



Zanetti Monday Missive 2023.10.02

Student Loan Payments To Resume In October

"May your college memories last as long as your student loan payments."

~ Favorite Toast Among Many College Students

Hello Everyone,

Remember what I've said about debt in earlier Monday Missives? If not, take note:

"Respect debt!"

~ Walt Benson

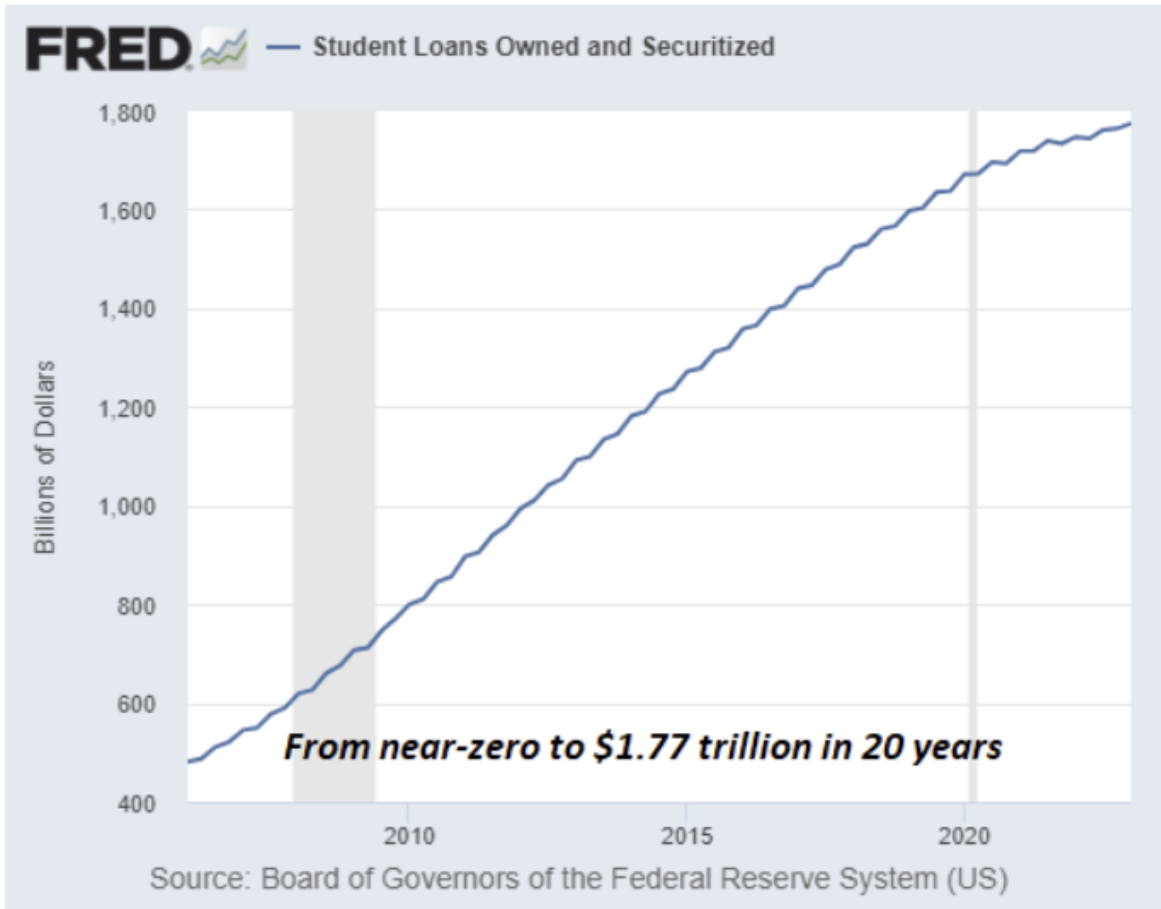
Debt like any other tool can be used for great good, but can also cause a lot of damage... and it looks like a lot of damage is about to unfurl.

Student loan payments in the U.S. have been on pause during the pandemic and since. Starting this month those payments are set to resume. The extended break, which lasted over 3 years, was unprecedented – and let's just say it was a very popular decision for folks who still owed on their student loans.

But how were those saved funds being used if not going to the student loan payments? Well, when the pause first started, they were probably being used to shore up a gap between earned income and personal expenses. But then as the stimmy checks started to be issued and employment numbers started to pick up, it looks like the funds were being spent – in the broader economy (as opposed to being saved for when the student loan payments would resume).

While some say this October presents an unexpected financial challenge, it shouldn't be completely unexpected. After years of not giving much thought to federal student loan payments, as many as 40 million Americans will now be grappling with the need to accommodate an average \$500 monthly loan payment in their budgets. To do so, sacrifices will need to be considered, including dining out less, skipping entertainment and trimming grocery expenses.

