



EQUIFAX[®]

White Paper

The student loan crisis

Measuring the impact of COVID accommodations on borrowers

By ShurSM, Equifax, and VantageScore[®]

July 2022

Contents

About Shur and VantageScore Solutions	3
Executive summary	4
Section I — Introduction	6
Methodology	
Current state of student loan debt	
Section II — Student loan landscape as accommodations end	9
Student loan accommodations broadly impact the economy	
Accommodations are obscuring the generational shift in student loan debt	
Section III — The uneven impact of student loan accommodations ..	14
Credit scores: An underlying force behind wealth building	
Loan accommodations: Some credit score winners, some losers	
Section IV — Recommendations	20
Overview	
System infrastructure	
Borrower experience	
Demand	
Section V — Conclusion	24

About Shur and VantageScore Solutions

About Shur

In an era when colleges and companies must show students, new employees, and consumers how they encourage economic security, Shur is building market-based Insurtech/Fintech products to promote economic freedom for America's next generation — 18 to 30 years old. Partnering with corporations and universities we successfully guide student loan borrowers from college through their early professional lives — the financial period that is crucial to get right. Our products promote generational wealth by helping users eliminate early mistakes, build financial plans, and adopt deep understanding of prime credit-building tools. Shur uses an ecosystem approach, building solutions for borrowers in collaboration with cities, corporations, colleges, college access organizations, data and insights providers, and impact investors. From the beginning, Shur is making it possible for younger Americans to create and maintain wealth. For more information, visit shur.co and follow our progress on LinkedIn.

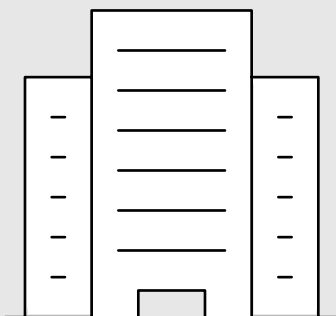
Shur is building market-based Insurtech/Fintech products to promote economic freedom for America's next generation.

About VantageScore Solutions

VantageScore Solutions develops consumer credit scoring models that combine the need for both financial inclusivity and dependable predictiveness across all scoring ranges. The company's most recent models score approximately 96 percent of all adults 18 and older — including 37 million more people than conventional models — without sacrificing safety and soundness. As a result, lenders using VantageScore can extend credit to those who have been historically marginalized, including minority and lower-to-middle income Americans. VantageScore credit scores are used by thousands of lenders, landlords, utility companies, telecom companies, and many others to determine creditworthiness. Additionally, tens of millions of consumers rely on free access to their VantageScore credit scores to monitor their own creditworthiness.

VantageScore Solutions was launched in 2006 and is owned by America's three national credit reporting companies (CRCs) — Equifax, Experian, and TransUnion. Using a patent-protected tri-bureau methodology, VantageScore delivers time-tested, innovative and more consistent credit scoring models across all three CRCs.

VantageScore delivers time-tested, innovative and more consistent credit scoring models across all three credit reporting companies.



Executive summary

This paper sets out to understand — during and post-pandemic — the impact of student loan accommodations on student loan borrowers in the U.S.

The following are the key insights we learned:

1. Gen Z will be under the most financial pressure once accommodations end.
2. Financial and economic gains made during the pandemic — driven mostly because of student loan repayment accommodation — may be easily lost. (e.g. borrower's credit scores may begin to drop, monthly disposable income will decline and consumer's prospects for long-term financial health and wealth creation may be curtailed).
3. Comparing several moving factors, the landscape continues to be complex: consumers navigating debt issues in a complex economy; the unique situations of younger vs. older borrowers; and the impact of the COVID economy on credit scores and wealth creation.
4. It will take a concerted effort from the private sector, credit bureaus, government, philanthropy, and borrowers to lock in economic value built up during the COVID moratorium.

Summary and highlights

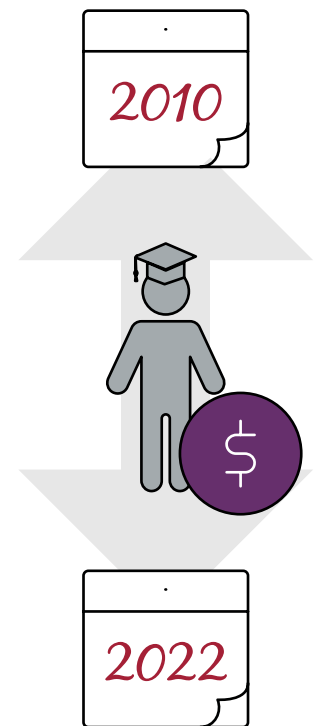
Over the past year, Shur, Equifax, and VantageScore combined forces to analyze and study the experience of 900K student loan borrowers since 2010 — and the effects of the two-year repayment pause and accommodations on America's 43.4 million borrowers. Our report is an overview of the current economic landscape before and during the current repayment accommodations — which began in early 2020 — examining the short and long-term implications on each generation — from Gen Z to Boomers — to determine how they are affected by student loans in this economy.

Our study reveals:

- **Segments:** Groups benefited from COVID accommodations, and who is being left behind.
- **Pressure:** Where the most economic pressure lies — including risk of student loan default — once accommodations are lifted.
- **Consumer debt:** Overall, consumer debt has increased through the pandemic — a red flag for some borrowers once payments restart.
- **Generational impact:** The uneven impact of student loan accommodations on credit scores across generations, including the long-term repercussions.
- **Loan servicers:** The pending negative impact for many borrowers may be caused by changes in loan servicers, out-of-date bank information, and out-of-date deferral status.
- **Personal wallet:** We gauged the expected increase in monthly debt commitment based on total monthly debt payments and added student loan debt payments to this amount.

Financial and economic gains made during the pandemic — driven mostly because of student loan repayment accommodation — may be easily lost.

Over the past year, Shur, Equifax, and VantageScore combined forces to analyze and study the experience of 900K student loan borrowers since 2010.



Sample findings

- Federal student loan debt totals nearly \$1.6 trillion, the second-largest form of consumer debt (behind mortgage debt of \$11 trillion).
- Together, these debt instruments symbolize the enduring pursuit of a stable middle-class life: financial stability, a home, and security in retirement.
- Today, one million fewer borrowers owe \$48 billion more in student loans than pre-pandemic.
- Credit scores of most student loan borrowers have increased during accommodations, allowing access to less expensive debt than many had access to pre-pandemic.
- Consumer debt overall has increased through the pandemic.
- Once the student loan accommodation status is lifted, *every age group will experience a jump in monthly debt payments*, averaging 17%.
- The Gen Z cohort will experience the greatest jump in monthly payments, increasing by 24%.
- Gen Z student loan debt increased 79% under accommodations; all other generations have declined.
- Once student loan accommodations are lifted, credit scores are likely to decline as delinquency and defaults again resume, especially among younger borrowers with less credit history whose student loan debt has an outside impact.

Recommendations

The paper concludes with a range of recommendations. We looked beyond any one particular sector or industry and presented a comprehensive set of recommendations that address how both government agencies and the private sector can take steps to mitigate the credit risk to the borrower and resolve data and infrastructure challenges at the systemic level. In brief, these include:

- Addressing aspects of the infrastructure of issuing loans and servicing repayment of those loans.
- Improving the borrowers' experience from the FAFSA form to repayment options to loan forgiveness.
- Providing solutions to improve and protect the borrowers' financial stability.



Section I — Introduction

Student loan accommodation

The Biden Administration recently announced that the repayment pause on federal student loans is extended to August 31, 2022. This marks more than two years since the beginning of the COVID pandemic, where almost \$1.6 trillion of borrowers' loans are in automatic pause — or “accommodation status” — suspending loan payments, stopping collections on defaulted loans, and instituting a 0% interest rate. Initially scheduled to sunset in September 2020, the moratorium has been extended six times since, each time citing the ongoing pandemic and continued economic uncertainty.

