Balancing restarted student loan payments and a mortgage: How will household budgets adapt?

The student debt payment restart should have modest overall effects on homeowners who were previously making student debt payments, though many households will need to reallocate a small part of their spending.

After a three-year pause, student debt payments may not fit into borrowers' budgets like they did before the pandemic. This is especially true for borrowers who also have a mortgage. How much will households need to adjust their spending to adapt to their re-started student debt payments?

Despite the modest overall effect of the restart, certain households, especially lower-income households, will need to make potentially difficult budget adjustments. Administrative flexibility, including delayed reporting of late payments and a newly expanded Income-Driven Repayment (IDR) program, should make these adjustments easier. Additional monitoring of households' ongoing response to the end of the pause is warranted.

Main Findings

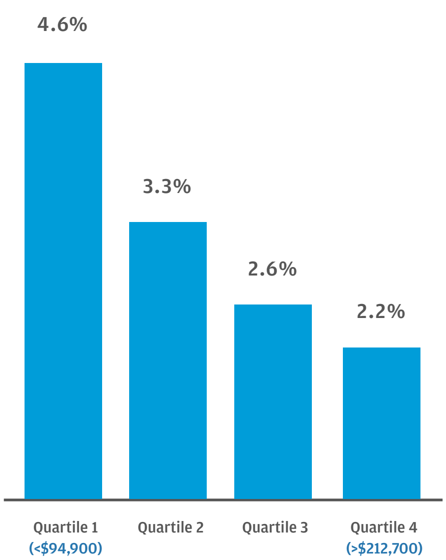
1. **15 percent of mortgage holders** in our sample had been making regular student debt payments before the pandemic.

2. Among these joint mortgage–student debt payers, the median household will need to use roughly **3 percent of their take-home income** for student debt payments once they resume.

3. While this 3 percent increase is relatively modest, we project that, given recent levels of spending and other expenses, the median household with both student debt and mortgage obligations will have a **budget shortfall of 0.8 percent of take-home income** once they start making full student debt payments. This means that many households will need to decrease spending or use savings to cover student debt payments.

4. Lower-income mortgage holders will need to make larger budget reallocations: **4.6 percent of take-home pay for the lowest income group versus 2.2 percent for the highest**, as shown in the chart to the right.

Fraction of take-home income needed to cover restarted payments among mortgage holders



Notes: Projected increase in student debt payments is the difference between student debt payments made during the pre-pandemic sample period (September 2019 through February 2020) student debt payments made before the end of the payment pause (February 2023 through July 2023).

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Data Explanation

Fraction of take-home income needed to cover restarted payments

A bar chart with the title "Fraction of take-home income needed to cover restarted payments" with the following values: Quartile 1 with take-home income less than $94,000 is 4.6%, Quartile 2 with take-home income from $94,900 to $142,700 is 3.3%, Quartile 3 with take home income from $142,700 to $212,700 is 2.6%, and Quartile 4 with take-home income greater than $212,700 is 2.2%. X-axis label is "Take-home income".

Figure note: Projected increase in student debt payments is the difference between student debt payments made during the pre-pandemic sample period (September 2019 through February 2020) and student debt payments made before the end of the payment pause (February 2023 through July 2023).

View Chart Version

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