NEW YORK CITY COMPTROLLER
BRAD LANDER

Spotlight

Student Loans and the High Cost of Higher Education

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Introduction

It is an almost universally held view that education is a key to success—both for the individual and for society overall. This is supported by a great deal of research and underlies the roughly $1 trillion that federal, state and local governments have committed to primary (i.e. K-12) education across the U.S., as well as the hundreds of billions invested in higher education.

The Student Loan program was initially developed in 1958 to provide broader access to college for those with limited resources. The federal student loan program was initially developed in 1958 to provide broader access to college for those with limited resources. At the time, college was considerably less pricey than it is now: the annual volume of student loans issued has grown dramatically since then. Moreover, the accumulated outstanding debt of borrowers (both college and grad school), which has been tracked by the New York Fed since 2003 has increased more than sixfold since then, reflecting an annualized growth rate of nearly 9%. Of course, this increase was driven not only by rapidly rising tuitions, but also by a growing number of borrowers, as well as the cumulative effect of loans that typically take one to two decades to pay off.

As highlighted later in this report, tuition for both college and graduate school has soared over the past few decades, far exceeding growth in both overall inflation and per capita income. The causes behind the diminishing affordability of higher education are many and are open to debate, but the effects are more clear.

Because student loans are much harder to discharge, the primary risk, borne by the borrower, is that the hoped-for boost in income does not materialize, thus making the loan more difficult, if not impossible, to pay down. The moratorium on student loan debt, effectively lasting from mid-2020 until late last year, temporarily relieved the financial burden and stress of these debt obligations for many borrowers. Since the start of this year, however, as servicers resumed reporting delinquencies to credit agencies, the adverse effects have been widespread.

In this Spotlight, we focus on the brewing crisis in student loan debt, starting with a review of how tuitions and federal student loans have evolved over the years, and then focusing on problems that have developed in early 2025, with a focus on New York City residents. We conclude with a look at recent and proposed changes in federal policy in an attempt to gauge where we are headed.

The Value of Higher Education

Before we delve into the financial burden associated with student loan debt, it is important to underscore the benefits of higher education, which are multi-faceted. For the individual, a college degree, and especially a post-graduate degree, can open up pathways to many lucrative and rewarding jobs and careers. Moreover, research has identified a variety of non-monetary benefits of higher education.

Conceptually, enhancing a person's human capital should lead to potentially higher earnings for that individual over the years, in addition to the non-monetary benefits mentioned above. Yet quantifying the financial "return" on education for an individual is tricky. Average lifetime earnings for those holding college degrees has been substantially higher than for those without. But there are a number of caveats. First is what economists refer to as endogeneity bias: did college graduates earn more than their counterparts solely because of their college experience … or was it partly because they started off with certain pre-existing characteristics or advantages even before entering college? Second is high variance and unpredictability: while most college grads do indeed have relatively high lifetime earnings, many do not. And these outcomes can depend on factors associated with the school attended, the focus of study, and most notably, the individual. Third, history is not necessarily prologue: it is not, by any means, certain that returns on higher education over the next few decades will closely resemble returns over the past few decades—they could end up lower or higher.

There are also what economists refer to as "positive externalities"—a well-educated population and workforce provide benefits that accrue not only to the individual but also to the overall economy and society more broadly. Cross-country research has shown sizable social returns to higher education—as measured by higher overall productivity, higher tax revenues, and reduced welfare spending, along with other metrics. In particular, research has also found that increased education has a strong causal crime-reducing effect.