The Biden Administration and U.S. Department of Education's most recent student loan repayment extension coincides with the lifetime-defining choice high schoolers are now making: deciding where to attend college in the fall of 2022. Early May was [College Signing Day in America](#). Students choose their college as their families fill out aid forms — revealing how much financial assistance and borrowing is needed to access higher education. [For 43.4 million current student loan borrowers](#), this major education investment can pay dividends toward reaching the American middle-class and beyond. Alternatively, for some borrowers, these thousands of dollars in student loans can emerge as the albatross that delays or wipes away a person's chances of ever creating long-term wealth.

At some point, student loan repayments will begin again for millions of borrowers. However, current economic conditions continue to press American families' wallets. When they restart, student loan payments will feel like a large wave hitting the shoreline, washing through an already tenuous U.S. economy. Throughout the pandemic, extra household dollars created by stimulus and these accommodations contributed to savings and credit card debt reduction for many. Depending on personal and family economic circumstances, student loan repayments starting again could negatively impact many loan borrowers in numerous ways. Citing concern for those borrowers with unsteady financial circumstances, newly appointed Secretary of Education Miguel Cardona said in January 2021, “[[borrowers](#)] should not be forced to choose between paying their student loans and putting food on the table.”

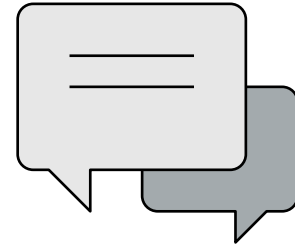
Currently, approximately 43.4 million borrowers hold roughly \$1.6 trillion of federal student loan balances. To put that into context, this represents 10% of the roughly [\\$16 trillion of household debt in the US](#). This is a decline of 1 million student borrowers since February 2020, reflecting the broad 5.1% drop in college enrollment since the pandemic began.¹ This means that despite one million fewer borrowers, this population collectively owes \$48 billion **more** student loan debt than was owed pre-pandemic. Notwithstanding broad accommodations, in aggregate, student loan borrowers today owe more student debt than before the pandemic started.

Approximately 43.4 million borrowers
hold roughly



\$1.6 trillion

of federal student loan balances.



Borrowers should not be forced to choose between paying their student loans and putting food on the table.

Miguel Cardona
Secretary of Education

Methodology

Through this collaborative study between Shur, Equifax, and VantageScore, we endeavored to understand how the end of the accommodations moratorium may affect consumers broadly and the community of millions of student loan borrowers specifically.

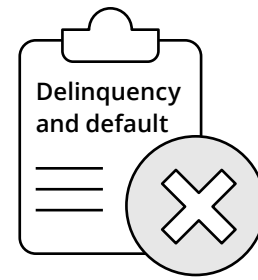
Over the past year, Shur, Equifax, and VantageScore examined the financial dynamics of student loan borrowers as reported by Student Loan servicers to Equifax and other credit bureaus. This paper primarily compares the student loan landscape between February 2020 (immediately before COVID) and February 2022.

We sought to understand a variety of crucial factors:

- How much debt is held and what their payments were; whether those payments were deferred or due?
- What are the impacts of accommodations?
- Who continued to pay irrespective of accommodations, and who originated new loans?

For the portion of the study centered on changes in debt payment, we focused on student loan holders who had a non-deferred student loan as of February 2020 that was placed under accommodation. We estimate the impact of the resumed payment when accommodations expire.

Sections II and III provide an overview of the student loan landscape as accommodations are coming to an end. Together, we examine the short- and long-term implications that accommodations have had on each generation; which cohorts have benefited the most during this time; and who is under more economic pressure once accommodations are lifted. We use this data to highlight the potential repercussions once accommodations are lifted. For example, we looked closely at Gen Z (under 25 years of age) — whose debt load has increased the most under accommodations but whose economic outcomes have been mixed, creating a harder time paving a pathway to wealth.



More than
8 million
student loan
borrowers who fell
into delinquency
or defaulted on their
payments before
the pandemic will
find their credit
records cleared.

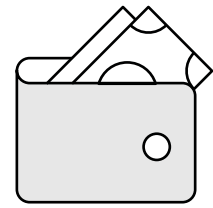
8 million borrowers no longer in default

In addition to moving back the resumption of student loan payments until August 2022, the Biden Administration recently made another dramatic announcement: "Operation Fresh Start." More than 8 million student loan borrowers who fell into delinquency or defaulted on their payments before the pandemic will find their credit records cleared. This includes borrowers who owe federal student loans issued by the U.S. Department of Education and those federally-guaranteed student loans issued by private lenders. While this does not reduce or eliminate these borrowers' loan balances, this action allows these loan holders to re-enter payment in August in good standing — and provides an opportunity for credit score rebuilding and recovery.



While numerous factors play a role in the life of a student loan borrower, we highlight the following issues that have already changed the current landscape:

- How student loan accommodations broadly impact borrowers.
- Why and in what way Gen Zs are affected by accommodations.
- Why credit scores increased for many but not all student loan borrowers (comparing Gen Z to Millennials).
- The impact changes in servicers could have on over 14 million borrowers.
- The implications of a decrease in the percentage of borrowers with loans reported as deferred.
- The impact of increased debt payments will have on family wallets and credit scores.



Consumer debt overall has increased through the pandemic.

Current state of student loan debt

- Federal student loan debt totals over \$1.6 trillion, the second-largest form of consumer debt (behind mortgage debt of over \$11 trillion.)
- Together, these debt instruments symbolize the enduring pursuit of a stable middle-class life: financial stability, a home, security in retirement.
- According to our study, one million fewer borrowers owe \$48 billion more in student loans than pre-pandemic.
- Credit scores of most student loan borrowers have increased during accommodations, allowing access to less expensive debt than many had access to pre-pandemic.
- Consumer debt overall has increased through the pandemic.
- Once the student loan accommodation status is lifted, every age group will experience a 17% jump in scheduled monthly debt payments.
- The Gen Z cohort will experience the the greatest jump in scheduled monthly debt payments, increasing by 24%.
- Total Gen Z student loan debt increased 79% under accommodations; all other generations have declined.
- Once student loan accommodations are lifted, credit scores are likely to decline as delinquency and defaults again resume, especially among younger borrowers with less credit history whose student loan debt has an outside impact.

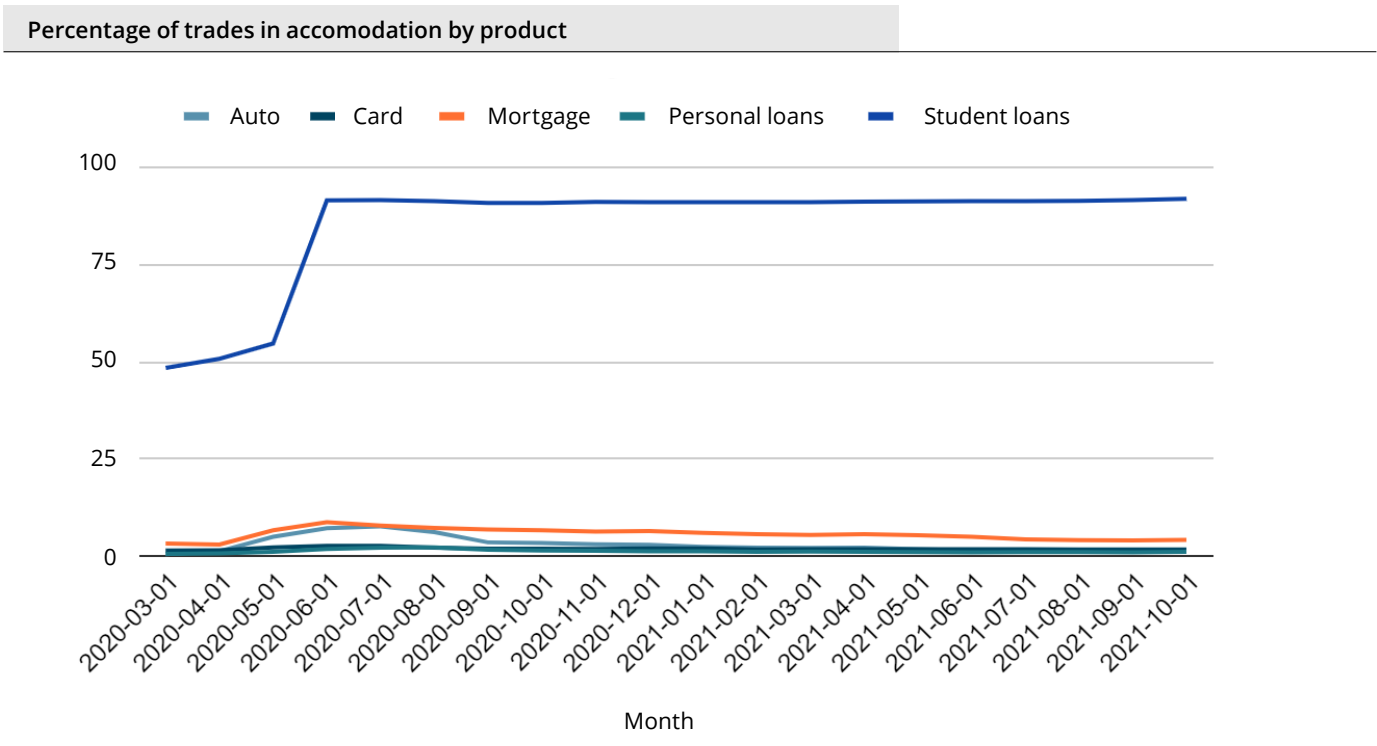
The background of the bottom section is a photograph of several blue graduation caps with orange tassels. The focus is on the caps in the foreground, with others blurred in the background. A dark gray circular overlay is positioned on the left side, containing white text.

