How the Pandemic Could Affect the Rise in Student Debt

Trends in enrollment, tuition, and families' ability to pay for college could indicate a departure from past recessions

Overview

Spikes in borrowing from the federal government during or closely following recessions in the past three decades have played a key role in the country's upward march in federal student loan debt.[1] The economic crisis spawned by the COVID-19 pandemic may leave a different legacy, however.

Student debt levels were already pronounced before the pandemic hit, with $91.1 billion in annual federal student lending in 2019-20, up from $20.7 billion in 1990-91. Over that same period, per-student borrowing rose from $2,110 to $6,276, after adjusting for inflation. (See Box 1 for more information on how debt levels are defined in this analysis.)

The Great Recession provides the most recent example of a surge in borrowing following the onset of a downturn. Total annual student loan borrowing from the federal government increased by over $40 billion, or 47%, when adjusted for inflation, from 2008 to 2011.[2] Federal debt also rose for many students, with per-student borrowing increasing by $1,713, or 27%, over the same period.[3]

Evidence available as of Nov. 20, 2021, suggests that the COVID-19 downturn could have a very different impact on federal student borrowing, with some trends—such as declining enrollment, which may reduce the total number of borrowers—potentially reducing overall debt levels.

According to the latest data from the College Board, total annual borrowing from the federal government fell by $7 billion, or 8%, between the 2020 and 2021 school years, while per-student borrowing fell by $324, or 5%, over the same time frame.[4]

But other patterns that the COVID-19 economic crisis and recovery share with past downturns, such as elevated levels of financial hardship, could mean increased borrowing needs for certain students.

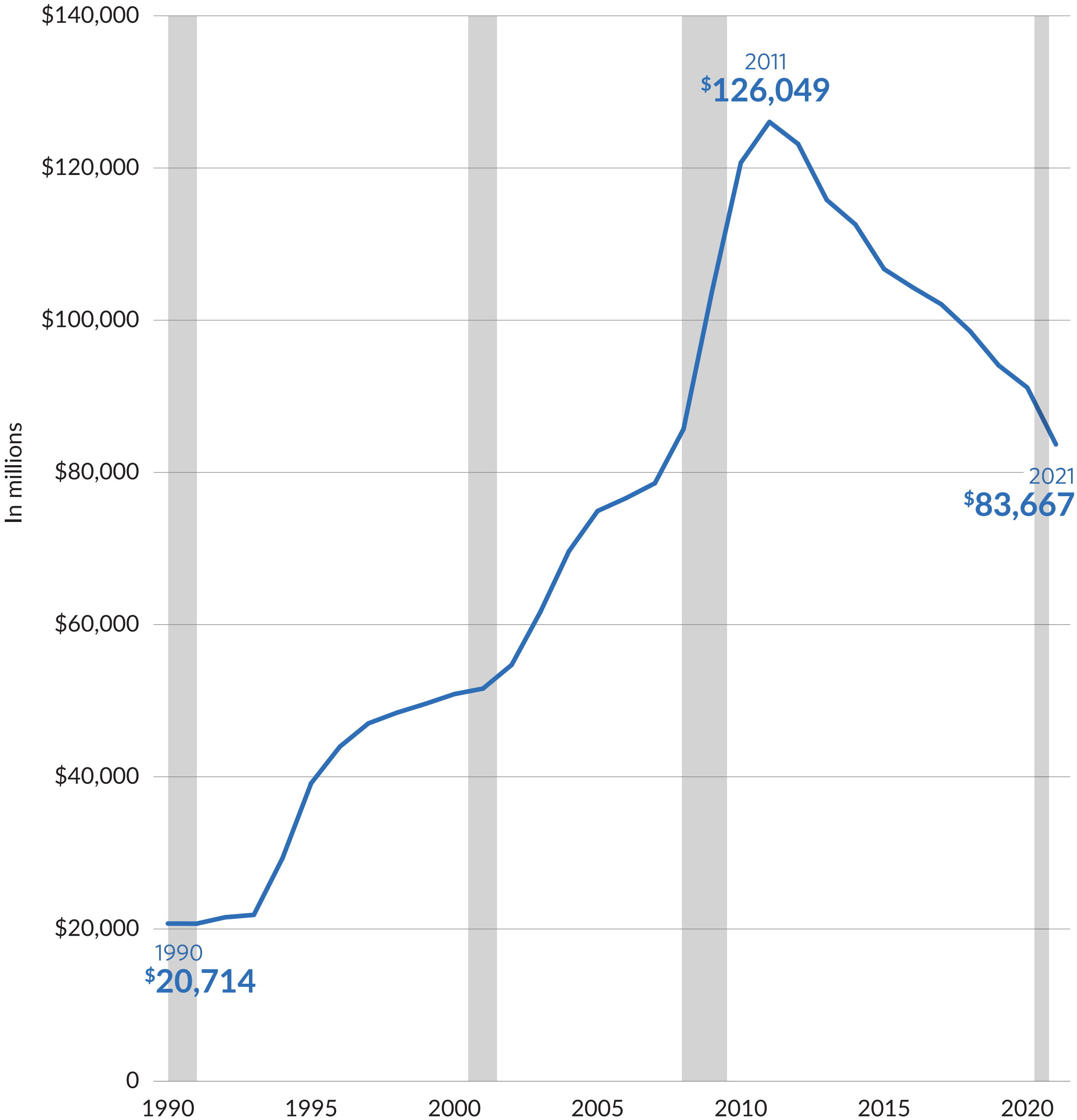
As of March 2021, almost one-fifth of all federal borrowers were in default on their loans, suggesting that repayment challenges are widespread.[5] Changes in reliance on debt to finance higher education could foreshadow shifts in the extent of future repayment difficulties in certain situations, such as if borrowing is rising or falling at institutions with a track record of poor repayment outcomes.

