

# Student Debt Forgiveness

BY MICHAEL STRATFORD AND ANNETTE CHOI | 09/21/2022 05:00:00 AM EDT

## PRO POINTS

- **The Biden administration plans to provide one-time debt relief worth billions of dollars to tens of millions of federal student loan borrowers in the coming months.**
- **Starting this fall, the Education Department will begin accepting student loan forgiveness applications from borrowers who earn under \$125,000 individually or \$250,000 as a family. The administration says it expects to process that debt relief within four to six weeks.**
- **The Education Department also extended through the end of 2022 the pandemic-related freeze on monthly student loan payments and interest for most federal borrowers. The White House said borrowers should expect to resume payments in 2023.**
- **The Biden administration is also working on a new, more generous income-driven repayment program that's set to take effect next summer. It would permanently lower monthly payments for existing borrowers with remaining student debt and new borrowers in the future.**

## HOW WE GOT HERE

After more than a year of pressure from progressive Democrats, President Joe Biden in August agreed to take executive action to forgive large swaths of the \$1.6 trillion of outstanding federal student loan debt. Biden's plan does not go as far as some Democrats were seeking (as high as \$50,000 per borrower), but he surprised some by going beyond the \$10,000 of relief he endorsed on the campaign trail.

Biden's plan calls for canceling up to \$20,000 of student debt for borrowers who also received a Pell Grant to pay for education and up to \$10,000 for most other borrowers. The relief is limited to borrowers who earn less than \$125,000 a year or families earning less than \$250,000. The White House says that some 43 million Americans will be eligible for some amount of relief, including about 20 million who will qualify to have their entire remaining balances erased.

Biden also committed to finalizing his administration's plans — which were already in progress — to create a new, more generous income-driven repayment option for federal student loan borrowers with undergraduate debt. Under the new plan, monthly payments will be capped at five percent of a borrower's discretionary income (down from

the current 10 percent). And if borrowers' monthly payments do not cover interest, the unpaid interest would be forgiven each month to prevent balances from growing.

Many Democrats praised the White House's plan, though some more moderate lawmakers, especially those in tight reelection races, have distanced themselves from the policy. Republican reaction was swift in opposition, and GOP lawmakers have said they plan to fight Biden's loan forgiveness program.

## How the Ed Department plans to apply loan forgiveness

Order of forgiveness for borrowers with multiple loans

Relief is applied in the following order of programs:

1 Defaulted Education Department-held loans



2 Defaulted commercial Federal Family Education Loans (FFEL)



3 Non-defaulted Direct loans and ED-held FFEL loans



4 ED-held Perkins loans

Source: Department of Education

For borrowers with multiple loans in a program, relief is applied based on the following criteria:

a Loans with highest interest rate

*If interest rates are the same:*

b Unsubsidized loans before subsidized loans

*If interest rates and subsidy statuses are the same:*

c Most recent loan

*If interest rates, subsidy statuses and disbursement dates are the same:*

d Loan with lowest combined principal and interest balance

### WHAT'S NEXT

The Education Department faces the major challenge of carrying out a debt relief program that is unprecedented in size and scope.

Most borrowers will have to self-certify that their income qualifies them for the relief plan. But the Education Department estimates it will be able to automatically provide relief to about 8 million borrowers who recently provided the agency with their income information when they applied for aid or enrolled in an income-driven loan repayment plan.

The Education Department has announced which types of federal student loans are eligible and the order in which the agency plans to apply relief to borrowers. The agency has also said that only loans disbursed before July 1 will count for the program.

But the hard work will be in the coming weeks when the agency needs to quickly stand up a system to accept and process applications for the loan relief. The Biden administration has promised that an application will be available in early October and that borrowers who apply by Nov. 15 will

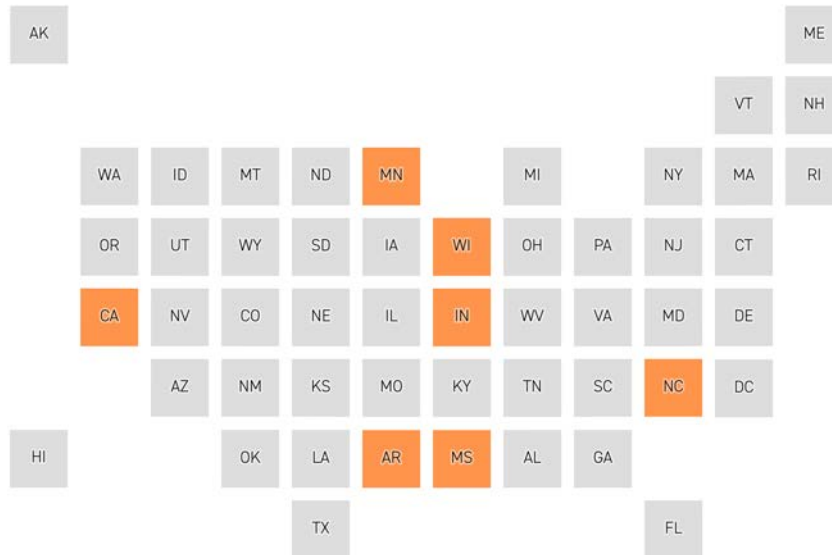
have their debts canceled before student loan payments are set to resume in January. Still, the department plans to accept loan forgiveness applications through the end of 2023.

Looming above the entire program, however, is the prospect of a legal challenge that could block key parts of the program. The Biden administration says it has the authority to cancel student loan debt using emergency powers that stem from the Covid pandemic. But GOP officials and conservative groups are examining their options to bring a lawsuit challenging the policy.

In addition, several states will also have to address whether borrowers face state income tax consequences from the student loan relief. The debt relief will be exempt from taxation at the federal level and in most states. But several states have said their current laws would impose a tax on borrowers receiving the relief. Democrats in those states, including California and North Carolina, have called for changes to state law to prevent that from happening.

### In 7 states, student debt relief could be treated as taxable income

Where state laws may lead to tax on student loan cancellations



Source: Tax Foundation, POLITICO reporting, as of Sept. 16



## POWER PLAYERS

- **Richard Cordray:** The first director of the Consumer Financial Protection Bureau, Cordray now serves as head of the Education Department's student aid office and will oversee implementation of President Joe Biden's sweeping loan forgiveness plan.
- **James Kvaal:** Kvaal, the top Education Department official overseeing higher education policy and Obama administration alum, will spearhead writing new rules for the new income-driven repayment plan.
- **Sen. Elizabeth Warren (D-Mass.):** The Massachusetts Democrat as well as other progressive lawmakers are watching closely how the loan servicers and Education Department implement the program. They want to see the agency automate as much loan forgiveness as possible and go further in providing more relief in some cases.