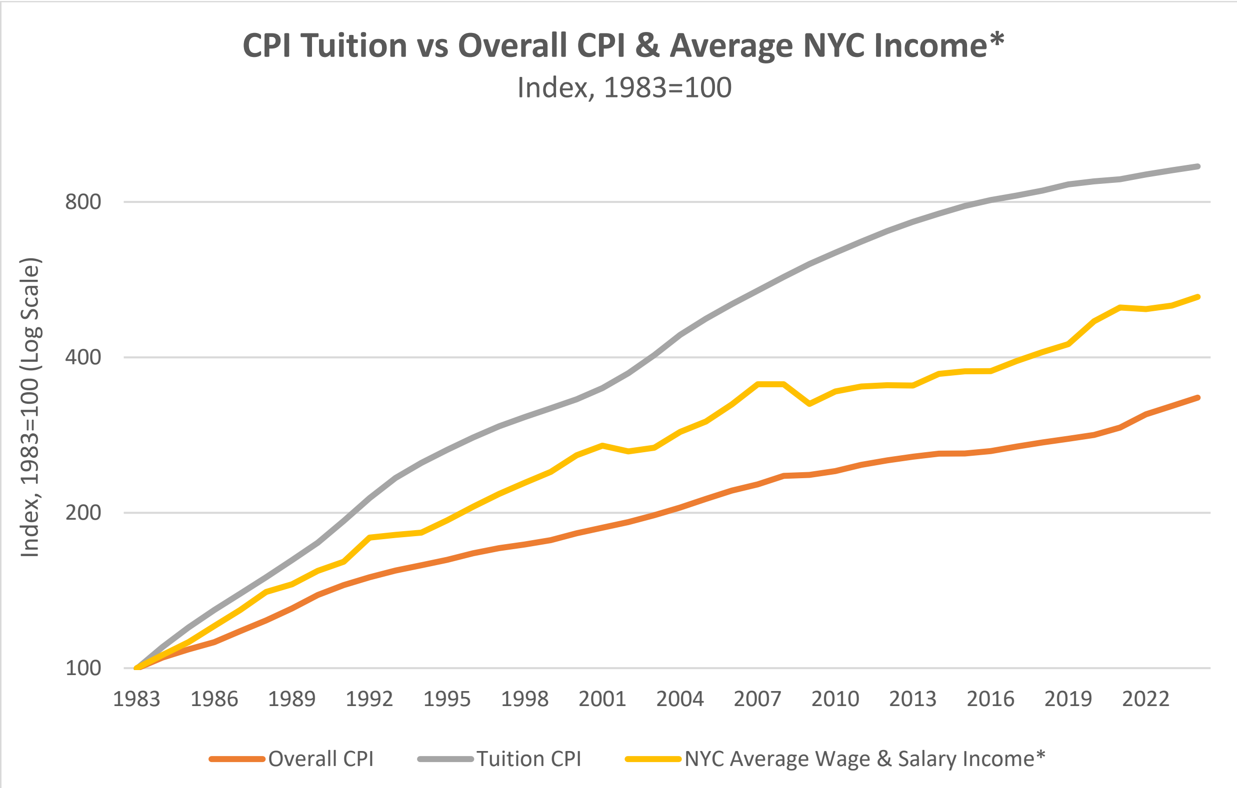
The Brewing Crisis in Student Loan Debt

The Burgeoning Cost of Higher Education

While there is a good deal of uncertainty about quantifying the benefits of higher education, the costs—and how they have changed—are a lot clearer. This article captures the issue of declining affordability, noting that "*The price of a college education, which hard-pressed parents have long said is going through the roof, has done just that.*" Strikingly, the article is from 1981. Since then, affordability has done anything but improve, as shown in Chart 1 below. From a base that was already considered quite high back in the early 1980s, the cost of tuition has skyrocketed, rising nearly tenfold. Over the same period, average wage & salary earnings of jobs in New York City—which grew faster locally than nationally—increased approximately five-fold. In other words, at least by these measures, the cost burden of college relative to income has nearly doubled. Much of the escalation in costs occurred prior to the mid-1990s; since then, the annual rate of tuition inflation has been slowing, though the cumulative increase since then has still been staggering. In the 1994-1995 school year the average tuition and fees for a year of four-year college was $5,740 for in-state students at public in-state institutions and $24,840 for private non-profit institutions in the 1994-1995 school year. By the 2024-2025 school year, tuition had risen to $11,610 and $43,350 respectively.

The box below summarizes the history of federal student loan programs and how they have evolved.

Chart 1



Sources: NY State Department of Labor; Moody's Economy.com; US Bureau of Labor Statistics
*Based on QCEW (Quarterly Census of Employment & Wages) for all industries in NYC.

Evolution of student loans: How did we get here?

The first federally-backed student loan system was created in 1958 as part of the National Defense Education Act. The program was initially called the National Defense Student Loan program, and would later become the National Direct Loan Program and finally the Federal Perkins Loan system. The system granted loans up to $1,000 per year, up to a maximum of $5,000, with borrowers repaying their loans at 3 percent interest (growing to 5 percent in 1981) in the decade after graduating. The program continued until 2017, when the Perkins program was not renewed by Congress.

In 1965, Congress passed the Higher Education Act (HEA), which established the Guaranteed Student Loan program, later known as the Stafford Loan program, for students demonstrating financial need. The program subsidized privately issued loans with federal funds and a government guarantee, requiring the federal government to repay defaulted loans. A 1972 reauthorization of the HEA created Sallie Mae, a government-sponsored enterprise, to support the system of government-guaranteed student loans. The 1972 HEA reauthorization also created the Basic Educational Opportunity Grant (BEOG, later renamed the Pell Grant).