The impact of this transition on households and the economy is surrounded by uncertainty. Recently, the Biden administration has intensified efforts to address the mounting federal student loan debt. (Student Loan Debt has become the single largest asset of the Federal Government)



In the meantime, retailers and lenders are preparing for potential repercussions.

This return to student loan payments occurs during a period marked by severe economic volatility, featuring the highest interest rates in decades, widespread labor strikes, and the constant looming possibility of a government shutdown (one was just averted). As millions of Americans receive their first bills in this challenging environment, concerns about the broader economic impact emerge.

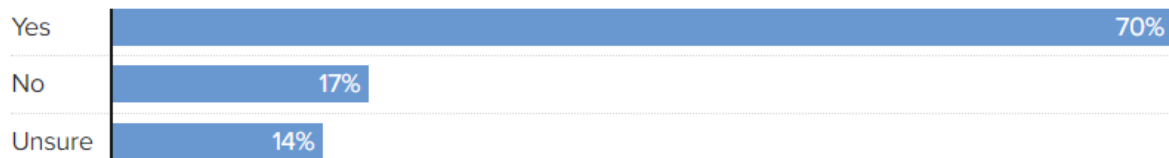
Economists are Worried

Mark Zandi, chief economist at Moody's Analytics, warns that the economy could face difficulties in the fourth quarter, partly due to the termination of the student loan payment moratorium. This situation presents an "additional pressure on already strained budgets," a predicament likely to affect

both individuals and the economy as a whole.

Financial services firm Jefferies cautions that the resumption of student loan payments could significantly impact consumer spending. In a recent survey of approximately 600 consumers with student debt, it found that half of borrowers are "very concerned" about meeting all their expenses. Around 70% of borrowers plan to delay major purchases starting in October, and many intend to reduce spending on clothing, travel, and food. Consequently, the forthcoming holiday season may see a decrease in retail spending, posing challenges for businesses.

Will delay big-ticket purchases due to student loan payments restarting



Source: Jefferies
Survey of approximately 630 U.S. consumers
Data as of September 2023

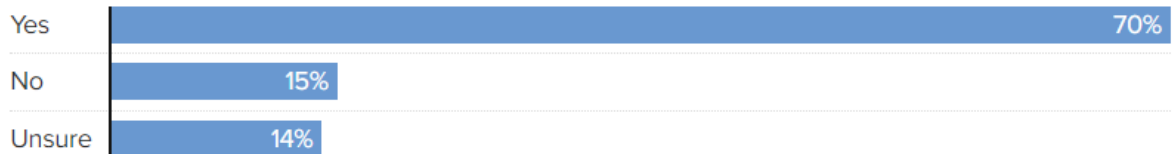


To facilitate the transition back to loan payments, the Biden administration had aimed to forgive up to \$20,000 in student debt for many borrowers. However, this policy was blocked by the Supreme Court in June. Scott Mushkin, founder and CEO of R5 Capital, estimates that beginning in October, approximately \$7 billion to \$8 billion per month will be redirected toward student loan payments. YIKES!

Challenge to Retailers

Retailers catering to educated consumers may be particularly vulnerable to the impact of increased student loan payments. Macy's CEO Jeff Gennette and Target's CFO Michael Fiddelke have both acknowledged the potential headwinds and additional pressure on household budgets resulting from the resumption of student loan repayments.

Will shop more often at discount retailers due to student loan payments restarting



Source: Jeffries
Survey of approximately 630 U.S. consumers
Data as of September 2023



Liz Pagel, senior vice president and head of TransUnion's consumer lending business, underscores that "the payment shocks will be significant" for both borrowers and lenders.

Many student loan borrowers have accumulated additional debt during the payment pause. (*Did they not hear me tell them to "RESPECT DEBT!"?*)

A recent study by a credit reporting company found that nearly a third of people with student debt took on a balance on a new retail credit card over the last three years, and around 15% took out a personal loan. These added credit obligations translate into extra monthly payments, potentially exacerbating financial challenges. While the typical student loan payment amounts to approximately \$350 per month, at least 10% of borrowers have payments exceeding \$700.

Deeper Debt During the Pandemic

The Consumer Financial Protection Bureau (CFPB) has identified a concerning trend among student loan borrowers. During the pandemic, more than half of borrowers accrued higher monthly debt-related expenses compared to the period before the pause on bills began in March 2020. Additionally, more than 1 in 13 borrowers are currently behind on their other payment obligations, raising the possibility that these individuals may struggle to meet both their student loan payments and other financial responsibilities.

So, with that said, expect to see a fall in stock market revenues. And with the increased interest rates they'll be paying on their bonds, expect to see compressed margins and falling stock prices.

Signed, Your If-The-Government-Had-Shut-Down-Would-They-Have-Stopped-Taking-Out-Taxes-From-Our-Paychecks?-Financial Advisor,

Walt

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