The Gen Z cohort will experience the greatest jump in scheduled monthly payments, averaging 24%.

Section II — Student loan landscape as accommodations end

Student loan accommodations broadly impact the economy

Pandemic accommodations for eligible Federal Student loans in repayment included suspension of loan payments, a 0% interest rate, and ending collections on defaulted student loans. Per the norm, student loan deferments were automatic for eligible loans (e.g., deferments for those in college, graduate school, or entering internships, clerkship, fellowship, or residency) and generally account for about 30% of all student loans. When borrowers exit school, they typically enter repayment following a six-month grace period.² At their peak in the middle of 2020, 8.5% of mortgages and 7.8% of auto trades were reported as in an accommodation status. In contrast, at the beginning of the pandemic, student loan accommodations were applied at a large scale, with about 91% of loans being reported as either in deferral or accommodation status.



As of February 2022, \$886.8 billion dollars of student loans are non-deferred and in accommodation. Repayment on these loans will have a broad impact on the economy when the student loan accommodation period ends. The average individual student loan debt in accommodation is \$38,000.

Unlike other financial relief during the pandemic, student loan accommodations have been automatically applied to any new payers since March 2020. Indeed, these student loan accommodations have helped the economic health of a broad swath of student loan holders by putting a stay on new defaults, providing budget flexibility, and increasing the credit scores of many borrowers.

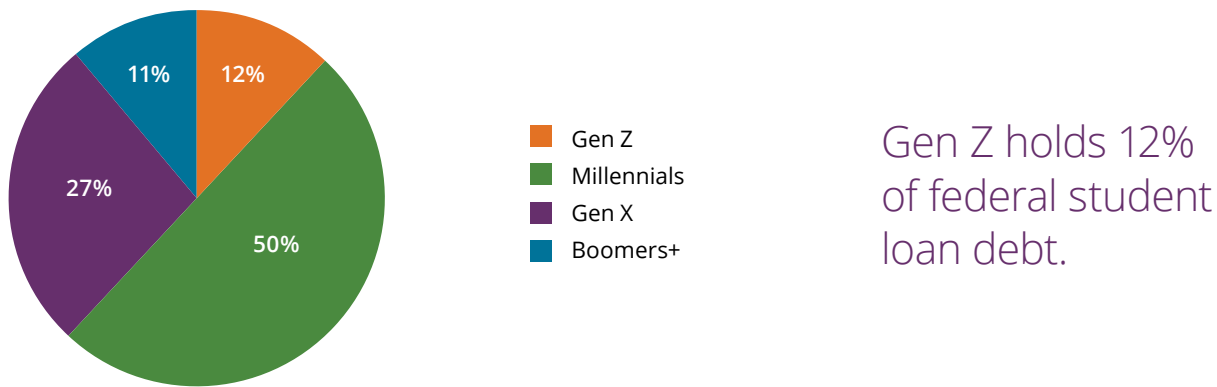
However, the average student loan balances owed have increased during this period, credit scores for some groups have declined, and millions began their financial life without repayment as part of their budget. Up to 16 million borrowers have had their loan servicer change as of Dec 31, 2021³, adding potential errors in reporting deferral status once accommodations end, based on the experience from prior loan servicer changes.

As we explored the impact of lifting student loan accommodations on loan holders, we found that ending accommodations may be *acutely felt by Generation Z* (under 25 years of age).

Accommodations are obscuring the generational shift in student loan debt

The chart below shows the percentage of student loan balances each generation holds. Millennials (26 to 41 years of age) owe half of the overall student loan balances (\$794 billion), followed by Generation X (42 to 57 years of age) at 27% of the outstanding balances (\$423 billion), Baby Boomers and older (58 years of age and older) account for 11% of the loan balances (\$170 billion). Finally, Gen Z, many still entering the age-eligible for higher education and beginning their financial journey, hold a modest 12% of the loan balances (\$188 billion).

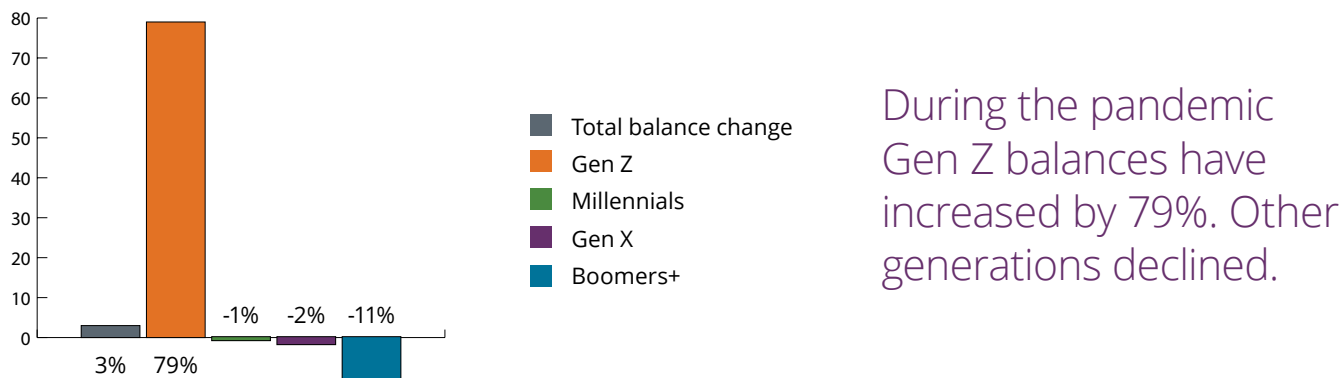
\$1.6 trillion in student loan balance by generation



During COVID, student loan balances overall increased by a modest 3%. As expected, this student loan balance growth is disproportionately concentrated among Gen Zs. For this cohort, student loan balances have increased 79% since 2020. At the same time, total outstanding loan balances have decreased for Millennials (-1%), Gen X (-2%), and Boomers and older (-11%).

While Gen Z accounts for only 12% of all student loans, compared with Millennials of 50%, the growth in student loan debt is on their shoulders and will impact their financial future. The financial impact created by the pending end of the accommodation moratorium may create detrimental impacts for this cohort, the newest to financial payment management.