In 1992, the reauthorization of the HEA created a version of Stafford Loans that were not subsidized by the government, which were available to students regardless of financial need and required students to cover interest on the loans while in school. In addition, the 1992 reauthorization also broadened eligibility for subsidized loans, raised annual and cumulative loan limits for student loans, and created a pilot Direct Lending program which removed private lenders as intermediaries and enabled the Department of Education (DOE) to administer federal loans directly. The legislation also eliminated the borrowing cap for Parent Plus loans, which were initially created in 1980 with a $3000 annual limit.

A year later, the Student Loan Reform Act created a variety of repayment plans, including an income-contingent repayment plan, where borrowers with lower income after graduation had lower monthly installments. In 2007, Congress established the Public Service Loan Forgiveness Program, with the intent that borrowers would have their loans forgiven after 10 years of minimum payments (Since then the Biden administration made changes to address myriad implementation issues; the Trump administration more recently has issued an Executive Order to limit which organizations can qualify as public service).

Guaranteed loans remained popular until after the 2008 recession, when the 2010 Health Care and Education Reconciliation Act required all new federal student loans to be issued directly by the federal government, eliminating private lenders (and the need for a federal guarantee) with the goal of reducing costs and streamlining the process. With this change, Sallie Mae (which became a private corporation in 2004) also stopped buying and originating new federal student loans and now exclusively offers private student loans.

Interest rates on federal student loans have varied over the years. Interest rates paid on federal student loans are tied, by federal law, to the interest rate on 10-year treasury notes and are fixed for the life of the loan. The amount by which these rates exceed the 10-year treasury rate is somewhat higher for graduate loans (+3.6 percentage points) than for undergraduate loans (+2.05%), but they are capped at 9.5% and 8.25%, respectively. These rates reset every year at mid-year for new loans issued in the subsequent 12 months. Rates on loans issued to parents of students are slightly higher. For most of the past four decades, these interest rates were trending down, somewhat offsetting the burden of rising tuitions; but since 2020, these rates are considerably higher today than in 2019-20, before the forbearance began.

Over the past two decades, student lending has not increased nearly as rapidly as tuition—evidently due, in part, to a rising incidence of international students but also partly due to grants playing an increasing role. Undergraduate students in the 2003-2004 school year received an average of $6,500 in grants and $5,100 in federal loans. In 2023-2024, federal loans had dropped to an average of $3,900 per student, but grant aid increased to $11,600 on average. The number of borrowers has increased over time but stabilized since the pandemic: in 2007 there were 28.3 million borrowers with a total outstanding balance of $0.78 trillion. The outstanding debt peaked in 2020 with $1.87 trillion across 42.6 million borrowers, but has dropped to $1.62 trillion for 42.8 million as of 2024. The average borrower who received a bachelor’s degree from a four-year institution (public or private non-profit) accumulated

$30,500 in debt during the 2007-2008 school year, $35,200 in 2017-2018, and $29,300 in 2022-2023.

The recent decline in debt is largely the result of pandemic relief. In March 2020, the Trump administration paused federal student loan payments, and the Biden administration repeatedly extended the freeze. Payments were resumed in October 2023, followed by a one-year grace period, during which borrowers would not be penalized for missing payments, though outstanding debt would resume accruing interest. The Biden administration also implemented the SAVE program, an income-driven repayment plan basing loan payments on income and household size. The program allowed borrowers to pay 5 percent of their disposable income, or $0 if they made below $15 an hour, rather than the 10 percent required under the previous Revised Pay As You Earn (REPAYE) plan. However, in July 2024, the Supreme Court issued a temporary freeze on the SAVE program, pausing the payments of 8 million borrowers enrolled in SAVE and placing them in interest-free forbearance for the time being.

Garnishment for delinquent loans resumed in May 2025, after having been paused since March 2020. Student loans go into default after 270 days. The Treasury Offset Program (seizing tax refunds and certain federal benefits) resumed in May. Wage garnishment through paychecks is anticipated later this summer.

The Trump administration has also announced that the administration of federal student loans will shift from the DOE to the Small Business Administration (SBA). However, the DOE's current role was established by the HEA, and shifting responsibility away would require Congress to authorize such a move.

What Changed in 2025

Prior to the pandemic, there was mounting concern about the emerging "student debt crisis" as illustrated in articles like What Will It Take to Solve the Student Loan Crisis?. Along with the pandemic came a protracted moratorium on federally guaranteed student loan debt, effectively lasting from mid-2020 until late last year. During this period, borrowers could forego any or all payments with no adverse consequences, aside from the debt continuing to accrue interest—though interest rates were low during this period. This forbearance temporarily relieved the financial burden and stress of these debt obligations for many borrowers. Since the start of this year, however, as lenders/servicers resumed reporting delinquencies to credit agencies, there have been some fairly widespread adverse effects.

