



# Student Loan Payments Are Back -- Beware Borrowers and the Economy

After more than three years without payments, nearly 37 million Americans will have to resume paying back their student loans starting in October. The resumption will be painful for many borrowers and could tip the economy into recession.

Starting in October, millions of borrowers will face payments averaging \$200-\$299 per month.\*

For the millions of Americans with student loans, the past few years have been a welcome holiday from monthly payments. Back in March of 2020, the government paused student loan payments and set interest rates to 0% in response to the COVID-19 emergency. But after several extensions, that emergency finally ended in May. As of September 1, student loans started accruing interest again, and borrowers will have to restart payments in October.

Tens of millions of borrowers will soon face the resumption of a bill that is often one of the largest expenses in their household budgets. According to the Federal Reserve, the typical payment was between \$200 and \$299 per month for those who were making payments before they were paused.\* In the meantime, half of all borrowers expected to return to repayment have scheduled monthly payments for other debt that is at least 10% percent higher than before the payment suspension began. So many will feel the pinch.

## Don't Look for Debt Forgiveness

Although the Biden administration had earlier proposed a plan to cancel up to \$20,000 per borrower in student loan debt, it was recently struck down by the Supreme Court. And while the administration continues to seek a way to forgive some student loan debt for certain borrowers, success is uncertain, and any program would take time to put in place.

To prevent some borrowers from falling into default, the administration recently announced a 12-month "on-ramp" transition period for borrowers unable to make monthly payments. But interest will continue to accrue on the loans during that time, so no debt is actually being forgiven.

## Effect on the Economy

The renewal of payments will clearly be a hit to many households, especially those already strapped for cash. But there is a growing worry that the resumption could also affect the overall economy. Together with cash infusions from pandemic relief programs, the pause in payments enabled many people to take on more debt to buy cars, homes, and other big-ticket items. It also helped stoke inflation. But with relief

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payments a thing of the past and student loan payments resuming, many households will likely curtail spending. The pullback is unlikely to make a serious dent in the \$23 trillion U.S. economy, but it will add to the already negative effects of higher interest rates -- which could be just enough to tip the economy into recession.

Economists differ in their outlooks, but the current consensus is that the economy will avoid a recession, officially defined as "a significant decline in economic activity that is spread across the economy and that lasts more than a few months." But just barely. If millions of people suddenly cut back spending, it could push the economy into the red. And even if a recession is avoided, certain industries such as hospitality and entertainment that are driven by discretionary spending will likely take a hit. On the positive side, the resumption in student loan payments should help dampen inflation.

### How to Cope With Resumed Payments

If you hold a student loan, here are some tips on dealing with the renewed payments.

**Review the current status of your loan.** Check your latest account statement and confirm how much you owe, the interest rate, and the monthly payment you'll need to make in October. Your lender should send you a communication with all this information well before the payment is due. You'll also want to update your personal information in case anything has changed.

**Find ways in your budget to "make room" for the new payments.** Think of the daily expenses you may be able to cut such as impulse purchases or a daily coffee run. Plan meals ahead so you can shop in bulk and take advantage of lower prices. Avoid dipping into savings or cutting back on contributions to your retirement plan.

**Look into alternative sources for student aid.** If you simply will not have enough money to make your student loan payments, check out [student loan forgiveness programs](#). You might be eligible for an income-driven repayment plan, which is designed to lower your monthly payments to a percentage of your income.

**Don't wait.** Stay ahead of your loan so you don't get hit with late fees or slip into default. Both can affect your credit rating and your ability to borrow for other goals.

\*Board of Governors of the Federal Reserve System, [Report on the Economic Well-Being of U.S. Households in 2019 - May 2020](#), May 2020.