This brief examines three key factors—enrollment numbers, college prices, and families' ability to pay those prices—that could influence borrowing levels in a weak economy to help explain recent trends in borrowing and assess what COVID-19 and its aftermath might ultimately mean for federal student debt.[6]

Figure 1

Federal Student Lending Has Risen Sharply During or Following Past Recessions

Annual federal student loan issuance, academic years 1990-2021, adjusted for 2020 dollars



Note: Gray bars indicate periods of recession.

Source: College Board, "Trends in Student Aid 2021," Table 3

How This Analysis Measures Federal Student Borrowing Levels

This analysis focuses on two distinct measures of federal student debt: total annual borrowing and per-student borrowing. It is important to note that these two measures provide different angles on levels of student debt. Total annual borrowing reflects the overall scope of debt issued by the federal government in a given year and doesn't necessarily capture the amount of debt taken out by individual students. For example, total debt could rise simply because enrollment grows, even if the amount borrowed by individual students and the share of students borrowing remain the same. Per-student borrowing reflects the amount of debt individual students are taking out and the share of students who are borrowing. It is one of several ways to measure student debt amounts and does not capture how much debt the average borrower is taking on annually, or the amount of cumulative debt students have taken on when they leave school.

Past recessions led to rising enrollments, but pattern has differed in wake of COVID-19

One key factor that helps to explain at least part of the spike in total annual federal borrowing following past recessions is rising enrollment: More people attending colleges and universities could mean more people borrowing to finance their education, which in turn could lead to higher overall levels of borrowing from the federal government.

People often enroll in school during economic downturns to build job skills at a time when employment prospects are weak.[7] For example, between 2008 and 2011, the years during and following the 2007-09 recession, undergraduate enrollment grew from 14.5 million to 15.6 million students.[8] The total number of undergraduate student loan borrowers taking out unsubsidized and subsidized federal Stafford loans grew from 6.5 million to 9.4 million, or by 46%, in those same years.[9]

In addition to the overall growth in enrollment, changes in the student body and the schools they were attending also may have contributed to increased total and individual borrowing. If student enrollment shifts to more expensive schools, that could increase borrowing levels both for individual students and overall.