Change in outstanding student loan balances since February 2020

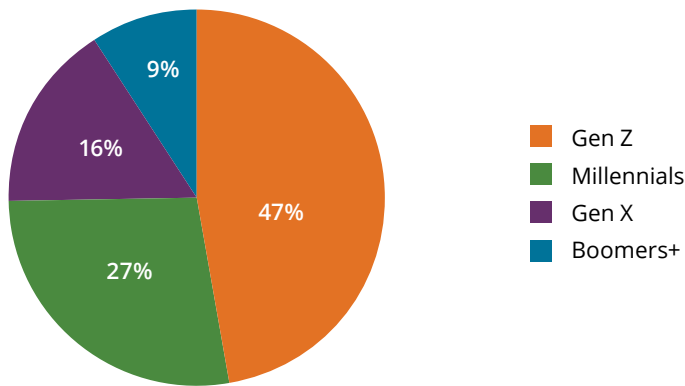


In addition to the increase in loan balances, Gen Z shows the only increase in borrowers — there are 2.7 million more Gen Z borrowers in 2022 than in 2020. Every other generation has decreased the number of borrowers by 3.8 million.

A glimpse at the future is captured by the ten million borrowers reported in deferred status, predominantly comprised of current students or recent graduates, accounting for 22% of current student loan holders. When we break this down by generation, we determined that Gen Z accounts for 47% of these reported as deferred borrowers, followed by 27% of Millennials and 16% of Gen X. (Below, we discuss in-depth why those reported as deferred are currently under-reported.)

These reported deferred loans show who will be impacted most by student loan payments in the coming years. Gen Z, the new borrowers on the cusp of repayment and beginning their journey of building wealth, will be impacted the most once payments resume.

The future: reported deferred student borrowers



Gen Z, the new borrowers on the cusp of repayment and beginning their journey of building wealth, will be impacted the most once payments resume.

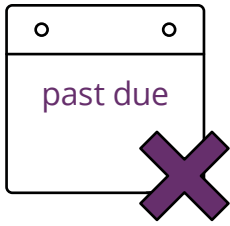
As mentioned above, student loans are the second highest balance of consumer debt behind mortgages, and they are the largest balance of uncollateralized debt. For many first-time borrowers, student loans are the first entry in their credit history and can have an outsized impact on their long-term economic health depending on repayment. Average credit scores increased for most consumers over the last few years. Still, this increase was even more pronounced for student loan holders than for the general population, in part due to accommodation statuses of student loans.

Accommodations have broadly provided economic relief for many student loan borrowers and have helped increase many borrowers' credit scores and financial health. However, these benefits have not reached everyone.

In 2020, 54% of all student loan holders had a super prime or prime score. By 2022, the percentage of borrowers with super prime or prime scores increased to 64%. Overall, the number of deep subprime student loan holders fell by 47%, decreasing the number of borrowers with deep subprime credit scores by 5 million people.

Credit scores of most loan holders have increased.

VantageScore 4.0 increased during accommodations (borrowers)			
Credit band	Bands 2020	Bands 2022	Change
Deep subprime	23%	13%	-47%
Subprime	9%	9%	-4%
Near prime	13%	14%	3%
Prime	20%	26%	26%
Superprime	34%	38%	10%

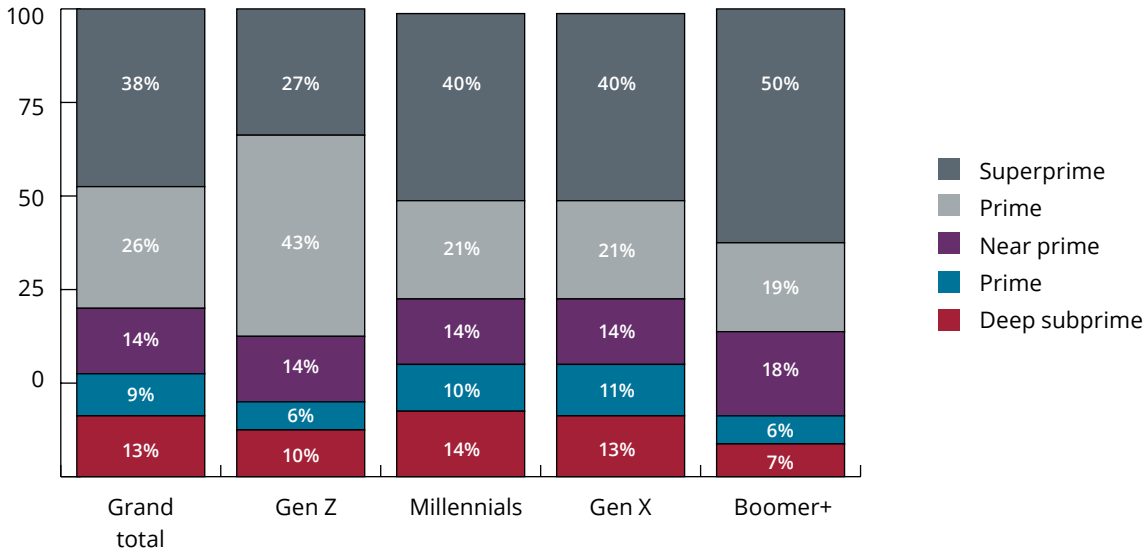


We anticipate a new onset of student loan defaults *270 days* after accommodations are lifted.

While credit scores for student loan holders are higher today than before the onset of the pandemic, with only 22% of all borrowers having a subprime or lower today, compared to 32% in 2020, all generations, on average, have seen a shift to higher credit bands.

The drop in deep subprime credit bands is in part from loans in default prior to accommodations no longer being reported as in default. Once accommodations end and reporting commences, defaults will again occur. We anticipate a new onset of student loan defaults 270 days after accommodations are lifted and an increase in the percentage of student loan holders dropping into deep subprime credit bands, limiting their access to credit.

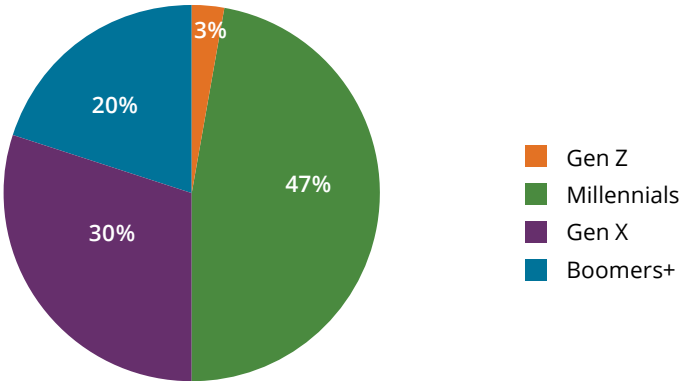
VantageScore 4.0 bands February 2022 loan holders



5.7 million older borrowers with higher credit scores paid off student loans.

With pandemic payment accommodations in place for most student loan borrowers, nearly 5.7 million people successfully paid off \$108 billion in balances. Half of the balance paid off during this period was by borrowers older than 42 years of age (Gen X and older). Millennials account for 47% of the student loans paid off. Gen Z, the youngest and growing group under 25 years old, accounts for only 3% of the balance paid off.

\$108 billion paid off since the pandemic began



Half of the balance paid off during this period was by borrowers older than 42 years of age.

Those who paid off their loans in the pandemic were more likely to have higher credit scores in 2020 than borrowers who did not pay off their loans. These higher credit score borrowers are no longer counted in 2022 as borrowers, helping to magnify the overall trend of credit scores increasing during the accommodations period. It should be underscored that the increase in average credit scores evident in 2022 is calculated without higher credit scores for borrowers who paid off their student loans during the pandemic.

VantageScore 4.0 paid off and not paid off student loans		
Credit band	Not paid off	Paid off
Deep subprime/ no score	19%	22%
Subprime	9%	6%
Near prime	12%	8%
Prime	22%	16%
Super prime	37%	48%

Section III — The uneven impact of student loan accommodations

Credit scores: An underlying force behind wealth building

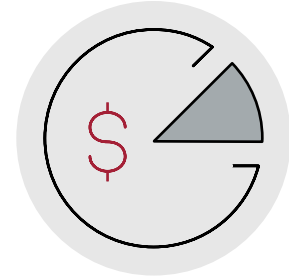
Credit scores inform lenders' decisions to grant mortgages, credit cards, personal loans, and other financial products and the interest rates consumers are charged. Higher credit scores tend to lead to more loan options and lower rates. Since accommodations were enacted, as we've shown, the impact on credit scores across generational cohorts has been uneven. Many have benefited, providing an opportunity to potentially increase their wealth with improved credit scores, but many may find themselves on shaky ground once payments begin.

