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How Student Loan Debt Relief Could Affect Small Businesses



by Kat Cox (<https://www.nav.com/blog/author/kcox/>) • December 2, 2022

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One of President Biden's biggest campaign promises was to forgive federal student loan debt — a pretty big promise to the 43 million Americans who currently owe the U.S. government over \$1.6 trillion for their higher education, according to the **Education Data Initiative** (<https://educationdata.org/student-loan-debt-statistics>). So when the Biden administration announced a **three-part plan** (<https://www.whitehouse.gov/briefing-room/statements-releases/2022/08/24/fact-sheet-president-biden-announces-student->

loan-relief-for-borrowers-who-need-it-most/) in August 2022 to forgive up to \$20,000 of federal student loan debt for federal borrowers who make less than \$125,000 a year (for single filers), it felt like he was making good on his promise of student debt relief.

But there are still many questions about how this debt forgiveness will affect the U.S. economy, especially small businesses and entrepreneurs, and whether Biden's plan goes far enough to help those who need debt relief the most.

How Could Student Loan Debt Relief Affect Businesses in the U.S.?

Although no one is certain how the White House student loan debt relief program will ultimately affect the U.S. economy, previous research on student loan debt can give us an idea of how some relief could have an impact, especially on small businesses.

Namely, student loan borrowers who are interested in entrepreneurship have been especially affected by student loan debt. According to research by the **Federal Reserve Bank of Philadelphia** (https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2633951), a rise in student loan debt in any county by as little as 8% means that the county will see 70 fewer new businesses — a 14% overall decrease per county nationwide. A similar study from **Gallup and Purdue University** (https://www.purdue.edu/newsroom/gallup/docs/GPI_overview.pdf) showed that 26% of graduates who didn't have student loan debt went on to start their own businesses, while only 16% of those who owed \$40,000 or more.

Another study from **Northeastern University and the University of South Florida** (https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2586378) showed that the mere presence of student debt makes small business owners less likely to want to invest in their existing companies, especially through small business loans or other financing. In fact, the researchers found that small business owners who went from no student loan debt to \$10,000 had a 42% decline in business income.

One more study from **Young Invincibles and Small Business Majority** (<https://smallbusinessmajority.org/press-release/scientific-opinion-poll-millennials-identify-student-debt-retirement-savings-barriers-entrepreneurship>) reported that almost 50% of millennial students who had student loan debt said their student loan payments kept them from starting a new business.

It's clear that the current state of student loan debt already has a negative impact on business formation and business growth in the U.S. But can debt cancellation from the federal government turn these effects around?

Who Will Benefit from Debt Relief?

In the simplest terms, the people who will benefit from debt relief will be the people who qualify, which includes:

- Individuals who made less than \$125,000 in 2021 or 2020 and had federal student loans
- Families that made less than \$250,000 in 2021 or 2020 and had federal student loans

But just who are these beneficiaries expected to be?

According to data from the **U.S. Department of Education** (<https://www.whitehouse.gov/briefing-room/statements-releases/2022/09/20/fact-sheet-the-biden-harris-administrations-plan-for-student-debt-relief-could-benefit-tens-of-millions-of-borrowers-in-all-fifty-states/>), over 40 million borrowers will be eligible for student loan forgiveness through the Biden administration's plan, and nearly 20 million borrowers could get complete relief from their remaining debt balance.

Because the debt relief is aimed at single earners who made less than \$125,000 a year in 2020 or 2021, most of the relief will go to middle class households, with over 90% going to homes that earn less than \$75,000 per year. Many of those borrowers who are eligible for relief are also part of groups who have historically had poor economic outcomes due to the racial wealth gap, including 71% of Black undergraduate borrowers and 65% of Latino undergraduate borrowers who received Pell Grants from the Federal Government.

While there's no way to know if most of those who'll benefit from student loan forgiveness will decide to create a startup or other new business, the mere fact that so many Americans will have more money in their pockets is likely to increase spending across the country, which will in turn be good for small businesses. The plan is also meant to help Americans further recover from the economic effects of the pandemic, which had a major impact on

the economy, according to the **U.S. Census Bureau** (<https://www.census.gov/library/publications/2022/econ/coronavirus-pandemics-economic-impact.html>).