Based on the latest Quarterly Report on Household Debt & Credit from the Federal Reserve Bank of NY, the (90-day) borrower[1] delinquency rate of those with student debt shot back up from near zero at the end of 2024 to nearly 14% at the end of March—close to pre-pandemic levels. Moreover, the New York Fed notes that *"…not all (defaulted) loans were marked*

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[1] The "borrower delinquency rate" represents the proportion of *borrowers* marked as delinquent, as opposed to an alternative measure which represents the proportion of total *balances* that are marked delinquent.

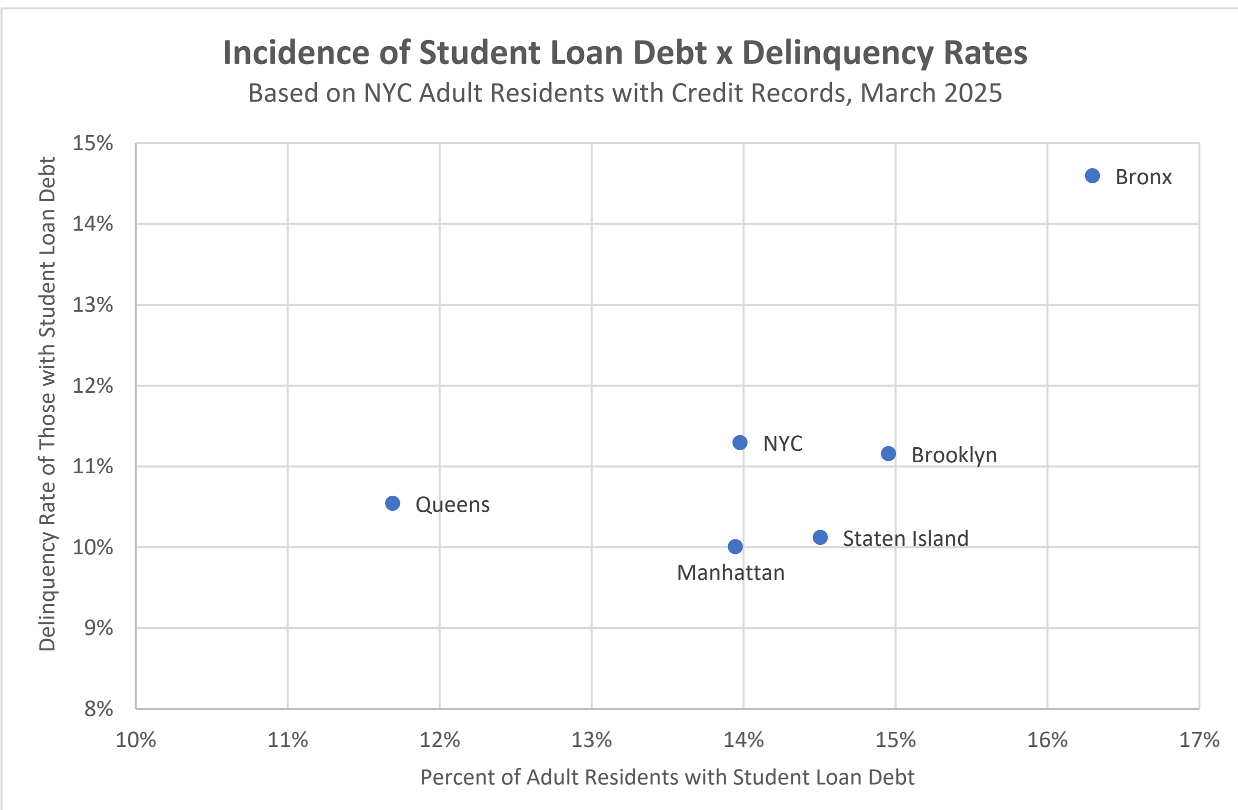
delinquent by the end of March". In other words, it is possible that a good deal more debtors were marked delinquent in April and May.

Interestingly, it is not just young people who are being affected. [A recent study](#) by the Federal Reserve Bank of NY finds that people in their 30s and 40s who still have loans for themselves or their children have seen particularly steep rises in delinquencies. This illustrates that pockets of even the older population with student loan debt are under financial stress.

How did New Yorkers Fare?

Across New York City, student loan delinquency rates also jumped, though not as sharply, using some data provided by the New York Fed using their Consumer Credit Panel data, which is based on anonymized Equifax credit records. For the city as a whole, of the 14% of adult residents[2] with at least some student loan debt, roughly 11% were marked delinquent, as shown in Chart 2 below. Delinquency rates were similar across four of the five boroughs, with the notable exception of the Bronx, where the borrower delinquency rate jumped to nearly 15%, only slightly below the nationwide average.