Credit scores are calculated using a myriad of individual financial data reported to credit bureaus, such as payment history, the amount owed on loans, length of credit history, new credit, and credit mix. Many younger (under 20 years of age) and first-time borrowers typically have fewer other forms of debt other than a credit card or student loans. Credit files with fewer accounts are referred to as "thin," meaning they do not utilize credit on a regular basis and have fewer than four trades on their account.

Credit files of many older consumers tend to show more forms of credit, more long-term payment history, and large credit purchases such as a mortgage; these "thick" files reflect a longer and deeper financial history.

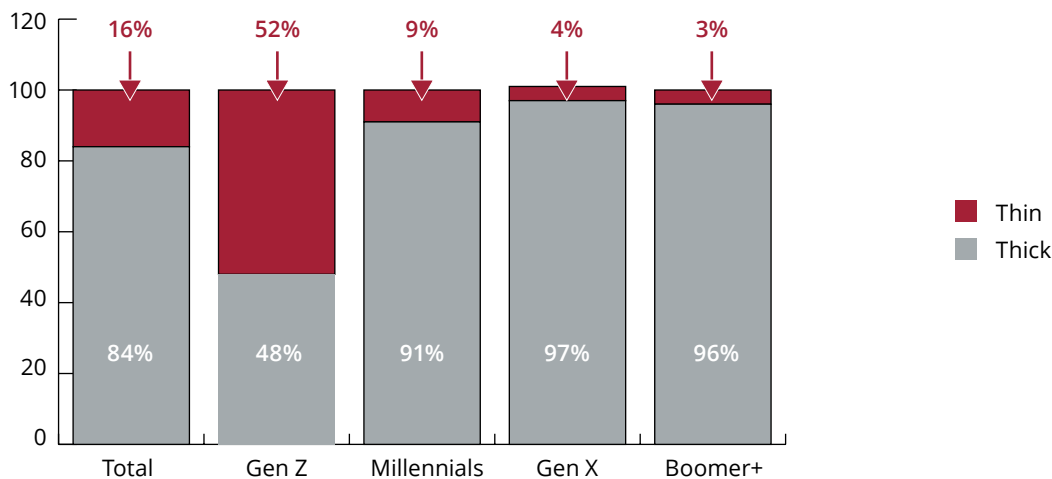
Loan accommodations: Some credit score winners, some losers

For student loan holders with "thin" credit files, student loans have an outsized impact on their credit scores. In February 2020, 16% of student loan holders had "thin" credit files. Within the Gen Z cohort, a majority, 52% of these young consumers, had "thin" credit files. The remaining age cohorts have less than 10% of their consumers with "thin" credit files. This indicates that a larger percentage of Gen Z student loan borrowers have credit files particularly sensitive to changes in the repayment status of their student loans compared to other student loan borrowers. A sign that accommodations and reporting of deferral status are acutely important for these borrowers with less credit history and fewer other loans reported to credit bureaus.



For student loan holders with "thin" credit files, student loans have an outsized impact on their credit scores.

Credit file by generation February 2020

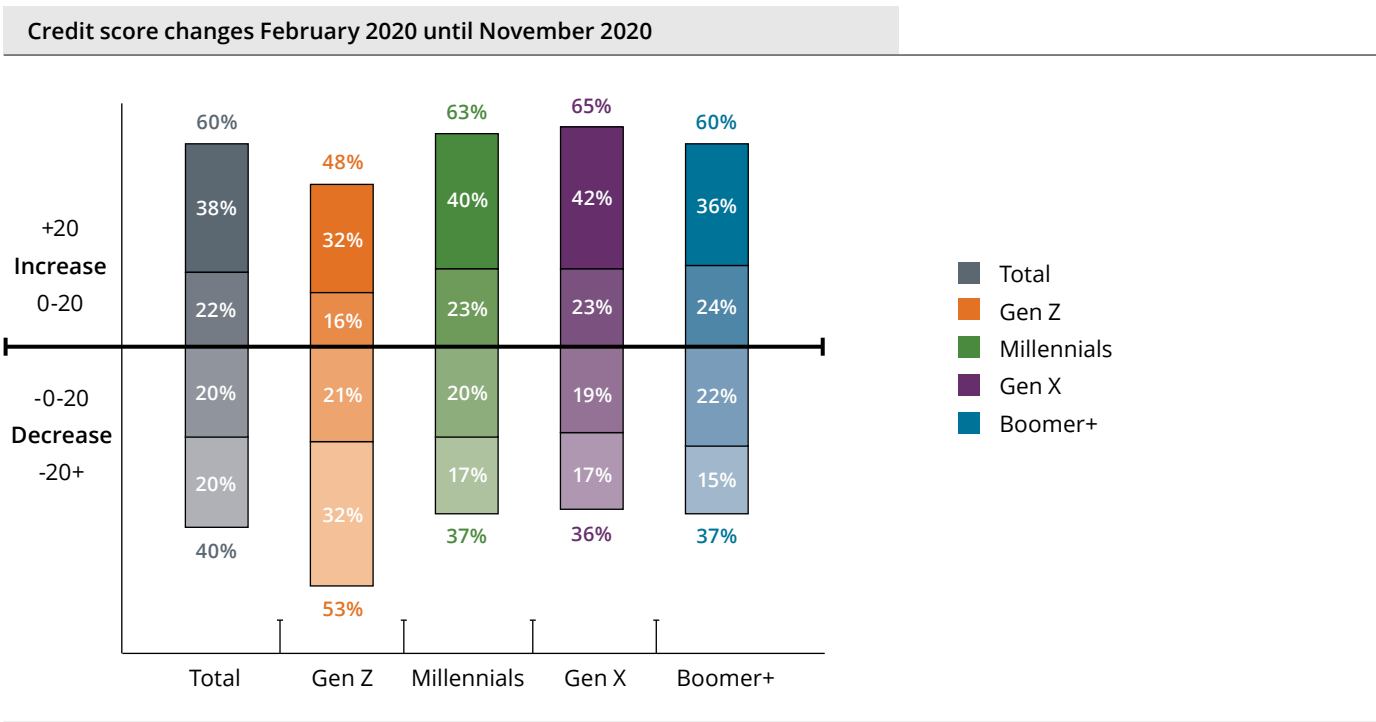


Further indication that Gen Z's credit is more vulnerable when payments recommence because of thin credit files is that their credit scores did not benefit consistently during the accommodation period. Overall, however, credit scores for student loan borrowers have benefited from having loan accommodations. Approximately 60% of all student loan borrowers had some score increase in their credit scores, with 40% having a 20 or more point increase when comparing their scores in the pre-COVID period (February 2020) to a COVID accommodation period (November 2020). The remaining 40% had a decrease, with 20% of student loan borrowers' credit scores dropping more than 20 points. This implies that during accommodations, borrowers were twice as likely to have a 20-point increase in their credit score than a 20-point decrease.



Gen Z's credit scores decreased during accommodations.

The generally positive impact on credit scores during accommodations was fairly consistent for borrowers over 25 years of age, who tend to have more established credit and a longer credit history. For Gen Z, the impact on credit scores during accommodations was mixed.



Gen Z loan holders were equally likely to see a significant (20 points or more) score decrease (32%) as they were to see the same significant score increase (32%). This impact was worse when a consumer's file thickness was included. For Gen Z borrowers with thin credit files, 37% saw a significant decrease in their credit score, while only 27% saw an increase. The impact of score change for thin-file Gen Z consumers was measured regardless of the initial score. Thick file Gen Zers in the same score bands saw higher rates of increases versus decreases. This reinforces the sensitivity of thin files, higher credit score Gen Z borrowers with thin files saw more decreases than those with thick credit files.

Millennial loan holders generally saw two times as much significant score increase (40%) versus a decrease (17%). The comparisons between thick versus thin file Millennials are evident, though smaller than among Gen Z, and they are more in line with the overall population. There is a slight uptick in Millennial thin-file consumers seeing significant decreases at 23% compared to 16% of their thick file age cohorts. Overall, 90% of millennial consumers have thick files, so the impact of thin-file usage is less pronounced in this cohort.

