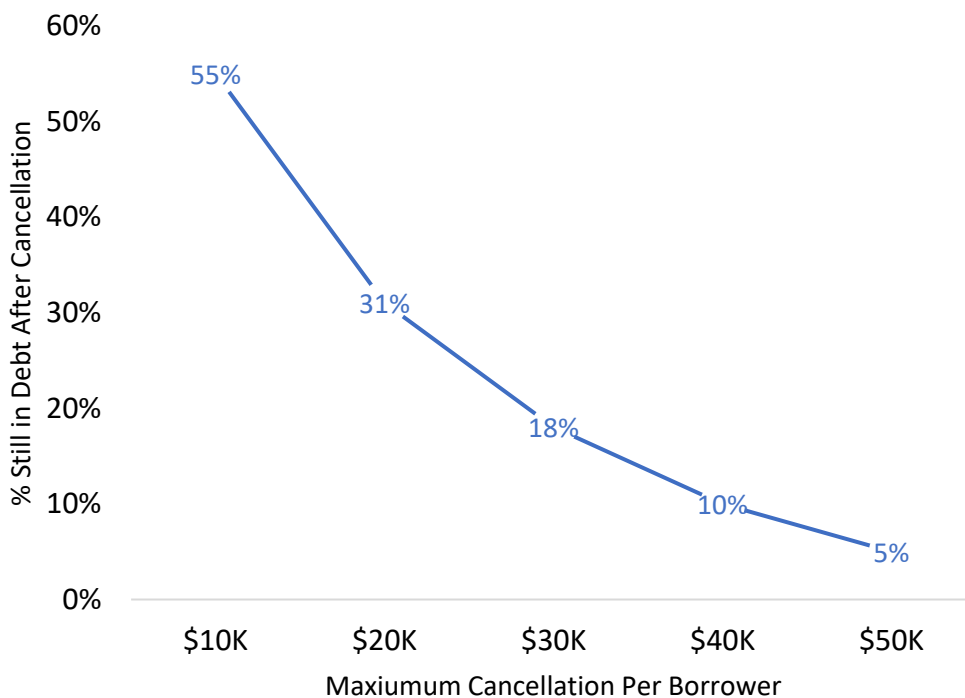
⁷ https://nces.ed.gov/statprog/handbook/bps_surveydesign.asp

particularly likely to struggle with repaying even smaller debts due to lesser intergenerational wealth resources and pay inequality from labor market discrimination. This fact highlights one of the key advantages of larger cancellation amounts from a racial equity perspective.

3. Previously Delinquent or Defaulted Borrowers

An additional indicator of financial distress is whether a borrower has ever experienced default or has ever been more than 90 days delinquent on their student loans. Immediately prior to the federal student loan interest and repayment pause in 2020, 10.4 million federal loan borrowers with outstanding balances (23%) had defaulted or been more than 90 days delinquent.⁸ As with other distressed borrowers, previously delinquent and defaulted borrowers would receive substantial benefits from \$10,000 in cancellation. But only higher levels of cancellation would zero out balances for a majority of previously defaulted or delinquent borrowers.

Figure 5: Share of Borrowers Ever Delinquent or in Default Still in Debt After Cancellation



Note: Estimates from US Department of Education using Federal Student Aid administrative data.

Figure 5 reports the percent of previously defaulted or delinquent borrowers who still have debt after different levels of cancellation. These rates of debt emancipation are taken from calculations the administrative data provided to Senator Warren by the Federal Student Aid

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<https://www.warren.senate.gov/imo/media/doc/Education%20Department%20Response%20to%20Sen%20Warren%20-%20204-8-21.pdf>

(FSA) agency.⁹ Though we know that defaulted and delinquent borrowers are disproportionately Black¹⁰, we cannot break these estimates out by race because FSA administrative data does not track borrower's race. Figure 5 shows that a \$10,000 maximum of debt cancellation zeroes out balances for 45% of previously delinquent or defaulted borrowers, but still leaves 55% of these borrowers in debt. An additional \$10,000 of cancellation is needed to zero out balances for a majority of these borrowers. Increasing cancellation to \$20,000 reduces the percent of previously delinquent or defaulted borrowers from 55% to just 31%. The share of these distressed borrowers left in debt declines further, but more slowly, as cancellation is increased beyond \$20,000. At \$50,000 in cancellation, just 5% of previously delinquent or defaulted borrowers remain in debt. Thus, \$50,000 of cancellation almost completely eliminates the burden of student debt for these distressed borrowers with less than or equal to \$150,000 in annual income.

4. Eliminating Negative Net Worth

Student debt is a major cause of negative net worth in the United States. Andre Perry and Carl Romer of the Brookings Institution have shown that half of all student debtors have negative net worth.¹¹ Research is limited on the extent to which negative net worth might cause economic distress and prevent future wealth acquisition. But student debt undeniably harms wealth building for the 66% of Black borrowers who are unable to pay down any of their original borrowing 12 years after starting college. It is also clear that wealth building is negatively impacted for the 23% of all borrowers who have previously defaulted or been over 90 days delinquent.

Even for borrowers who are successfully paying down debt, debt burdens greater than household wealth can obstruct wealth building through adverse impacts on credit scores, access to home loans, access to other consumer credit, and retention of sufficient discretionary income for saving. In this way, student debt reinforces wealth inequalities. Consistent with these dynamics, Figure 1 showed that people with higher student debt tend to have fewer financially valuable assets. This is true even after controlling for age. Others have shown that heavily indebted millennials today have just one seventh of the wealth that baby boomers had at an equivalent age in 1989.¹²

Student debt particularly pushes Black individuals into negative net worth by compounding the historical exclusion of Black households from home ownership and wealth building.¹³ This is apparent when we estimate by race how many people are freed from negative net worth under different debt cancellation scenarios. Table 2 presents these estimates.