For example, during and immediately after the 2007-09 recession, for-profit schools saw a particularly large increase in attendance.[10] Students at these schools have historically borrowed at higher rates and in larger amounts than students at other kinds of institutions.[11] In fact, for-profit colleges are the one sector that saw significant growth at the undergraduate level during the pandemic, with enrollment jumping 6.4% in fall 2020 after several years of decline post-recession, according to the National Student Clearinghouse's Current Term Enrollment estimates.[12]

Given the high levels of borrowing at these schools, rising debt at for-profit schools could offset declines in borrowing that might result from enrollment drops in other sectors. However, enrollment in for-profit schools dropped in spring 2021, and preliminary data from fall 2021 (the current school year) also shows a decline, raising questions about whether the growth in fall 2020 was an anomaly or represented a persistent trend.[13] Overall, undergraduate enrollment trends during the COVID-19 pandemic have differed significantly from past downturns. For example, data released by the National Student Clearinghouse for fall 2020 shows that total undergraduate enrollment fell from 15.5 million students in fall 2019 to 14.9 million in fall 2020 (3.6%), with a particularly large decline at community colleges.[14] Financial needs and uncertainty related to the pandemic were key barriers to community college enrollment in fall 2020, a survey from the research organization New America suggests.[15]

Enrollment data from spring 2021 suggests a similar pattern overall, with undergraduate enrollment declining.[16] Undergraduate enrollment at community colleges again saw the biggest decline, but all other sectors, including for-profit schools, also saw drops. By contrast, graduate enrollment increased across all sectors relative to the previous spring, which could push loan levels upward given high levels of borrowing among graduate students.[17]

Preliminary data from fall 2021 suggests that these trends have continued into the current school year, with declines across all sectors at the undergraduate level and overall enrollment increases at the graduate level.[18]

Whether these enrollment trends will continue depends on factors such as the level of COVID-19 cases on campus and in communities, prospective students' financial situations and job prospects, whether institutions are able to sustain in-person instruction, and the availability of child care for student parents. The survey of community college students from New America cited above found that a majority of students who either attended in spring 2020 or considered attending school earlier in the year and didn't enroll in fall 2020 intended to continue their education at some point, suggesting that community college enrollment could bounce back as the pandemic fades.

College prices surged in past recessions, but thus far the trend has been different in response to COVID-19

A surge in the sticker price of tuition (also known as "published tuition price") at public institutions following past recessions may be another key reason for post-downturn spikes in student debt. Tuition rises can make it harder for students to pay for school out-of-pocket or with scholarships, increasing the need for borrowing and potentially driving up both individual and overall levels of debt.

More broadly, published tuition, the level of financial aid a student receives, and the amount students need to pay for living expenses such as room and board can all influence the amount a student borrows.

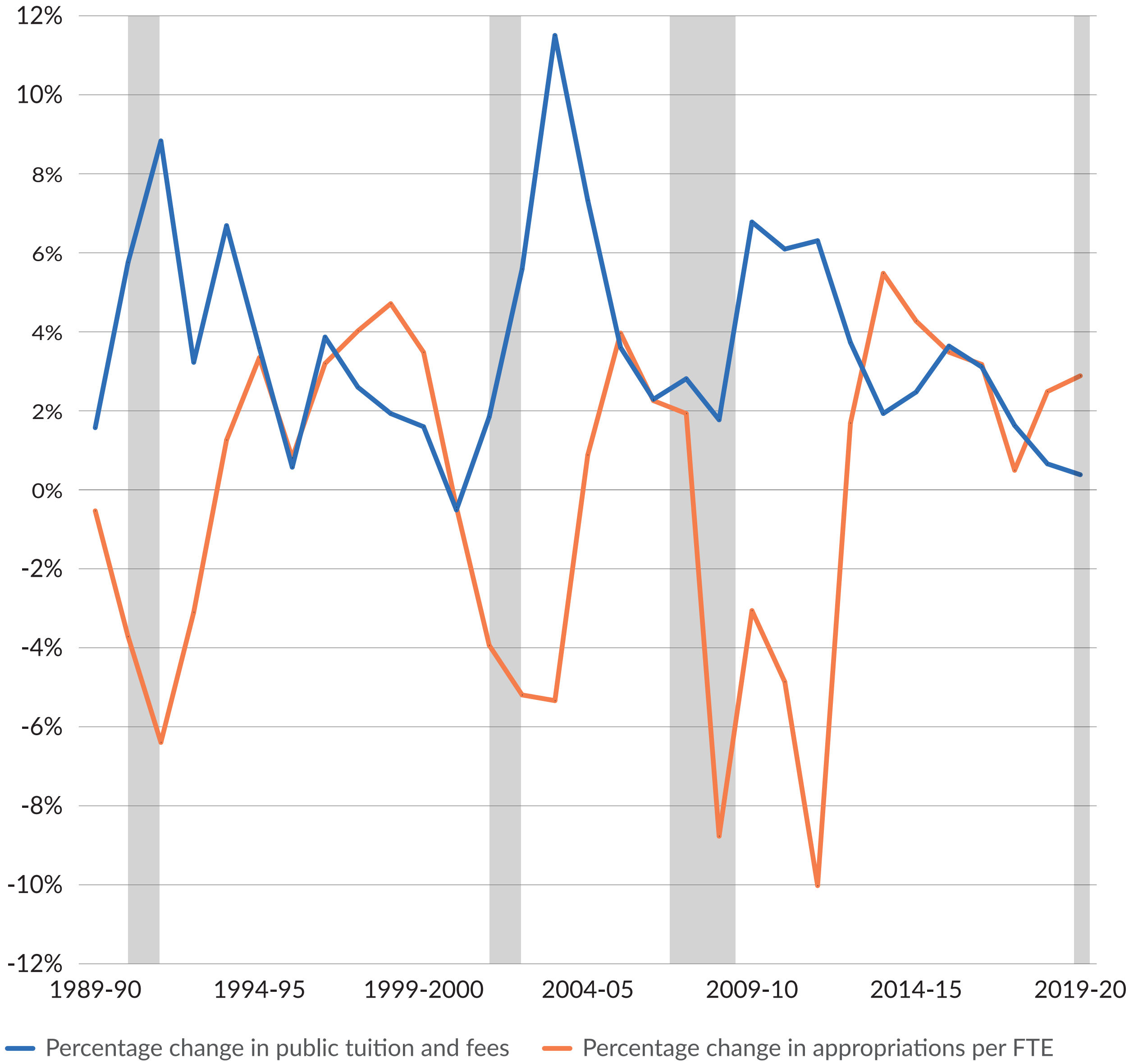
Published tuition at public schools tends to spike during and following recessions

