

Student Loan Update



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Student Loan Payment Pause

- President Trump announced a suspension of repayment on federal education loans on March 13, 2020
- Enacted by the CARES Act (P.L. 116-136) on March 27, 2020
- Eligible loans limited to federal education loans held *by or on behalf of* the U.S. Department of Education
- Interest is waived during the payment pause
- Collection activities on defaulted loans also suspended
- Paused payments count toward Public Service Loan Forgiveness (PSLF) and Income-Driven Repayment (IDR) forgiveness
- CARES Act pause expired after 6 months
- Extended a total of 8 times (2 by President Trump and 6 by President Biden)

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President's Student Loan Forgiveness Plan

- President Biden announced debt relief on August 24, 2022
- \$10,000 in federal student loan forgiveness (\$20,000 for borrowers who previously received a Federal Pell Grant)
- Eligible borrowers can earn up to \$125,000 or less per year (\$250,000 if married)
- Available to borrowers in the Federal Direct Loan program
 - Includes borrowers who applied for a Federal Direct Consolidation Loan prior to 9/29/2022
- Total of about 37 million *eligible* borrowers
 - 26.3 million applications *received* by November 2022
 - 16.5 million applications *approved*
- Average of \$37,600 in federal education debt per borrower as of Q4 of FY2022

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Impact of President's Plan

- A third of borrowers will have their federal student loans completely erased
- \$10,000 in forgiveness reduces monthly student loan payments by up to \$100 a month
- Forgiveness will not reduce monthly payments for most borrowers in income-driven repayment plans (IDR)
- New version of REPAYE income-driven repayment plan will reduce monthly payments on undergraduate debt in half

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Legal Justification and Challenges

- Biden Administration argues that the Heroes Act of 2003 (P.L. 108-76) provides waiver and modification authority sufficient to implement the President's plan
- Six lawsuits filed against the President's student loan forgiveness plan and most were dismissed for lack of legal standing
- Two remaining lawsuits heard by the U.S. Supreme Court on February 28, 2023, expected to issue opinion by end of June 2023
- Key issues include
 - Legal standing of plaintiffs
 - Only Congress has the "Power of the Purse"
 - Major Questions Doctrine
 - Requirements of Heroes Act of 2003

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Restart of Repayment

- Repayment will restart 60 days after the earlier of
 - Court cases are resolved, or
 - June 30, 2023
- Repayment will restart by September 2023
- SoFi and the Mackinac Center for Public Policy filed lawsuits that seek to block further extensions
- Borrowers will receive six notices of the restart of repayment

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Fresh Start Initiative

- The Fresh Start Initiative will return 7.5 million defaulted borrowers to a current status when repayment restarts
- These borrowers will regain eligibility for Title IV federal student financial aid, including the Federal Pell Grant, Federal Work-Study and federal student loans
- Borrowers must choose a repayment plan and make payments within one year, or the loans will return to a default status
- The default will be removed from credit reports
- The default will be removed from the federal Credit Alert Verification Reporting System (CALVRS), enabling borrowers to qualify for mortgages
- Involuntary collection efforts will be suspended

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The New REPAYE Plan

- Pending regulations will amend the REPAYE plan instead of creating a new income-driven repayment plan
- The new regulations will phase out enrollment in existing income-driven repayment plans, such as PAYE and ICR
- The new REPAYE plan is focused on making student loan payments more affordable, cutting some payments in half
- Percentage of discretionary income will drop from 10% to 5% for undergraduate debt
- Definition of discretionary income will subtract 225% of the poverty line from adjusted gross income (AGI) instead of 150%
- The repayment period will be 20 years (240 payments) for undergraduate debt and 25 years (300 payments) for graduate debt, but as low as 10 years for borrowers who start with less debt
- Accrued but unpaid interest will be forgiven

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Income-Driven Repayment (IDR) Plans

Repayment Plan	% of Discretionary Income	Discretionary Income	Forgiveness	Payment Cap
ICR	20%	(AGI - 100% PL)	25 years	No
IBR	15%	(AGI - 150% PL)	25 years	Yes
PAYE	10%	(AGI - 150% PL)	20 years	Yes
REPAYE	10%	(AGI - 150% PL)	20/25 years	No
New REPAYE	5% (U) 10% (G)	(AGI - 225% PL)	10-20-25 years	Yes

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Other Forgiveness

- President Biden has already forgiven more loans than any previous president through existing loan forgiveness and discharge
- Borrower Defense to Repayment
 - Sweet Settlement
- Closed School Discharge (automated)
- Public Service Loan Forgiveness (PSLF)
 - Limited PSLF Waiver
- Total and Permanent Disability Discharge (automated)
- IDR Account Adjustment (deferrals and forbearances)
- Paused payments during the pandemic count toward PSLF and income-driven repayment forgiveness
- New policy on when the federal government will and will not oppose a discharge petition for federal student loans

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Interest Capitalization

- Interest capitalization, which charges interest on interest, has been eliminated except where required by law
- Interest capitalization will no longer occur
 - The first time a borrower enters repayment
 - When a borrower exits forbearance
 - When a borrower leaves the Pay As You Earn (PAYE) and Revised Pay As You Earn (REPAYE) Repayment Plans
 - When a borrower is negatively amortized under Income-Contingent Repayment (ICR) or an alternative repayment plan
 - When a borrower enters default

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Advice for Borrowers

- Current borrowers should prepare for the restart of repayment
 - Update contact information with loan servicer and on studentaid.gov
 - Sign up for auto-pay
 - Create a descriptive budget that tracks spending for a month
- New borrowers should limit student loan debt
 - Focus on free money first
 - Borrow only what you need, not as much as you can
 - Aim to graduate with total student loan debt less than annual income
 - Live like a student while you're in school, so you don't have to live like a student after you graduate
 - Choose a cheaper college: Compare college costs based on the net price
 - Borrow federal first, as federal student loans are cheaper, more available and have better repayment terms
 - If you need to borrow from the Federal Parent PLUS loan or private student loans, you are probably borrowing too much

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Student Loan Interest Deduction

- Borrowers can deduct up to \$2,500 in interest on qualified education loans on their federal income tax returns
- This is an above-the-line exclusion from income, so you don't need to itemize to claim the student loan interest deduction
- Qualified loans include all federal and most private student loans

2023 Income Phaseouts Filing Status	Student Loan Interest Deduction
Single	\$75,000 to \$90,000
Married Filing Jointly	\$155,000 to \$185,000

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Thank You

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