CED POLICY BRIEF
Background: Update on Student Loan Forgiveness
December 2, 2022

The President recently announced an extension of the COVID pause in student debt relief payments, as the Administration’s student debt relief program remains in limbo as a result of challenges in the courts. Following is a brief backgrounder on the Administration’s debt relief initiative.

- About 92% of all outstanding student loans is federal debt. The federal student loan portfolio currently totals more than $1.6 trillion, owed by about 43 million borrowers.

- Tuition at two-year and four-year post-secondary institutions has been outpacing inflation for decades, making college affordability a major political and economic issue. Out-of-state tuition and fees at public National Universities rose 141 percent from July 2002 to July 2022, and in-state tuition and fees rose 175 percent. By contrast, total consumer price index inflation increased just 65 percent over the same period.

- On August 24, the Biden-Harris Administration announced a sweeping plan to cancel up to $20,000 of student debt for Pell Grant recipients with loans held by the Department of Education (ED) and up to $10,000 in debt cancellation for non-Pell Grant recipients. The targeted debt relief is only the first provision of the administration’s plan. The less publicized part of Biden’s plan is his proposed new income-driven repayment (IDR) plan that would radically restructure the student financial aid program.

- The plan was roundly criticized from both sides of the political aisle mainly for either being too limited in its relief or adding too much to the deficit and being an overextension of executive authority. But the shared bottom line: The plan does nothing to address the financial aid system to the unsustainable high cost of a college education and its rapidly accelerating increase. It is a one-time only debt relief.

- The Administration estimates that if all borrowers claim the relief to which they are entitled under the plan, most of the 43 million borrowers will experience some relief, including cancelling the full remaining balance for approximately 20 million borrowers. To date, about 26 million had already applied for the debt relief program.

- According to an estimate by the Congressional Budget Office (CBO), the Administration’s plan to cancel up to $20,000 of student debt for federal aid borrowers is expected to cost approximately $400 billion. The estimate is for a period of 30 years and will add to the national debt.

- According to estimates from the Wharton School the new income-driven repayment (IDR) proposal alone plausibly will cost as much as $450 billion alone, raising total plan costs to over $1 trillion.
• The implementation of the plan is on pause, being held up in lower court. To address that delay, on November 22, 2022, the Biden Administration extended the student loan repayment pause into 2023 and stopped accepting student debt forgiveness applications. The Administration has also asked the Supreme Court to intervene by overturning a lower court stay of the program and to allow the program to go forward while it is being argued in courts across the country.

The Plan

On August 24, the Biden-Harris Administration announced a sweeping plan to cancel up to $20,000 of student debt for Pell Grant recipients with loans held by the Department of Education (ED) and up to $10,000 in debt cancellation for non-Pell Grant recipients. To qualify for debt relief, incomes of borrowers must be less than $125,000 ($250,000 for married couples). The Administration estimates that if all borrowers claim the relief to which they are entitled under the plan, most of the 43 million borrowers will experience some relief, including cancelling the full remaining balance for approximately 20 million borrowers.

The Administration’s Fact Sheet notes that Pell Grant recipients make up over 60 percent of the borrower population, and virtually every recipient of a Pell Grant came from a family earning less than $60,000 a year at the time of grant. The Pell Grant program is one of the nation’s most effective financial aid programs, but its value has eroded over time. What once covered approximately 80 percent of a low- and middle-income individual’s four-year public college education now covers only one-third. The Department of Education estimates that roughly 27 million borrowers will be eligible to receive relief under the Pell Grant portion of the plan.

The Administration promised a debt forgiveness application that would be “short and simple,” asking only an individual’s name, contact information, and social security number. Assuming the plan ultimately goes through, millions of borrowers who have up-to-date income information on file with ED will see their debt canceled with no need for further application.

The targeted debt relief is only the first provision of the Administration’s plan. The less publicized part of Biden’s plan is his proposed new income-driven repayment (IDR) plan that would fundamentally restructure the student financial aid program. The IDR plan would reduce future monthly payments for lower- and middle-income borrowers. IDR plans allows borrowers to repay their loans in proportion to their income and offering loan forgiveness after a set number of years. The new plan would cap monthly payments at 5 percent of discretionary income, down from 10 percent, and would forgive unpaid monthly interest so the total owed could not rise above the starting balance as long as they make monthly payments. It would increase the threshold of what is to be considered non-discretionary, guaranteeing that anyone earning below the annual equivalent of a $15 minimum wage would not have to make a monthly payment.

Additionally, select borrowers would receive forgiveness after 10 years of payment, down from 20 years. As with all IDR plans, the generosity of the program increases with the amount borrowed, thus providing little incentive for colleges to reduce tuition fees as borrowers can rest assured knowing they will be left
with manageable loan payments in relation to their income upon graduation. Research by the Urban Institute suggests that the new plan would substantially reduce the amount borrowers pay back and increase instances of loan forgiveness.

The increased prevalence of borrowers making reduced payments represents a radical change in student lending. The Congressional Budget Office (CBO) has expected the average federal borrower to repay more than $1 for each $1 they borrowed (due to charged interest on the loans), which will likely no longer be the case as the uptick in IDR programs increases and the cost of college continues to rise. While there are huge uncertainties about how many borrowers will enroll in the President’s new IDR program and the behavioral responses, estimates by the Wharton School notes that it is plausible that the new IDR proposal alone will cost as much as $450 billion alone, raising total plan costs to over $1 trillion.