Chart 2

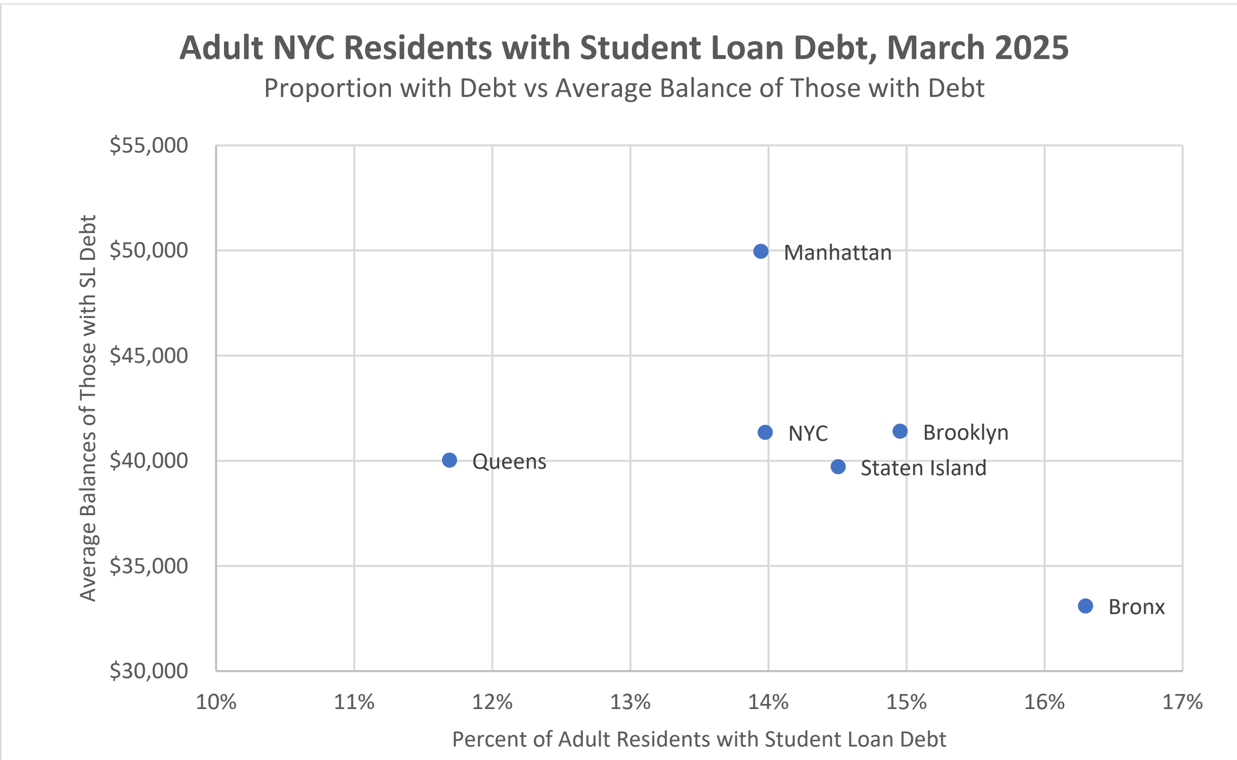


2 The term "adult residents" actually refers to adult residents *with a credit record*, which comprises the vast majority of adults.

Source: New York Fed Consumer Credit Panel/Equifax

While residents of the Bronx, the city's least affluent borough, certainly appear to be under the greatest financial stress, this is somewhat mitigated by the fact that this group tends to have somewhat lower outstanding balances, on average, than residents of the other boroughs, as shown in Chart 3 below.

