

Student Loan Debt Forgiveness

Hot Topic

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Types of Federal Student Aid

Aid comes in two forms: grants and loans. Grants are like gifts, they do not need to be repaid. Loans must be paid back in full over time, plus an additional amount in interest.

There are two common types of federal student loans: Direct Loans and Federal Family Education Loans (FFELs). Direct Loans are loans issued directly by the U.S. Department of Education (ED) using funds from the Federal Reserve. FFELs are loans issued by private lenders and backed by the ED.

Debt Forgiveness

There are several types of debt forgiveness. Most of these programs were created during the COVID-19 pandemic to lessen financial struggles during an already stressful time.

Public Service Loan Forgiveness

This program was not created in response to COVID-19. It was established in 2007.

Public Service Loan Forgiveness (PSLF) is a federal loan forgiveness program established as part of the College Cost Reduction and Access Act of 2007. Under PSLF, eligible borrowers who work full-time for nonprofit organizations or federal, state, local or tribal governments can get loan forgiveness after making 120 qualifying monthly payments.

– Forbes¹

This means after making payments for 10 years, any outstanding loan balance will be forgiven for qualifying borrowers. This is a pre-existing program and is not a part of the Biden Administration's new plan.

¹ <https://www.forbes.com/advisor/student-loans/public-service-loan-forgiveness-program/>

Payment Pause

A payment pause is currently in effect, meaning borrowers do not have to make any payments on their loans. No additional interest is incurred either. If your loans are eligible, we automatically paused your loan payments and set your interest rate to 0% starting March 13, 2020. This payment pause, also known as the administrative forbearance, will end Dec. 31, 2022.

– U.S. Department of Education²

Payments will resume on January 1, 2023.

One-Time Relief

The U.S. Department of Education will provide up to \$20,000 in debt relief to Pell Grant recipients with loans held by the Department of Education and up to \$10,000 in debt relief to non-Pell Grant recipients. Borrowers are eligible for this relief if their individual income is less than \$125,000 or \$250,000 for households.

– U.S. Department of Education³

Applications for this one-time relief are expected to open in October 2022 and are open through December 31, 2023. Qualifying recipients of at least one Pell Grant will automatically have \$20,000 forgiven. Those who did not receive a Pell Grant during college will have \$10,000 forgiven.

FFEL program loans which are not held by the U.S. Department of Education are not eligible for relief, as they're issued by private lenders and not the U.S. government.

Borrowers who voluntarily made payments during the payment pause will have their outstanding debt forgiven, as well as any payments that brought their balance below the maximum amount they qualify for. For example, someone with \$12,000 of debt paid off \$3,000 during the pause, bringing their balance to \$9,000. The remaining \$9,000 will be forgiven and \$1,000 of their payments will be refunded.

² <https://studentaid.gov/announcements-events/covid-19/payment-pause-zero-interest>

³ <https://studentaid.gov/debt-relief-announcement/>

Legal Justification

According to Business Insider author Ayelet Sheffey,⁴ “*The White House has maintained it has the authority to enact this one-time broad relief under the HEROES Act of 2003, which gives the Education Secretary the authority to modify or waive student-loan balances in connection with a national emergency, like COVID-19.*”

Current Debt Levels

As of June 2022, the total amount of federal student loan debt is \$1,745,369,310 (\$1.7 trillion).⁵ 26% of borrowers have less than \$10,000 in student loan debt. 47% of borrowers have less than \$20,000 of debt.⁶ This means that around 25-50% of all borrowers would be completely free of their student loan debt under Biden’s loan forgiveness plan.