While the published in-state tuition and fees at public institutions (which educate about three-quarters of the nation's students) have increased consistently over time, they have seen particularly large spikes during and after economic downturns. From 2008 to 2011, published in-state tuition at four-year public institutions rose by $1,390, or 17% in inflation-adjusted terms.[19] For comparison, published tuition has grown by 14% in the entire period between the 2010-11 and 2021-22 school years.

Figure 2

Tuition and Fees Rise as Appropriations Fall in Times of Recession

Trends in state and local funding for higher education versus published tuition and fees, 1988-89 to 2019-20



Notes: Annual percentage change in inflation-adjusted per-student state and local funding for higher education and in published tuition and fees at public institutions, 1989-90 to 2019-20. Numbers are adjusted for inflation. Enrollment figures are fall full-time equivalent (FTE) enrollments for public two-year and four-year institutions excluding medical students. Tuition and fees are the FTE enrollment-weighted averages of the public two-year and public four-year prices reported in Table 2 of the College Board Trends in College Pricing report. Funding is for both two-year and four-year institutions and includes tax revenue and other state and local funds for higher education, but not funding for capital expenditures. Gray bars indicate periods of recession.

Source: College Board, "Trends in College Pricing 2021," Figure 11-A

These tuition rate spikes have corresponded with periods of declining state funding, as many states have targeted higher education dollars for cuts to address recession-induced budget shortfalls.[20] Public institutions fund education largely from two sources, state funding and tuition, so when state funding drops, institutions must generally either raise revenue through tuition, cut spending, or perform some combination of those approaches.[21] Although state funding is not the only factor that determines public college prices, a series of recent studies suggests that past funding cuts at the state level have been linked to tuition hikes, in addition to spending reductions and the pursuit of strategies such as increased enrollment of international students, who pay higher prices than in-state students.[22] As with enrollment, tuition trends following the onset of the pandemic have played out differently from past economic downturns.

States have faced widespread financial challenges as a result of the pandemic-driven recession, though the extent of their difficulties has varied widely, and many states have seen their revenues bounce back as the economy has recovered.[23] Confronting these challenges, 20 states reduced higher education funding to institutions by an average of 4.4% (not adjusting for enrollment or inflation) for fiscal year 2021 (which ended on June 30 in most states), according to a report from the State Higher Education Executive Officers Association (SHEEO).[24] This was after federal aid provided in response to the pandemic was taken into account. The SHEEO report adds that these trends in funding cuts "mirror the first year of state funding cuts seen in prior recessionary periods."

