News Brief

Franconia Insurance & Financial Services
KEYSTONE

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President Biden Announces New Actions Intended to Provide Debt Relief

President Joe Biden recently announced a new plan to pursue debt cancellation under the Higher Education Act (HEA). On June 30, 2023, the U.S. secretary of education initiated negotiated rulemaking to create an alternative path intended to provide debt relief for many working and middle-class borrowers under this plan. Biden's actions come after the U.S. Supreme Court struck down the administration's original student debt relief plan on June 30, 2023, claiming his administration lacked authority under the Health and Economic Recovery Omnibus Emergency Solutions Act to forgive up to $20,000 in student debt per borrower.

In addition to a negotiated rulemaking, the Biden-Harris administration's plan will include a notice and comment period. While the administration held a virtual public hearing on July 18, 2023, more details about this plan will be forthcoming in the coming months. According to the administration, the HEA provides the foundation for the U.S. college funding system, including establishing and governing grants, federal loans and other programs to help students pay for college. It also empowers the U.S. Department of Education's (DOE) secretary to "compromise, waive, or release" federal student loans.

Lowering Monthly Payments

In addition, the Biden-Harris administration introduced the Saving on Valuable Education (SAVE) plan to transform the income-drive repayment (IDR) system to provide debt relief to qualifying borrowers. According to the administration, this plan can save individual borrowers $1,080 per year and families of four $2,244 annually. Some borrowers could see their monthly loan payments reduced to $0 by enrolling in the program.

While the SAVE plan would go fully into effect on July 1, 2024, the Biden-Harris administration stated that borrowers will be able to enroll later this summer before any monthly payments are due. Borrowers already signed up for the current Revised Pay As You Earn plan will be automatically enrolled into the SAVE plan. The SAVE plan aims to do the following:

- Raise the amount of income considered nondiscretionary to guarantee that borrowers earning less than 225% of the federal poverty line will not pay monthly loan payments
- Forgo charging borrowers interest not covered by the plan
- Allow married borrowers who file their taxes separately to include their spouse's income in the loan payment calculator

"For far too long, borrowers fell through the cracks of a broken system that failed to keep accurate track of their progress for forgiveness. Today, the Biden-Harris Administration is taking another historic step to right these wrongs by announcing $39 billion in debt relief for 804,000 borrowers."

U.S. Secretary of Education Miguel Cardona

According to estimates from the University of Pennsylvania's Wharton School, the SAVE plan could cost nearly $475 billion over 10 years.

Supporting the "Most Vulnerable" Borrowers

Further, the DOE finalized a temporary affordable debt repayment plan to help the most vulnerable borrowers before student loan payments are set to resume this summer. This plan institutes a 12-month "on ramp" to repayment from Oct. 1, 2023, to Sept. 30, 2024, to protect borrowers from the worst consequences of missed payments. During this period, financially vulnerable borrowers who miss monthly payments will not be considered delinquent, reported to credit bureaus, placed in default or referred to debt collection agencies.

Correcting Income-driven Repayment Plans

On July 14, 2023, the DOE started notifying more than 804,000 borrowers that a total of $39 billion in federal student loans will be automatically discharged in the coming weeks. According to the DOE, these loan discharges were a result of actions implemented by the Biden-Harris administration to ensure borrowers have an accurate count of monthly payments that qualify for forgiveness under the IDR system.

Borrowers are eligible for forgiveness if they've accumulated the equivalent of either 20 or 25 years of qualifying months. Per the DOE, this action aims to address historical inaccuracies in the count of payments that qualify for forgiveness under IDR plans. Under the HEA and DOE regulations, borrowers are eligible for forgiveness after making 240 or 300 monthly payments—the equivalent of 20 or 25 years—on IDR plans or standard repayment plans. Borrowers with Direct Loans or Federal Family Education Loans held by the DOE, including Parent PLUS Loans, who have reached the necessary forgiveness threshold will receive notifications in the coming days.

What's Next?

The DOE will seek nominations for 12 to 16 negotiators who will serve on a committee. The department will likely release its debt cancellation proposal at or ahead of the first session. The DOE plans to hold three rulemaking sessions over three months. If the committee reaches a consensus on proposed regulations, the department will issue the regulations as part of a notice for proposed rulemaking.

The timing of any student debt relief from the Biden-Harris administration's proposed actions will likely be uncertain. Similar to the administration's original student debt relief plan, these actions will likely face legal challenges. Borrowers are encouraged to stay updated by visiting the DOE's website.

We will keep you updated with any notable changes from the current administration.