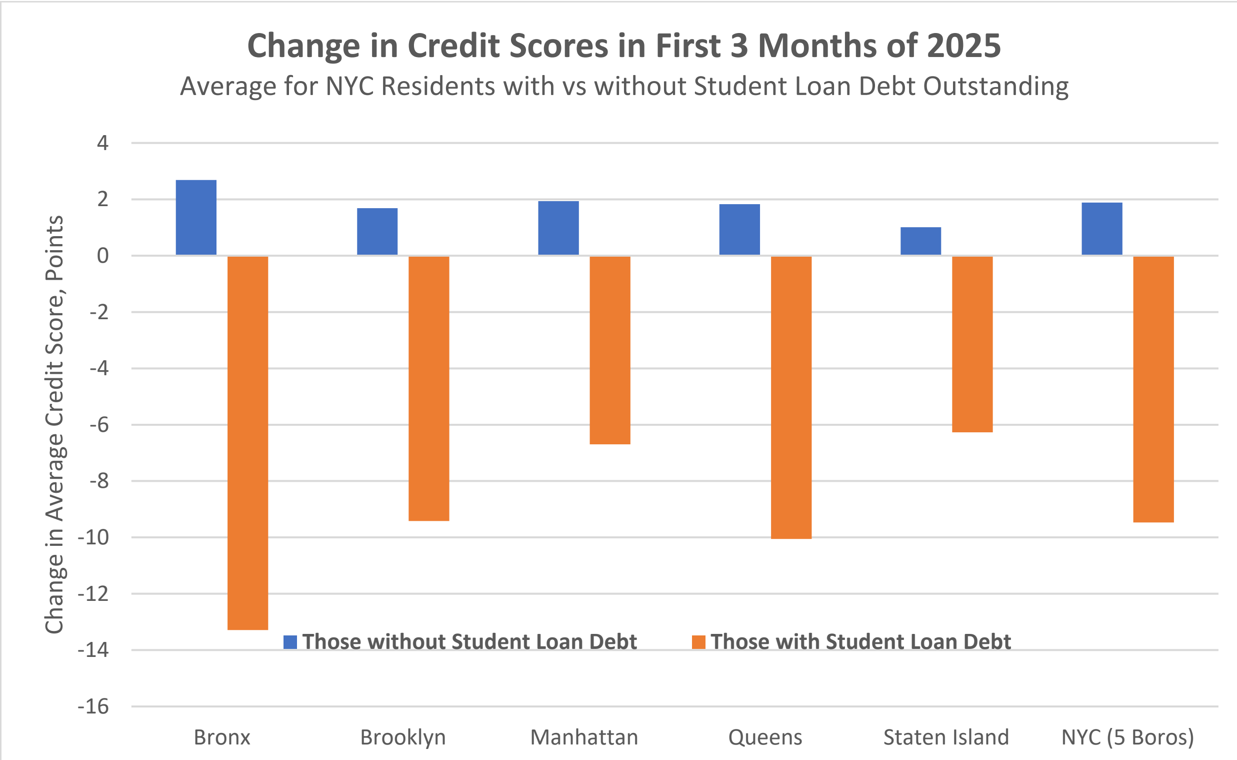
Chart 3



Source: New York Fed Consumer Credit Panel/Equifax

One way to gauge how much of an effect the end of forbearance has really had on student loan debtors is by looking at changes in credit scores. As shown in Chart 4 below, while average credit scores of NYC residents without student loan debt actually edged up, average scores of those with student debt fell, to varying degrees, across all five boroughs, with the steepest decline occurring in the Bronx.

Chart 4



Source: New York Fed Consumer Credit Panel/Equifax; Credit scores are Equifax Risk Score 3.0

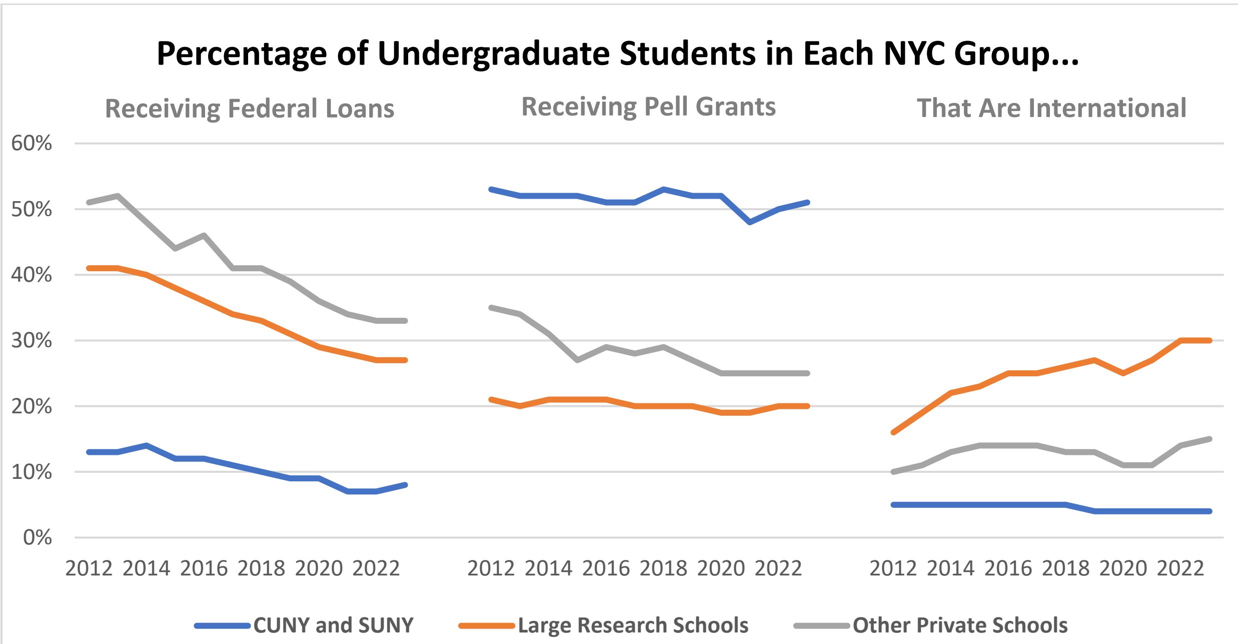
While many people in their 30s and 40s who are still paying off loans are struggling, recent graduates have their own struggles: the unemployment rate among recent college grads has risen disproportionately, and a recent survey of graduating college seniors (class of 2025) indicates that many have had a hard time finding jobs. More broadly, the monthly JOLTS report shows that, while the number of job openings picked up somewhat in April, it was still down about 3% from a year earlier.