Evidence to date suggests the outlook for state higher education funding is mixed. In their budget proposals for the current fiscal year (fiscal 2022, which began on July 1 in most states), some governors included funding cuts for higher education while others proposed flat spending compared with fiscal 2021, or even suggested increases.[25] These proposals came before the latest federal stimulus package, which provided states, territories, tribes, and localities with $350 billion to address fiscal and other challenges stemming from the COVID-19 pandemic, and an additional $39.5 billion to public and private institutions of higher education to address their own coronavirus-related difficulties; at least half of a school's federal stimulus money must be provided in the form of emergency grants to students.[26]

Most legislatures have now finalized their states' budgets for the current year. Although analysis about what these decisions mean for higher education funding is limited, early reports suggest that a number of states have increased their support relative to last year.[27] Going forward, the trajectory of the pandemic and economic recovery and their implications for state budgets will play an important role in determining the future course of state funding for higher education.

In the face of these funding patterns, the overall trend in tuition at public institutions has thus far been fairly flat during the pandemic, with in-state tuition and fees at four-year schools, for example, falling by about 2% since the 2020 school year, after adjusting for inflation.[28] Some commentators have noted that the shift to online education, a desire to be responsive to students' financial circumstances, and state limits on tuition increases may have constrained institutions' ability to raise tuition since the pandemic began.[29]

If the past is any guide, however, states that do have continued state funding declines could see at least some public higher education systems and institutions respond by raising tuition to address their pandemic-driven financial struggles.[30]

Grant aid increases in past recessions have helped offset tuition and cost-of-living increases

Beyond published tuition and fees, grant aid (financial aid that doesn't need to be repaid) and living expenses such as room and board also are key in determining how much students borrow to pay for higher education.

While the 2007-09 recession saw a surge in the sticker price at public colleges and universities, policy decisions to increase grant aid, particularly a major boost in the federal Pell Grant, helped to offset the impact on students.[31]

According to data from the College Board, average grant aid from all sources, including federal and state governments and institutions, rose by almost $1,700 at public four-year public institutions, after adjusting for inflation, more than offsetting the rise in tuition at those schools between 2008 and 2011.[32]

But students borrow to cover not just tuition and fees, but also living expenses, including room and board. Between 2008 and 2011, the total cost of tuition, fees, and room and board grew by $690, or about 5% on average, even after taking the aforementioned large increases in grant aid into account.[33]

Thus far, federal policymakers haven't made a comparable boost in Pell Grants in response to the COVID-19 recession. For example, in December 2020 the federal government increased the maximum Pell Grant award by $150, the same amount as the prior year's increase.[34] To put this in context, policymakers increased the Pell Grant maximum award by $619 from 2008 to 2009 in response to the 2007-09 recession through the American Recovery and Reinvestment Act.[35] But the latest framework agreement being negotiated between the Biden administration and Congress for the president's Build Back Better plan calls for a $550 increase in the maximum Pell Grant and would provide funding to historically Black colleges and universities, tribal colleges and universities, and other minority-serving institutions in part to support financial aid for low-income students.[36]

And as noted above, the federal government required that at least half of the COVID-19 stimulus funding provided to higher education institutions go to students in the form of emergency financial aid grants intended to help them weather the impact of the pandemic.

The pandemic leaves many families financially vulnerable, which could affect their ability to pay for college

A third factor that helps to explain why borrowing rises after downturns hit is increased financial hardship. If students' families lose jobs or incomes, or they themselves have a hard time finding work, they may have less money to pay for school and a greater need for student loans, potentially driving up both individual and total borrowing levels.

The unemployment rate during the pandemic peaked at 14.8% in April 2020, higher than even the unemployment rate at the height of the 2007-09 recession (10.6%).[37] It has since come down sharply to 4.6% in October 2021, but remains above the 3.5% level from just prior to the pandemic.[38] And beyond employment losses, many Americans have seen reductions in pay and work hours. A series of surveys shows large swaths of the country have faced serious hardship, including difficulty paying for basic needs such as housing and food, while many households have withdrawn from savings or retirement accounts to make ends meet.[39] These financial challenges have been particularly prevalent among Black and Latino Americans, women, low-income families, those without a college degree, and adults ages 18 to 29.[40]