**Budgetary Impact**

According to an estimate by the CBO, the Administration’s plan to cancel up to $20,000 of student debt for federal aid borrowers is expected to cost approximately $400 billion. The estimate is for a period of 30 years and will add to the national debt. CBO notes that its estimates are uncertain, as it cannot predict how many eligible borrowers will apply for forgiveness. As of June 30, the CBO estimates federal student loan debt to be at $1.6 trillion among 43 million borrowers.

Additionally, the extended pause on federal student loan repayments is expected to cost $20 billion from September to December 2022, according to the agency. (CBO has not estimated the total cost of the pause, but the Committee for a Responsible Budget, an advocacy group, estimates that the newest extension will bring the total cost of the pause from the beginning of the pandemic through the end of this year to $155 billion.) Nearly every borrower has benefited from interest cancellation under the repayment pause. Interest capitalization, which often occurs for borrowers in IDR plans whose monthly payments are so low that they do not even cover accruing interest, is the reason why many borrowers owe more in the years following graduation. A June 2021 Pew survey found that approximately four in ten borrowers who started repayment before February 2020 said they owed more at that point than what they originally borrowed.

In addition, the Wharton School estimates that under strict static assumptions about student borrowing behavior and using take-up rates within existing income-based repayment programs, the proposed new IDR plan will cost an additional $70 billion over ten years.

**Questions that Remain**

Critics of the plan on both sides of the aisle point to the Administration’s failure to address the tuition hikes that have become the norm in post-secondary education. Forgiving existing debt and offering a new repayment plan that makes it easier for borrowers to manage their debt gives schools no incentive to lower costs. Additionally, as interest rates hike up in response to decades-high inflation, the cost of borrowing federal loans is expected to skyrocket this fall. According to an NBC News estimate, students looking to take out new federal loans will have to pay an extra $1,200 for each $10,000 they borrow over 10 years after interest rates rose to 5 percent from 2.75 percent two years ago. Not only will higher
interest rates make it more expensive in the long run to take out loans, students will face a perfect storm in the cost of a post-secondary education as inflation is pushing universities to raise tuition costs after remaining fairly stagnant throughout the COVID-19 pandemic.

**The Legality of Debt Relief**

The Administration has argued that the Higher Education Relief Opportunities for Students (HEROES) Act of 2003 gives the Secretary of Education sweeping authority to cancel student loans to address financial hardship brought upon by the COVID-19 pandemic. The HEROES Act, passed following the September 11, 2001 terrorist attacks, permits the Executive Branch the authority to grant waivers or relief for student financial aid debt accumulated in connection with war, military operation, or national emergency.

The battle over the legality of the issue is underway, with at least six major lawsuits seeking to halt Biden’s plan. Opponents trying to block forgiveness will likely argue that the HEROES Act does not give the President the power to broadly cancel student debt with the stroke of a pen. Advocates of cancellation argue that Congress deliberately gave the Executive Branch broad flexibility to manage the government’s relationship with student borrowers, noting that past Presidents of both parties have used the law to forgive debt on a more limited scale.

On October 20, opponents of Biden’s student loan forgiveness plan faced dual setbacks as a federal judge in Missouri as well as Justice Amy Coney Barrett rejected challenges to the program. Judge Henry E. Autrey of the Federal District Court in St. Louis dismissed a case brought by six Republican-led states accusing the Administration of overstepping its authority under the HEROES Act. Autrey, appointed by President George W. Bush, said that the states (Arkansas, Iowa, Kansas, Missouri, Nebraska, and South Carolina) had not suffered injuries that gave them standing to sue.

Justice Amy Coney Barrett, acting alone, denied a Wisconsin taxpayers group’s bid to block the Administration’s plan. Barrett’s denial came only one day after the group presented its case to the Supreme Court and came without comment, which is the Court’s custom on emergency applications. The Brown Country Taxpayers Association first went to a federal court in Wisconsin where US District Judge William Griesbach threw out the lawsuit, ruling that the plaintiffs did not have standing to sue. Under established precedent, plaintiffs generally cannot satisfy this standing requirement merely by alleging that the challenged policy will harm public fiscal standing or increase taxes overall.

However, only one day following Judge Autrey’s dismissal of the efforts by the six Republican-led states to block Biden’s plan, a federal appeals court temporarily blocked the Administration’s student loan forgiveness plan. The ruling on the evening of Friday, October 21 by the US Eighth Circuit Court of Appeals resulted in the DOE pausing submission of debt relief applications.

The stay issued by the Eighth Circuit Court of Appeals places the entire plan on hold as the Court considers a motion from the six Republican-led states. The stay orders the Administration not to act on the program as the Court considers the appeal. Even if the appellate court eventually lifts the hold and permits the program to proceed, the Administration recognized that it would not be able to set the program in motion before the January 1 end to the repayment pause and consequently extended that
program into 2023. Currently, millions of borrowers who assumed they would have much or all of their debt forgiven are wondering whether and when they will need to start making payments in 2023.

**Conclusion**

What is needed is a more comprehensive financial aid system which would not only make college more affordable, targeting those who need assistance the most, but would also slow the college price spiral, making higher education more affordable for all. The current initiative is a one-time only relief program that fundamentally restructures the student loan program in a way that does not provide any incentives for colleges to control costs and, in fact, provides disincentives, since the federal government assumes virtually all of the risks in the financial aid program. Beyond this backgrounder, CED intends to provide more in-depth insights and solutions to this central challenge.