Gen X and beyond are heavily weighted to thick-file consumers and have significant increases in credit scores for thick file borrowers. The smaller percentage of thin-file consumers in these age cohorts are more likely to have substantial score decreases than those with thick credit files. Because less than 4% of borrowers over 42 years of age have thin files, score decreases are less pronounced with these borrowers than among Millennials and Gen Z.

Gen Z consumers see the largest adverse impacts during the COVID accommodation study period with rates of significant score decreases occurring at twice the rate for other age groups. This rate is highest for those in Gen Z with thin credit files, with 37% seeing a score decrease while only 27% receiving a score increase (compared to only 20% overall with a score decrease and 38% receiving a score increase).

In a time of increasing interest rates, these Gen Z borrowers, at the start of their generations' wealth accumulation, could be paying even higher interest rates for mortgages, car loans, and credit cards than others because the credit scores of this cohort decreased on average. In contrast, other age groups saw increases in credit scores over the same period.

Once federal loan accommodations end, there may be issues with payments restarting due to several factors, including a) millions of borrowers were assigned to new loan servicers, b) bank information for payments may be out of date, and c) deferral status may be out of date for some borrowers.

While accommodations have been in place, more than 14 million consumers had their loan servicer replaced. Two, Granite State and Navient, ended their contract to service loans as of December 31, 2021, and one, HEAA (FedLoan), is phasing out of the business.



Loan servicer changes create confusion, and decrease in reporting may impact loan tracking.

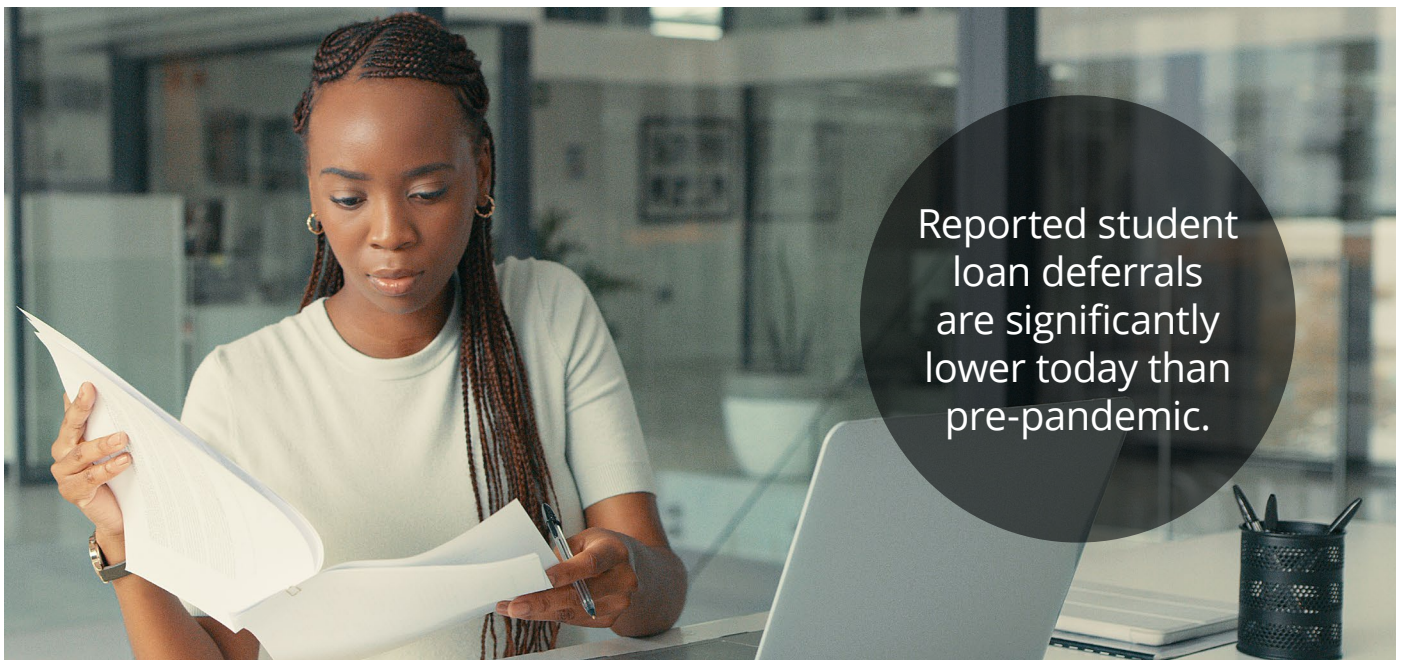
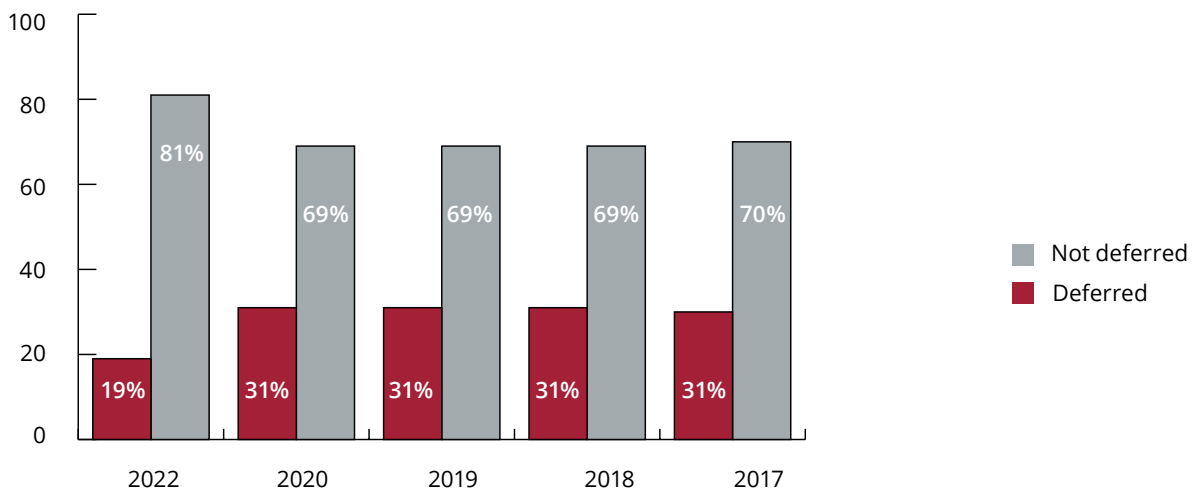


Gen Z consumers see the largest adverse impacts during the COVID accommodation.

Loan servicer changes have historically been disruptive for borrowers. As Forbes reported, in 2015, after the Department of Education overhauled the loan servicing industry, the Consumer Financial Protection Bureau (CFRB) found that “servicing transfers can create confusion.” And “often lead to errors occurring during loan transfers affecting a borrower’s payment process.” Due to the long pause in repayment because of accommodations and the transfer of student loans to new servicers, borrowers should be prepared to verify the repayment status of their loans once accommodations are lifted. This is particularly important as deferral status has not been reported on many loans that have new servicers.

Reported student loan deferrals are significantly lower today than pre-pandemic. In February 2020, 31% of student loan balances were identified as deferred. Today, 19% of student loan balances are reported in deferral. There is likely a 39% underreporting of deferrals compared to pre-pandemic levels.

Student loans reported as in deferral by year



Federal loan servicers' implementation of student loan accommodations has led to an across-generation decrease in the percentage of borrowers with loans reported as deferred. There is a 16 percentage point decrease in reported deferrals across the federal loan servicers, covering over 90% of student loan balances. The remaining 10% of balances covered private loan servicers with only a two percentage point decrease in reported deferrals. A return closer to, but slightly lower than, the historically stable percentage of loans reported as deferred should be anticipated once accommodations are lifted. With the 5.1% decline in college enrollment, the expected percentage of deferrals is likely to be closer to 29% of student loans than the 31% pre-pandemic. Gen Z is most impacted by the accurate reporting of deferral status, as a majority of loans are deferred.