Criticisms and Challenges to the Student Loan Forgiveness Plan

There are many criticisms (<https://time.com/6208871/biden-student-loans-criticism-fact-check/>) of the Biden student loan debt relief program, including those who believe that the Biden plan does not go far enough to address the real problems of student loan debt in the U.S., or does not help enough borrowers. Changes to Biden's initial plan meant that over 700,000 borrowers (<https://www.cnn.com/2022/10/21/politics/biden-student-loan-forgiveness-ffcl-borrowers/index.html>) who were initially eligible for debt relief were suddenly disqualified, especially borrowers whose loans are guaranteed by the federal government but held by private lenders.

Challenges to the plan are also making it difficult to implement. A federal appeals court temporarily blocked (<https://www.npr.org/2022/10/22/1130735004/student-loan-debt-relief-blocked-biden-court>) the relief plan in October due to a lawsuit brought by six states arguing that the relief program would harm state-based loan companies that manage federal loans. As of December 2022, the question has gone all the way to the **Supreme Court** (<https://apnews.com/article/supreme-court-student-loan-cancellation-79f7530363c7f15166d8c9cda3a6cddb>), which will decide whether the Biden administration can cancel student loans by summer of 2023.

Many Republicans are also claiming that student debt relief could increase **inflation** (<https://www.nav.com/blog/beat-the-inflation-blues-2022-1461647/>), a problem that is already affecting small business owners. While no one can truly predict whether or not debt relief will further increase inflation, some experts agree that it could make education more expensive than before.

What Can Businesses Do to Prepare?

Whether or not you're eligible for student loan forgiveness, there are some things you can do as a small business owner to prepare for the program.

The first step is to apply for student loan debt relief, even though the program is temporarily blocked. You can do so by visiting the **Department of Education's online form** (<https://studentaid.gov/debt-relief/application>). Note that this is the only place you can

apply for the relief program. There are hundreds of scam emails and texts telling borrowers to apply for relief through other sites. Only fill out the federal government's form or you could find you've had your identity or money stolen.

The next step is to keep managing your student loan debt, even if you do get some relief from the program. Even if your loan balances will be completely discharged by the program, there could be some paperwork issues or other problems that can delay the payments.

Learn more about **what you need to know about student loans**

(<https://www.nav.com/blog/student-loans-what-small-business-owners-need-to-know-1526811/>) and ways to manage through the debt relief program and beyond.

You can also concentrate on building your business, whether or not you have student loan debt. One good place to start is by working on your business and personal credit to help you get access to business financing as you need it. Learn **how to establish business credit** (<https://www.nav.com/resource/how-to-establish-business-credit/>) and find out more about all of your options with Nav (<https://app.nav.com>).

Where Small Businesses Can Access Immediate Working Capital

Even if you do have student loan debt, you can still access funding to **start a new business** (<https://www.nav.com/blog/how-to-start-a-business-with-student-loan-debt-29001/>) or ensure your business succeeds. Nav can help you find the right **small business loans** (<https://www.nav.com/small-business-loans/>) or **business credit cards** (<https://www.nav.com/business-credit-cards/>) that your business needs to thrive. Using data about your business — including business and personal credit scores, cash flow, and other info — we show you the options you're most likely to qualify for immediately. **Sign up** (<https://app.nav.com/registration>) for Nav and start seeing your options today.

FAQs on Student Loan Relief and Small Business Impact

Who qualifies for the student loan forgiveness program? 

Does Biden's student loan forgiveness increase inflation? 

Can my small business pay for my student loans?



Can I get student loan forgiveness if I work for a for-profit company?



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As a digital marketing writer for Nav, Kat Cox works to provide answers to the questions small business owners have about how to set up, run, or fund their businesses. When she's not writing blogs, articles, short fiction, or (kind of bad) French poetry, Kat can be found lacing up her tennis shoes for a run or walk with her pup or scouting for the best karaoke spot in Austin, Texas.

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