The economy has shown strong signs of recovery, but this has been tempered by continued uncertainty, particularly as the delta and omicron variants of the coronavirus prolonged the impact of the pandemic.[41] For example, gross domestic product growth (a broad measure of economic growth) slowed in the third quarter (July-September), according to the Bureau of Economic Analysis, reflecting "the continued economic impact of the COVID-19 pandemic."[42] Even with the economy rebounding, recent evidence raises concerns that many of the Americans hardest hit by the pandemic downturn may be left behind, with lingering employment losses among other challenges.[43]

It is also important to note that over the course of the pandemic, the federal government has passed sizable economic stimulus packages intended to promote economic growth and make sure that growth benefits all Americans.[44] Congress included provisions to help higher education students, institutions, and student borrowers as well as low-income families, the unemployed, and the broader economy, but much of that assistance has now come and gone or is scheduled to expire soon. For example, enhanced unemployment insurance benefits expired in September, and a pause on student loan payments is scheduled to expire at the end of January.[45]

Such trends could impede the ability of individual students and their families to pay for college and drive up the need for loans, particularly among students most vulnerable to student loan repayment challenges. For example, as noted above, Black Americans have disproportionately felt the adverse economic impacts of the pandemic, and Black students were borrowing and defaulting on their loans at higher rates than their White peers before the COVID-19 pandemic, raising concerns about the role that factors such as labor and housing market discrimination might play in these disparate loan outcomes.[46]

Conversely, deteriorating economic circumstances could increase students' eligibility for need-based financial aid grants, potentially mitigating the need for additional borrowing. But the precise impact of financial changes on aid would depend on a student's specific circumstances, and some research has raised questions about how well financial aid responds to changes in students' financial needs.[47] Of particular concern is that financial aid award eligibility is generally based on income and tax information from two years prior, unless a student files an appeal, meaning that students' financial aid awards may not reflect changes in their financial circumstances resulting from the pandemic. [48] Changes in the FAFSA application form—the form that students and families use to apply for federal assistance for higher education and expanded Pell Grant eligibility—may make it easier for students to qualify for financial aid in the future, though these changes will not fully take effect until the 2024-25 school year.[49]

While financial struggles could drive up the need for loans among those who attend college, they could also be keeping students from attending school altogether.

Conclusion

Federal student loan levels both overall and for individual students have risen precipitously over the past several decades. Evidence from past recessions, which have seen spikes in student borrowing from the federal government, suggest that the economic fallout from the pandemic could drive these levels even higher.

So far, the pandemic has affected higher education very differently than past economic downturns in some key ways, and consequently, borrowing from the federal government both overall and on a per-student basis actually fell modestly over the past year. For example, undergraduate enrollment, which tends to rise when the economy is weak, has been trending downward since the pandemic hit; this helps to explain why overall borrowing has declined. Additionally, tuition and fees at public institutions—which tend to spike when recessions hit—have been fairly steady, which may be contributing to the drop in borrowing per student.

The pandemic does share some trends common to past recessions, such as elevated levels of financial hardship, which have the potential to increase the need for individual student borrowing, which, in turn, could push up overall levels of debt.

Overall, student debt levels dropping in the face of the coronavirus pandemic would not necessarily indicate good news for students. Financial circumstances brought on or compounded by COVID-19 may be dissuading potential students from pursuing education that would enhance their job skills and could lead to future higher earning potential.[50]

Likewise, a decline in the average amount of borrowing by individual students could mean that students who don't have the financial means to pay for education on their own simply aren't enrolling in school. It also doesn't necessarily indicate that borrowers are struggling any less to pay their loans; in fact, it is often the borrowers with the lowest balances who face the biggest challenges in repayment.[51]

Conversely, given the large share of students struggling to pay their loans even before COVID-19 struck, changes in student loan levels as a result of the pandemic could have implications for borrowers' future financial well-being. But while the broad patterns discussed in this analysis are an important starting point, knowing exactly what fluctuations in loan amounts really mean for students' and borrowers' well-being will require a closer look.

Another piece in this series focuses more specifically on the connection between recessions and student loan repayment challenges.[52]

Endnotes

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For further information, please visit:
pewtrusts.org/studentloans

Contact: Esther Berg, communications officer
Email: eberg@pewtrusts.org
Project website: pewtrusts.org/studentloans