⁹ <https://www.warren.senate.gov/imo/media/doc/Education%20Department%20Response%20to%20Sen%20Warren%20-%20204-8-21.pdf>

¹⁰ https://protectborrowers.org/wp-content/uploads/2021/02/SBPC_Students-loans-and-racial-equity.pdf

¹¹ Perry, Andre M., and Carl Romer. 2021. "Student Debt Cancellation Should Consider Wealth, Not Income." Brookings Institute, February 25, 2021. <https://www.brookings.edu/essay/student-debt-cancellation-should-consider-wealth-not-income/>

¹² Hoffower, Hillary. 2019. "Millennials Only Hold 3% of Total US Wealth, and That's a Shockingly Small Sliver of What Baby Boomers Had at Their Age." *Business Insider*, December 5, 2019. <https://www.businessinsider.com/millennials-less-wealth-net-worth-compared-to-boomers-2019-12>

¹³ Charron-Chénier, Raphaël, Louise Seamster, Tom Shapiro, and Laura Sullivan. 2020. "Student Debt Forgiveness Options: Implications of Policy and Racial Equity." Roosevelt Institute Working Paper. New York: Roosevelt Institute. <https://rooseveltinstitute.org/publications/student-debt-forgiveness-options-implications-for-policy-and-racial-equity/>

Before cancellation, Table 2 shows that 5.9 million or 18.9% of Black individuals have negative net worth, more than twice as high as the 8.5% of whites with negative net worth. Cancellation at the \$10,000 maximum level lifts nearly 3 million adults out of negative net worth, including almost 1 million (or 3% of) Black adults. But more than 1 million more Black adults would be left with negative net worth unless cancellation is increased to the \$50,000 level. Overall, \$50,000 would cut the share of Black adults with negative net worth by almost a third from 18.9% to 12.3%. More than 6 million low-wealth adults from other racial groups would also be lifted out of negative net worth, opening the door for future wealth building.

Table 2: Millions and Percent of People with Negative Net Worth After Cancellation

	No Cancellation		\$10K Max		\$20K Max	
	M	%	M	%	M	%
Black	5.9	18.9%	5.1	16.1%	4.5	14.4%
Latinx	4.8	11.3%	4.5	10.4%	3.8	9.0%
white	13.6	8.5%	11.8	7.3%	10.8	6.7%
other	1.9	8.8%	1.8	8.0%	1.8	8.0%
all	26.3	10.4%	23.0	9.0%	20.9	8.2%
	\$30K Max		\$40K Max		\$50K Max	
	M	%	M	%	M	%
Black	4.3	13.7%	4.0	12.8%	3.9	12.3%
Latinx	3.7	8.7%	3.6	8.3%	3.5	8.3%
White	9.9	6.2%	9.4	5.8%	9.0	5.6%
Other	1.5	6.7%	1.4	6.5%	1.4	6.5%
all	19.4	7.6%	18.4	7.2%	17.9	7.0%

Note: Estimates use 2019 Survey of Consumer Finance data.

5. Every Dollar Counts. But Bigger is Better for Racial Equity

To sum up, every proposed level of debt cancellation between \$10,000 and \$50,000 would deliver substantial relief and opportunity to millions of borrowers. Over 15 million borrowers would have all of their debt zeroed out by \$10,000 in cancellation according to Department of Education estimates. Our similar estimates suggest 2.3 million Black borrowers would have their debts canceled at this level. Cancellation would no doubt be transformative for these borrowers.

Higher levels of cancellation would go further towards reducing wealth and racial inequalities in student debt. Cancellation of \$20,000 would cut the share of people with student debt in half for the bottom 40% of the wealth spectrum. Because rich people have little student debt and higher incomes, higher levels of cancellation would leave the 4% rate of wealthy individuals with student debt almost unchanged. Tracking the racial wealth gap, \$50,000 would cut the share of Black adults with negative net worth by almost a third from 18.9% to 12.3%. More than 6 million low-wealth adults from other racial groups would also be lifted out of negative net worth, opening the door for further wealth building.

Higher maximums for debt cancellation will also go farther in reducing the share of borrowers in financial distress from debt. We showed that 66% of Black borrowers owe more after 12 years than they originally borrowed. Half of borrowers who owe more after 12 years have debts greater than \$30,000. Similarly, 55% of borrowers who have experienced default or delinquency have more than \$10,000 in debt. Cancellation of \$50,000 would zero out balances for 67% of borrowers who owe more after 12 years and 95% of borrowers who have experienced default or delinquency. This would deliver certain and immediate relief rather than making these borrowers wait even longer for relief under existing income-driven repayment or public service loan forgiveness programs. Doing so would also remove barriers to wealth building that persist under existing relief programs. For these reasons, every dollar of immediate debt cancellation counts, but bigger is better for racial equity and tackling wealth inequality.

We hope that the analyses provided here offer clarification as you and other policymakers deliberate over federal student debt cancellation. While it may be obvious, please note that we do not speak on behalf of our universities which we list for identification purposes only.

Sincerely,



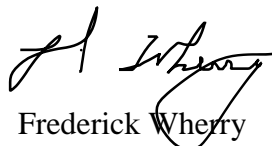
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