Deferral by generation 2020-2022					
	Total	Gen Z	Millennials	Gen X	Boomers+
Deferred 2020	31%	71%	29%	29%	25%
Deferred 2022	19%	51%	14%	15%	13%
Difference	-12	-20	-15	-14	-12

The resumption of student loan payments on the \$886.8 billion in non-deferred student loans that are in accommodations will have a broad impact on the economy. At the individual level, the resumption of payments will put stress on personal budgets post-accommodations. Once accommodations are lifted, as much as \$8.6 billion in monthly payments could be due, averaging \$244 per borrower.



Estimated monthly payments post-accommodation		
Generation	Estimated average monthly payment	Estimated monthly payment
Gen Z	\$113	\$464,623,943
Millennials	\$234	\$4,287,363,000
Gen X	\$263	\$2,323,702,865
Boomer+	\$297	\$1,249,885,029
Total	\$244	\$8,661,860,394

\$8.6 billion
 a month in discretionary spending could shift to debt payment.

Consumer debt in general increased during COVID. The table below shows the monthly scheduled payment amount for consumers who had a non-deferred student loan as of February 2020 (pre-COVID) and whose student loan was in an accommodation status as of September 2021 (COVID).

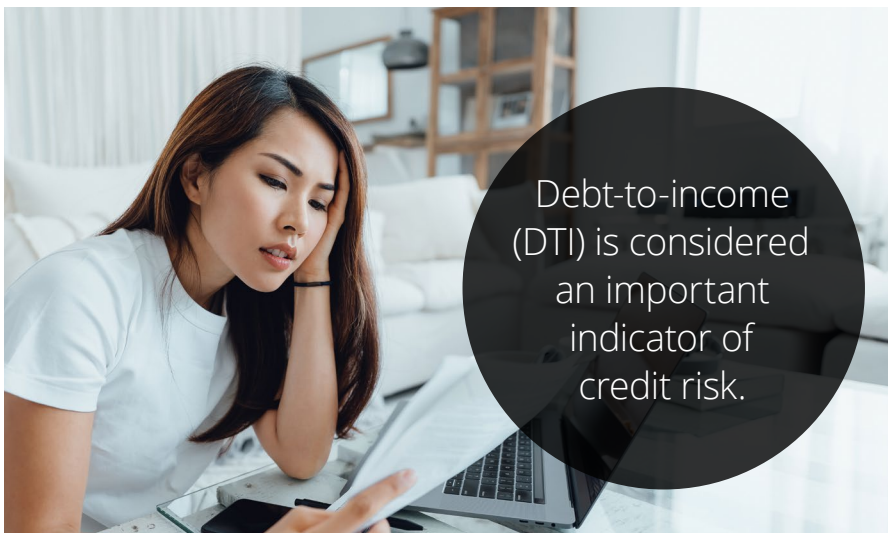


Loan forgiveness roll-offs will increase individual debt payments by 17.5% and 24% for Gen Z.

Since the scheduled payment amount for student loans in an accommodation period is \$0, the scheduled payment amount for September 2021 shows total monthly debt payments, *excluding student loan debt payments*. Adding student loan debt payments to this amount, we can gauge the expected increase in monthly debt commitment. Over the total population, the anticipated increase is 17.5% over September 2021 debt payments, with Generation Z increasing the most at 24% and Millennials at 18%.

Average scheduled payment amount (\$) by generation				
Generation	Pre-COVID (February 2020)	COVID (September 2021)	% Increase from February 2020	% Increase from September 2021
Gen Z	\$430	\$538	55.2%	24.0%
Millennials	\$1,340	\$1,350	19.2%	18.3%
Gen X	\$2,174	\$1,933	2.4%	15.1%
Boomers+	\$2,350	\$1,977	-2.3%	16.1%
Grand Total	\$1,498	\$1,436	12.7%	17.5%

Debt-to-income (DTI) is considered an important indicator of credit risk, as consumers with a higher debt ratio with respect to their income are often riskier. The number of student loan borrowers with a DTI above 43.4% decreased by 24%, reflecting the impact of loan accommodations and other debt forgiveness programs. However, using the forecasted debt as calculated in the table above, the number of consumers with a DTI above 43.4% is expected to be 7% higher than in February 2020, meaning that an additional 7% of consumers will fall into this high-risk category.



Section IV — Recommendations

Overview

Shur, Equifax, and VantageScore came together to offer the following recommendations, which are informed by our collective research, interaction with the field, and with the knowledge that no one solution will completely mitigate the credit risk to the borrower nor resolve data and infrastructure challenges at the systemic level. Further, the spirit of these recommendations is to optimize for outcomes that may both protect and enhance the student borrower's financial strength.

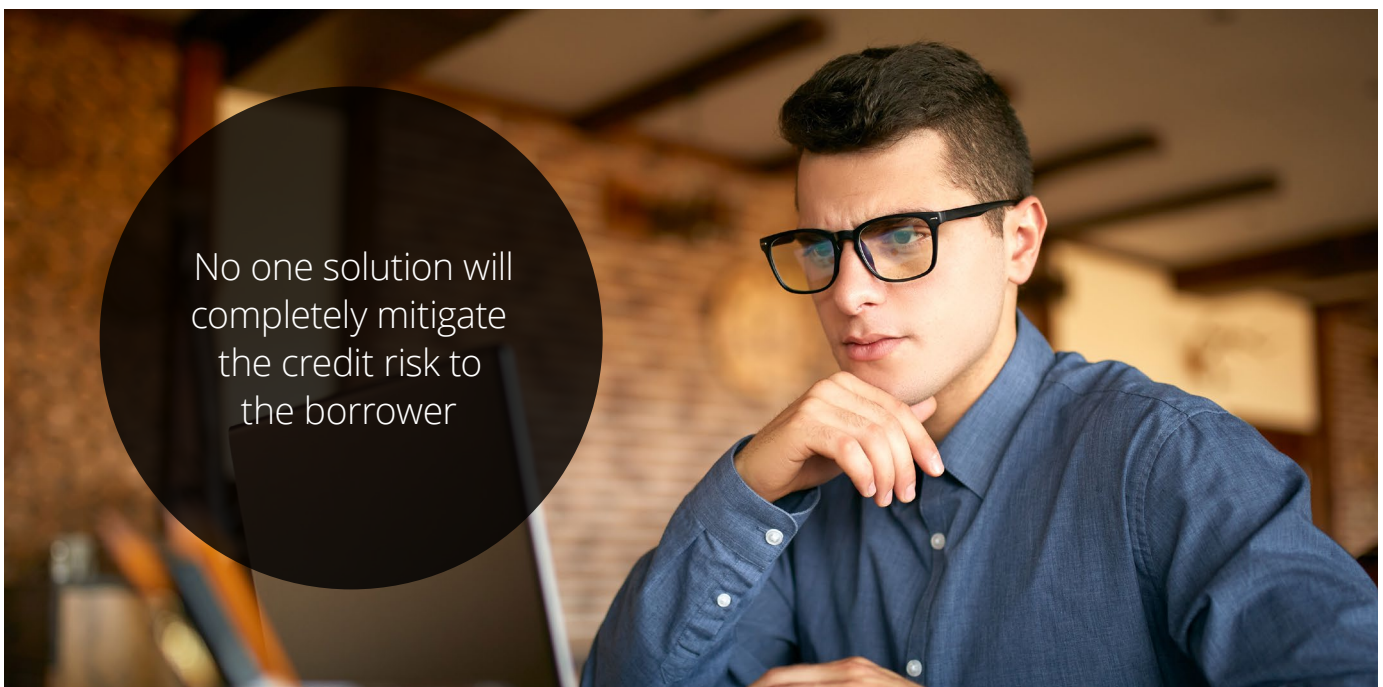
The range of recommendations herein reaches beyond any one particular sector or industry. The opportunities to prevent and mitigate the impact at scale are most readily within reach of the federal government because it has both the statutory and purchasing power to make the biggest impact on the effect of student loan debt burden on a young person's financial profile. However, changes by the federal government can take time, and often the diligence necessary to devote public dollars demands evidence of impact already tested in the field. As such, private sector actors are often in a position to innovate while meeting their near and long-term business needs. Insights from such innovation could be brought to scale through tax incentives by local, state, and federal governments.