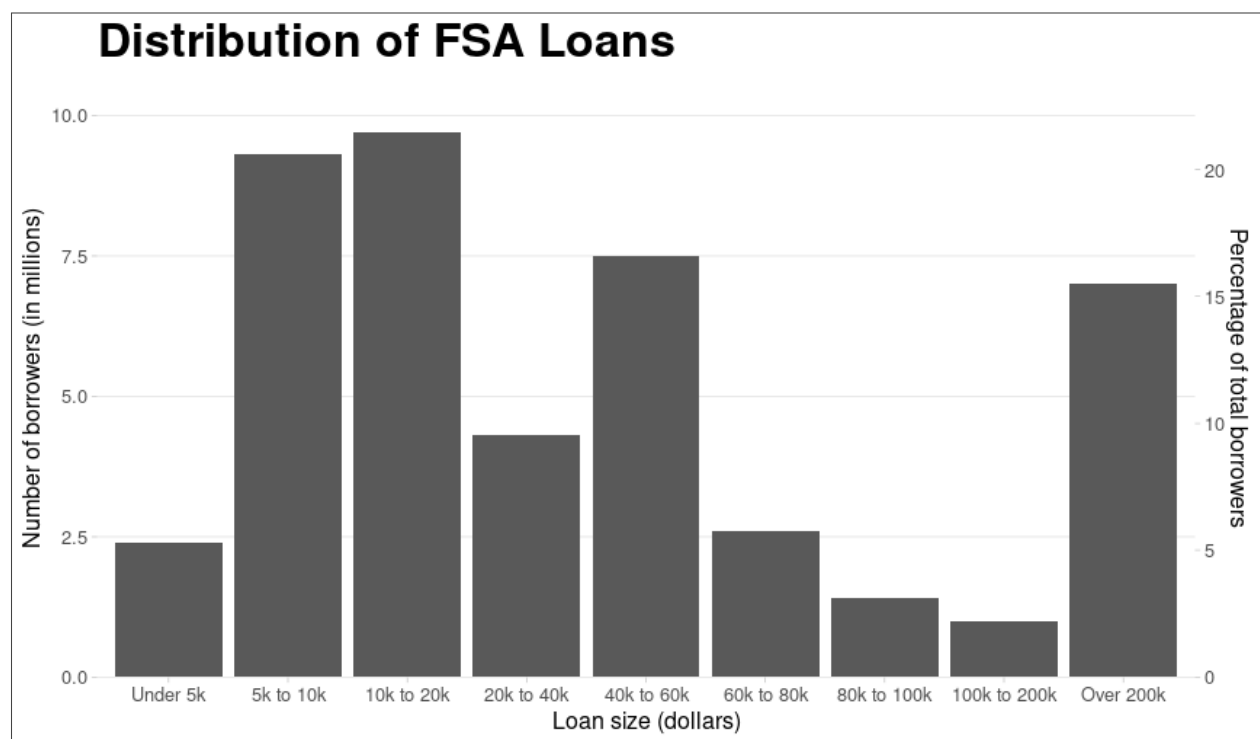


Figure 1: Distribution of federal student loans by loan amount.

⁴ <https://www.msn.com/en-us/money/careersandeducation/bidens-student-loan-forgiveness-could-be-delayed-next-week-as-lawsuits-continue-to-mount-heres-where-the-cases-stand/ar-AA12Ldf1#image=AA12KXdV|4>

⁵ <https://www.federalreserve.gov/datadownload/Download.aspx?rel=g19&series=49035952ad4d97a13e2eef63bb7e342c&filetype=csv&label=include&layout=seriescolumn&from=01/01/2020&to=12/31/2022>

⁶ <https://studentaid.gov/sites/default/files/fsawg/datacenter/library/Portfolio-by-Debt-Size.xls>

The typical undergraduate student with loans now graduates with nearly \$25,000 in debt.

Opposition to Biden's Plan

The Biden Administration's plan is not seen as a good thing by everyone.

Legal Arguments

Many conservatives claim the plan is “unfair, costly, and illegal.” Their argument is that all taxpayers will have to shoulder the cost, but the benefits are only accessible to a select group. Four lawsuits have been filed against the Biden Administration's plan. One of them has already been struck down by the suit's judge.⁷

On Monday, Oct 10, another lawsuit was filed against the debt relief program, arguing that the Biden Administration violated federal procedure by failing to seek public input on the plan. Their position is that the Administration is seeking to pass the program before midterm elections in November.⁸

Economic Arguments

One argument for the plan is that it will provide an economic stimulus during a recession. If people have less debt, their monthly payments will be lower, allowing them to spend the money that they would've been spending to pay off loans.

However, this is not a valid argument, as there is already a payment pause in effect through the end of 2022, meaning debt forgiveness would provide no immediate economic stimulus.

The relief plan may actually worsen the recession, as releasing hundreds of billions of dollars into the economy will cause inflation, as people now have more expendable income to spend on the same amount of products.

Another economic argument against the plan is that it will result in a loss of revenue for states and for private student loan companies like MOHELA. MOHELA services FFEL loans, which are not eligible for debt relief unless they're consolidated into the

⁷ See footnote 4.

⁸ <https://www.pbs.org/newshour/education/new-lawsUIT-from-small-business-group-seeks-to-block-biden-student-debt-relief-plan>

Direct Loan program. This encouragement to consolidate will result in a loss of revenue for companies like MOHELA.⁹

Moral Arguments

Some argue that forgiving debt creates certain incentives which are overall harmful. Even though some debt may be forgiven now, new loans are still being issued. Student debt levels will continue to rise and will reach their current levels in just a few years. If another cancellation happens in the future, there is an incentive to borrow more money with the expectation that at least some of it will be forgiven. This incentivises colleges to raise tuition even higher and students to borrow more money.¹⁰

More Resources

YouTube Videos:

- [How Biden's student loan forgiveness program will work](#)
- [Explained: How to Prepare for Student Loan Debt Forgiveness](#)
- [Explaining Biden's student loan forgiveness policy](#) (possibly good for inclusion in slideshow)

Controversy Summary

Pro Arguments

- Helps resolve student debts
- Stimulates economy during the current recession

Con Arguments

- Unfair distribution of money
- Unfair to those who already paid their student loans (before payment pause)
- Places burden on taxpayers
- Creates precedent for student loan debt cancellation in the future

⁹ See footnote 4.

¹⁰ <https://www.forbes.com/sites/prestoncooper2/2020/11/17/the-case-against-student-loan-forgiveness/>

- Adds to the government's debt, likely increasing inflation
- Plan is rushed and secretive, as if trying to rally support before midterm elections

Burning Questions

- Is student debt cancellation fair to those who have already paid off their student loans?
- Will the relief program help or hurt the economy?
- Is the Biden Administration's plan the best way to handle the current student debt crisis?
 - Follow up: Is this the problem Biden should be focusing on now?
- How does the debt relief plan affect the cost of college moving forwards? Is it fair to those who don't take out loans?
 - Follow up: Does this encourage or discourage the payment of loans, and is it a good thing?

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