Federal Policy Issues

How Federal Aid Helps NYC Undergraduates

Chart 5 below summarizes levels and trends in the prevalence of federal loans and Pell grants—as well as student body composition (international vs domestic)—among undergraduates across three categories of local universities: public (SUNY & CUNY), large private research universities (Columbia, NYU, and Fordham), and other private institutions. As shown in the left panel, students attending college in New York City have become somewhat less reliant on loans, both in the years leading up to the pandemic and in the years since. Despite this downward trend, a substantial 30% of undergraduates at private universities were still granted federal student loans in the 2023-24 year. The steady decline at large research universities is likely explained, at least in part, by a steadily increasing share of international students (as shown in the middle panel), as they are not eligible for federal loans. But the even steeper downward trend at other local universities is harder to explain. Federal loans are far less common among public (CUNY & SUNY) university undergrads—likely due to substantially lower tuition costs and much heavier reliance on grants. As shown in the right-most panel in Chart 5, roughly half of all CUNY and SUNY students rely on Pell Grants to finance their undergraduate education, compared with only 20-25% at private institutions.

Chart 5



Source: National Center for Education Statistics: Integrated Postsecondary Education Data System. Undergraduate student population only and includes both part-time and full-time students.

The federal government also provides significant funding to universities for research and those amounts have also increased over the same time period that loans have decreased at major research institutions and the number of international students have increased. NYC universities in total (including academic medical centers not shown above) received $3 billion in federal research funding in federal fiscal year 2023. For the categories shown above (though not only for undergraduate students), federal research funding for NYC's large research universities increased by 84% between 2012 and 2023 (from $969 million to $1.8 billion), primarily just for Columbia and NYU, 23% for public universities (from $134 million to $165 million), and decreased by 94% for other private universities (from $208 million to just $12 million).[3]

These trends imply that various aspects of the proposed legislation outlined below would impact NYC universities and their students differently.

3 Higher Education Research and Development (HERD) Survey, National Center for Science and Engineering Statistics.

Where are we headed?

The House Republicans passed the 2025 Budget Reconciliation Bill last month by one vote. If passed into law by the Senate, the federal financial aid system will undergo a major overhaul, eliminating subsidized student loans, capping loan disbursement amounts, and shifting some of the financial aid costs onto the institutions, potentially giving schools a greater financial stake in the system. In addition, the Bill proposes changes to Pell Grants and loan repayment programs. The Trump administration has also submitted its FY2026 Discretionary Budget to Congress with additional proposed changes to student financial aid and university funding more generally. In addition, since January the administration has already taken steps that impact the higher education landscape.

The House Reconciliation bill proposes the elimination of subsidized student loans, which do not accrue interest while students are in school and are specifically available for students with the greatest financial need. In addition, the bill proposes stricter borrowing caps, leaving students more dependent on private lenders to meet the high cost of education. Undergraduate students could receive up to $50,000 in loans altogether, compared to the current limit of $31,000 for dependent students and $57,000 for independent students. Graduate students could receive up to $100,000, and those in professional programs could receive up to $150,000 (compared to no current limit). Lastly, the bill would limit the amount that parents can borrow, which is currently uncapped. These changes are particularly concerning for medical students, as graduates in 2024 amassed an average of $264,000 in debt and would limit access to graduate and professional education for lower income students who are currently more reliant on loans to pay for advanced degrees.