The following is organized by strand of impact: system infrastructure, borrower experience, and demand for post-secondary education.

The statutory authority for institutions of higher education to issue federal loans and for federal loan services to service repayment of those loans is codified in Title IV of the Higher Education Act. Patchwork programmatic changes since the law's last authorization in 2008 have resulted in a confusing experience for student borrowers. The resulting complex operational constraints for loan servicers, compounded with increasingly difficult political dynamics, make the business of servicing federal loans less favorable.







Shur, Equifax, and VantageScore came together to offer the following recommendations, which are informed by our collective research, interaction with the field.



No one solution will completely mitigate the credit risk to the borrower

System infrastructure

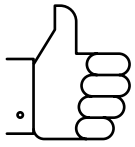
This first set of recommendations, each in its own way, seeks to address aspects of the infrastructure of issuing loans and thereafter servicing repayment of those loans that could preserve the financial health of borrowers:

 <p>Repayment infrastructure</p>	<p>Unified Servicing and Data Solution (USDS) would replace the next generation initiative. Single sign-on of servicers' websites using FSA ID with future full integration into a single FSA-branded repayment portal.</p>
 <p>Data and reporting</p>	<ul style="list-style-type: none">• Specifically, with regard to data and reporting, our group noted that there is inconsistency in reporting delinquency.• A regulatory requirement to require consistent reporting by loan servicers could enable meaningful intervention that protects the borrower's repayment history and financial profile.• Federal government should identify why borrowers accumulate debt and place borrowers in 1 of 3 categories:<ul style="list-style-type: none">- Borrowers attending low-performing institutions;- Students who attend legitimate programs and struggle to repay; and- Borrowers who can afford their repayment obligations.
 <p>Loan servicing contracting</p>	<ul style="list-style-type: none">• Student Loan Servicer Performance Accountability Act would ensure performance-based accountability of student loan servicers. This would also prevent FSA from awarding federal loans to a single servicer.• Allow increased communications to loan borrowers, enabling additional outreach to at-risk borrowers.• Develop a common manual to set servicing standards and create competition.• Repeal preferred lender list restrictions.• Enhance oversight capabilities.
 <p>Loan offering</p>	<ul style="list-style-type: none">• Limit the amount that parents can borrow under the PLUS program.• Eliminate federal loan programs and encourage states/regions to experiment with private loan programs.



Borrower experience

Put simply, the user experience for student borrowers can be challenging. The array of repayment plans and options is difficult to compare side by side, and it can be confusing to make sense of the eligibility criteria to access alternative repayment plans, as well as the trade-offs that changing repayment plans can present.



Borrower experience

Simplify the FAFSA® form process.



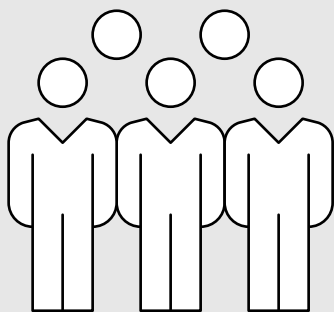
Repayment options and method

- Reduce confusion among loan repayment options:
 - Make one of the income-driven repayment (IDR) plans the default repayment option; or
 - Streamline loan repayment plans into one standard repayment plan and one IDR plan.
 - Create a progressive repayment formula.
- Automatically deduct payments from paychecks through withholding.
- If in default, allow borrowers to rehabilitate their loans a second time.
- Extend the grace period for borrowers entering repayment.



Forgiveness / debt cancellation

- Partial or full debt cancellation, or by sub-group (e.g., on-time degree completion among Federal Pell Grant recipients).
- Extend student loan repayment moratorium.
- “One grant, one loan, one work-study program”: if the student is not earning an income, they would not be required to make a loan repayment.
- Remove either the principal balance; or either cap the interest or subsidized accrued interest of the loan.

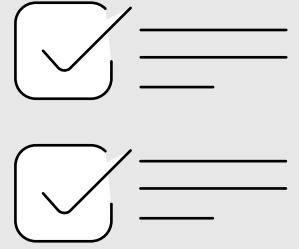


Demand

The following recommendations aim to protect student borrowers' financial stability from the standpoint of demand for post-secondary education and thus the demand for student loans to finance access to college.

Broadly speaking, one approach is to increase accountability for institutions of higher education that issue federal loans to ensure their student populations (their customers) are in a healthy repayment status upon separation from their care. Other recommendations recognize the incentive colleges have to recruit and enroll students, and offer ways to effectively de-risk the decision, thereby increasing the college's appeal to students who elect to take loans to attend that particular institution.

Changes by the federal government can take time. In the meantime, private sector employers competing for new entrants to the workforce are in a position to innovate while meeting their near and long-term business needs. Insights from such innovation could be brought to scale through tax incentives by local, state, and federal governments.



Accountability

- PROSPER Act (HR 4508): college programs must have at least 45% of students in positive repayment status.
- Student Protection and Success Act (S. 1525): institutions would lose Title IV eligibility for two fiscal years if they had a certain percentage of students not repaying the principal of their loans.
- Replace the cohort default rate with institutional accountability metric that reflects rates of student borrowing.
- Create a "cohort repayment rate," which would calculate the percentage of federal student loans that have been repaid five years after a borrower leaves school. The school would be required to pay part of the difference if the cohort repayment rate was below 20 percent.



Incentivize

- Eliminate student loan origination fees.
- Exempt loan forgiveness from the calculation of gross income for income tax purposes.
- Develop and enhance the toolset to curb student indebtedness.
- Tie borrowing limits to enrollment intensity and give institutions more authority to limit borrowing.
- Incentivize on-time completion for Federal Pell Grants.
- Provide dual-enrollment programs.
- Provide enhanced financial and entrance/exit counseling to students and families.
- Encourage more students to enroll full-time.
- A portion of campus-based aid money should be awarded based on college completion rates.
- Employer benefits: enhance the on-boarding process for new employees to include selection of repayment plan alongside paperwork for healthcare plan and 401k.
- Employers set up automatic payment to student loans along with direct deposit for paychecks.
- Employers support employees with children to set up 529 college savings accounts.

Section V — Conclusion

Shur, Equifax, and VantageScore have painted a vivid and comprehensive picture of the student loan landscape using proprietary data, research, and analysis. Our work illustrates the complexity of the impact that suspension of payments and other accommodations are having and will have on the various generations holding student loans.



Implications of this paper’s insights are deep and reflective of the experience at every level of everyone impacted including: individual students considering college, student borrowers who hold student loan debt, employers recruiting talent weighed down by student loan debt, parents holding PLUS loans, and others at the federal government and private sector level managing infrastructure with significant regulatory hurdles and increasing cost of capital.

More than two years of student loan accommodation — and now the release of millions of borrowers from their defaulted loan status — offers a unique opportunity. Our nation is providing a new start for those struggling in the system. And younger borrowers who are entering repayment in a time of profound economic instability have a chance to begin well.

Student loan debt is not only an issue for the debtors. The student loan crisis will have an impact to all consumers, lenders, and the economy at large. While the government considers additional methods to help borrowers, we can all do our part to help protect this great pathway to wealth creation and financial stability.

Student loan debt is not only an issue for the debtors. The student loan crisis will have an impact to all consumers, lenders, and the economy at large.

equifax.com/business/credit-risk

¹ Current Term Enrollment Estimates, National Student Clearinghouse, Fall 2021, available online <https://nscresearchcenter.org/current-term-enrollment-estimates/>.

² Parent loans enter repayment immediately on issue, but may be deferred (with interest accruing) while their children are in school. In practice, many parent borrowers choose deferral, often for long durations. (Federal Student Loan Direct PLUS Loan Basics for Parents, available online, <https://studentaid.gov/sites/default/files/direct-loan-basics-parents.pdf>, page 6).

³ <https://www.usnews.com/education/blogs/student-loan-ranger/articles/what-to-know-about-changes-coming-to-student-loan-servicing>