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How the Supreme Court ruling on student loan debt will impact lenders, borrowers, and the US economy

Article

The news: The US Supreme Court decision to strike down the Biden administration's program—which would have extinguished up to $20,000 in federal student loan debt for **about 43 million people**—is likely to leave millions of borrowers owing substantially more than they otherwise would have.

The move could help **increase loan delinquencies, and also slow down consumer spending and lending enough so that some analysts believe it could be the "tipping point" that starts a recession,** per American Banker.

Spending habits will change: Consumers drew down their savings during the pandemic, which could exacerbate the shock to their household budgets after the moratorium ends. Some have likely been using those savings to maintain their spending habits in the face of high inflation.

- Jefferies Group analysts have estimated the total cost for student borrowers at $18 billion monthly, and it **projects a 2% decrease in consumer spending on non-essential goods as households react by cutting back on spending**. The average monthly student loan payment, Jefferies found, is $393.
- Jefferies also projects **it will cause unsecured consumer credit net charge-off rates to reach between 0.85%-1.19% by mid-2024**, up from an estimated 0.62%-0.98% under a scenario in which debt forgiveness was enacted.
- Moody's estimates **the total funds diverted to the resumption of student loan payments will come to an annualized $73 billion**, or 0.27% of the United States' GDP.

What this means for lenders: They'll likely see **higher delinquency rates on consumer loans, including credit cards,** as some consumers struggle to balance their reactivated student debt obligations with other bills.

And **consumer lending could slow measurably among a large segment of consumers, as many borrowers will see their credit scores fall** after resuming payments when the forbearance period on debt repayment ends

Executives at **Discover, Synchrony Financial, Capital One Financial, JPMorgan Chase** and **Bank of America** are monitoring how student loan repayments could cause more borrowers to fall behind on other payments.

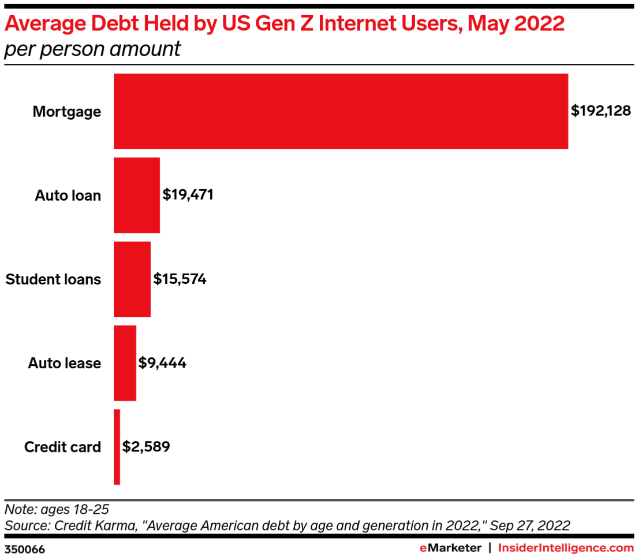
Early signs of stress: Some indicators are already pointing to the precarity of current consumer spending habits.

- **Between 34% and 76% of borrowers may miss their first required federal student loan repayment,** putting them at risk of a lower credit score, per VantageScore.
- Younger generations, most likely to hold student debt, have **fallen behind on their car loan payments at a rate matching the late stages of the Great Recession**, per the New York Fed.
- **Delinquency rates on credit cards and auto loans, which have been relatively low, started rising during Q1 2023,** according to the Federal Reserve Bank of New York's quarterly report on household debt and credit in May.

Lenders need to be proactive: Continue tracking how the Biden administration's on-ramp plan, prompted by the Supreme Court ruling, will affect due dates. Use the months between now and the resumption of payments to raise awareness among your customers and help them prepare. Reach out through social media or your in-app user experience to explain what the upcoming loan repayments will mean for them.

- Statistics about consumers' financial literacy suggest many are likely to be confused about the difference between loan forbearance and forgiveness, or unclear about why their credit score is changing.
- Consumers ages 18 to 34, who already hold a disproportionate share of student debt, are the age cohort that most appreciates personalized guidance from their financial institutions.

Handled thoughtfully, the resumption of student loan payments could be an opportunity to strengthen customer relationships.



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