Second Chance: Life without Student Debt

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Abstract

We exploit an episode of plausibly-random debt discharge, due to the inability of National Collegiate to prove chain of title, to examine the effects of student debt relief on individual credit and labor market outcomes. We find that borrowers experiencing this debt relief shock reduce their indebtedness by 11%, and number of other delinquent accounts by 24%. After the discharge, we see increases in the borrowers' geographical mobility, probability of changing jobs, and ultimately their income, which increases by about $3000 over a three year period. Although we cannot quantify its costs, these findings speak to the benefits of loan forgiveness in reducing the consequences of debt overhang.