Brandeis University

April 18, 2019

Dear Senator Warren,

We write in regard to your student debt cancellation policy proposal. Our analysis of this policy suggests it would have a substantial impact on student debt forgiveness and would greatly benefit households with the least ability to repay.

We modeled debt forgiveness and projected first-order changes in net worth using a policy where debt holders with a total household income below $100,000 receive up to $50,000 in student debt cancellation. Above this threshold, the cancellation amount is gradually phased out, with households receiving roughly $0.33 dollars less in debt cancellation for every dollar of household income above $100,000. Households with a total income of $250,000 or more are not eligible for cancellation. Our analyses suggest that over 95% of borrowing households are eligible to receive some student debt cancellation under this policy.

We project the policy would result in total loan forgiveness for up to 76.2% of households with student debt. Households at the bottom and middle three income quintiles would experience substantially higher rates of student debt forgiveness (80% or more across these groups) compared with households in the top income quintile (less than 50%).

Similarly, we estimate that the policy would benefit households that experience relatively limited benefits from higher education. The total forgiveness rate is projected to be 90% among households headed by someone who attended but did not complete college, 87% among households headed by an Associates degree holder, and 72% among households headed by a bachelor's degree holder. This is in contrast to a projected rate of 28% for households headed by a doctoral or professional degree holder.

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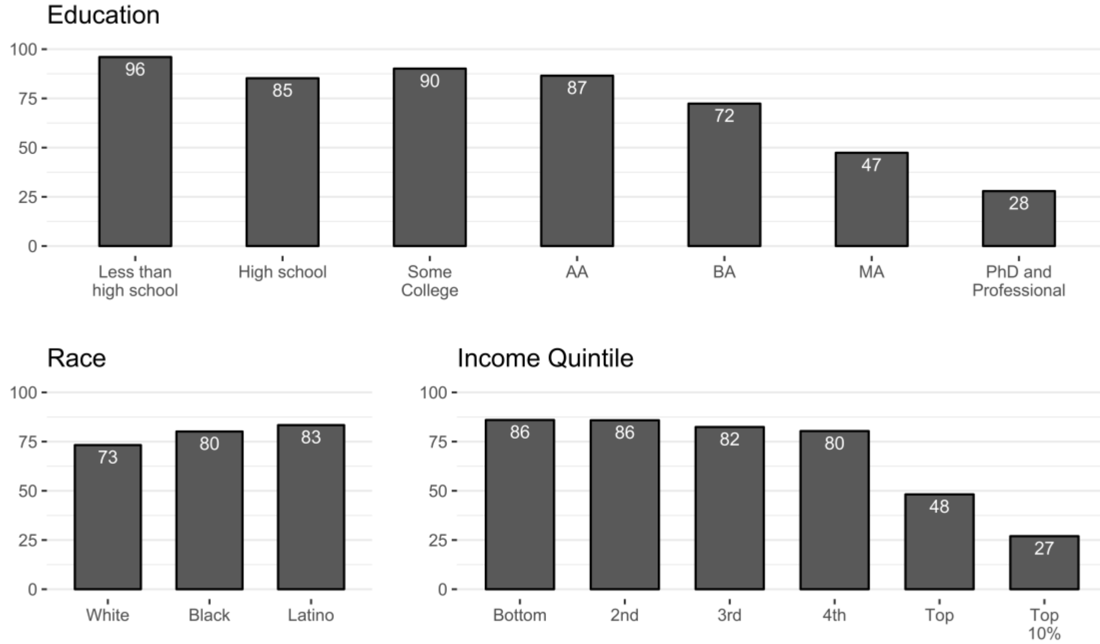
Figure 1. Percentage of borrowing households receiving full student loan cancellation, by household characteristics



The policy also has a moderately positive effect on both the relative and the absolute racial wealth gap. Wealth for Black and Latino households represents 10.2% and 12.2% of White household wealth at the median. The proposed policy would increase these proportions moderately to 14% for both groups. For both groups, absolute wealth gaps relative to White households would decrease slightly (by $5,121 for Black households and $1,660 for Latino households). Gains to net worth for households of color would be meaningful under the policy, increasing median wealth by roughly $6,741 for Black households as a whole and $3,280 for Latino households as a whole.

Projected relative wealth gap closure and wealth gains among borrowing households only would be formidable. Among borrowing households, the relative White-Black wealth gap would be reduced by a considerable amount, from 2.5% to 27.6%, and the White-Latino wealth gap closes from 53.7% to 81.0%. The wealth gains among Black borrowing households is projected at $15,700 and at over $27,000 for Latino households.

In addition to the immediate first-order impacts of debt cancellation analyzed here, debt forgiveness would also have positive second- and third-order effects on wealth that we did not estimate in our projections. Debt cancellation cascades to relieving thousands of dollars in interest payments while leaving several hundred dollars each month for consumption and investment. The greater ability to save and build assets entailed by a lower debt load would generate additional wealth and would be significant in the lives of debtors. It would likely entail consumer-driven economic stimulus, improved credit scores, greater homebuying rates and housing stability, higher college completion rates, and greater business formation.

Details on the estimation

Data sources:
We use 2016 data from the Survey of Consumer Finances (SCF), which provides a representative sample of all U.S. households.

Methodology:
1) The proposed student debt cancellation policy provides debt cancellation for individual loan holders. Student debt is reported in the SCF at the household level. To measure the number of loan holders and the value of their loans for each household, information on the recipient of each education loan was used. The SCF provides information on up to six student loans per household. For each loan, data report whether the loan supported education for the respondent, their spouse/partner, or a child. Each of these categories is treated as an individual loan holder.

2) To determine the extent of full student debt cancellation under the policy, the total student loan debt held by each individual in a household was compared to the proposed debt cancellation level at the household's income level. Those with debt less than or equal to the proposed debt cancellation level were projected to receive total forgiveness from the program. For example, a household with income under $100,000 reporting loans of $35,000 for respondent's education and of $40,000 for their child's education would receive full forgiveness under the policy. This assumes full participation in debt forgiveness and may also be understood as the percentage of individuals who would be eligible for forgiveness of all of their student debt.

3) Reported educational attainment and race and ethnicity are those of the head of household, defined as the single core individual in households without a core couple, and either the male (for mixed-gender couples) or the older individual (for same-gender couples) in partnered or married households. These definitions are created by the SCF and imply no assumptions about internal household dynamics.

4) Projected impacts on the wealth distribution across different groups are reported at the household level. Estimates were obtained by adding the absolute value of total projected debt relief to household net worth. This assumes full participation of all eligible households. Projected wealth ratios, wealth gap, wealth levels, and wealth gains were calculated at the median.

5) The SCF is a repeated cross-sectional survey based on a dual-sample design combining a standard multistage probability sample and an oversample of wealthy households. Because of these design features, all analyses were adjusted using SCF sampling weights. The final sample includes 6,248 households, of which 1,216 report holding student debt.

6) We estimate the cost per household for the policy to be roughly $5,027 ($22,570 per borrowing household). Projecting to a total U.S. population of 127.59 million households (2018 Census Bureau estimates) this entails a total cost of approximately $640 billion. Given the data sources utilized in this analysis, a more precise estimate is challenging. It is also likely that the economic growth generated by this proposal will create additional tax revenue that reduces the overall cost of the proposal.

The signers of this letter are not speaking on behalf of our universities and the analysis is our own. Institutional affiliations are listed for identification purposes only.

Sincerely,

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