Medical students and residents could also be impacted by the changes in the Public Service Loan Forgiveness (PSLF) program. Signed into law in 2007, the PSLF program supports students working for qualifying employers such as non-profits or the government. Student loans are forgiven after the borrower makes qualifying payments for 10 years, which includes residency years for medical students. The new bill however proposes to remove residency years from this 10-year payment period, potentially adding more years of payment for doctors that enter the public service field. Given that residency years last between 3-7 years depending on area of specialization, this new policy can have a severe financial impact on future residents and students.

Additionally, there would be changes to how loan amounts are calculated. The current methodology calculates need for students based on the median cost of the program they are attending at the institution. The reconciliation bill proposes to calculate the median amount based on the cost of similar programs at other institutions annually, resulting in different aid limits each year.

Student loan borrowers could still pay back loans through various payment plans, but these options would become more restrictive under the proposed legislation. The new bill would combine the multiple income driven repayment plans into a single plan called the Repayment Assistance Plan (RAP) for new borrowers. The RAP would have varying consequences on people with different income levels. While borrowers would make payments based off their annual income, the rate at which they pay would change as their income increases. Payments start at

$10 for those making below $10,000 a year and range from 1 - 10% of annual gross income for those making more than $10,000. RAP program would extend the maximum repayment period to 30 years from the current 10-25 year timeline before loan forgiveness kicks in. Lastly, the Reconciliation Bill proposes to eliminate Economic Hardship and Unemployment deferments, and limit the length of discretionary forbearances.

The Pell Grant, an important source of financial aid for students from low and middle-income households, would have stricter eligibility criteria. Part-time students – those enrolled in less than 15 credits of coursework – would no longer be eligible for the Pell grant, and the number of course hours required for the maximum grant would increase from 24 hours to 30 hours. As noted earlier, this would have a particularly widespread effect on students at public universities, half of whom rely on Pell grants. Students at CUNY would be greatly affected as nearly 67% were reported to be part-time students.

Colleges and universities would be held more accountable for the performance of their students. Through a risk sharing system, they would make payments to the federal government for a share of unpaid student loans, using this revenue to provide grants to institutions that serve low-income students and achieve better completion rates job outcomes for their students.

Through the college endowment tax, some colleges would pay progressively more in taxes based on their endowment asset per student ratio, which would also exclude international students from the formula. NYC institutions likely to be affected by this provision include The Juilliard School, Cooper Union, the Icahn School of Medicine at Mount Sinai, and Columbia University. Because the tax rate increases on a graduated scale as the ratio of endowment assets per student increases, colleges and universities with fewer students and larger endowments would pay more in taxes if the bill goes through. In 2024 48% of endowment spending was used to provide financial aid.

Trump's FY26 discretionary budget request also proposes major changes to the Federal financial aid system. It would reduce the maximum Pell grant amount to $ 5,710 from $7,395 (23%) and eliminate entirely the Supplemental Educational Opportunity Grant for students with exceptional financial need. The request recommends enactment of Workforce Pell which extends Pell grant eligibility to short-term training programs. Additionally, the Federal Work Study (FWS) program would be cut by $980 million (down to just $250 million in funding) and reduce the federal government's contribution to 25% (from its current share of 75%), forcing universities to take up a larger responsibility for student wages and/or limit the availability of these jobs.

The Trump budget request also calls for significant reductions to research funding, much of which flows to universities and academic medical centers, providing scholarship opportunities for many students. The request reduces National Institute of Health funding by 37% and National Science Foundation funding by 50%. The Administration has already announced cuts to specific universities as well as an overall cap on the indirect rate for research of 15% (traditionally over 50% for most university research grants), though this proposal is currently under litigation.

The Trump administration has also announced a variety of efforts that could restrict international students' ability to study at U.S. universities. The ban on nationals from 12 countries in Africa and the Middle East, extra scrutiny on visitors, and the temporary pause on student visa processing, are all contributing to make the U.S. an unattractive destination for education.

International students play a role in financially supporting U.S. institutions. Many schools that are need-blind for U.S. citizens are not so for internationals, whose admission decisions may be based on their ability to pay. Similarly, most international students pay higher tuition in state school as they are not eligible receive in-state tuition unless they meet residency requirements.

Taken together, all of these changes dramatically change the fiscal environment for both universities and new student borrowers. Increased financial requirements would be placed on universities (e.g., the risk-sharing and increased work study share) at the same time that students would have fewer research and endowment scholarship opportunities, lower Pell Grant amounts and caps on federal borrowing. These changes will likely push more students to borrow from private lenders to afford the continuing high cost of education. Private loans have higher interest rates on average and stricter lending criteria (with lower rates potentially being available for more affluent students compared to those with greater need). While the federal student loan burden could be reduced over time, the overall student loan burden could potentially increase.

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