

Advocates Support Extension of Student Loan Payment Pause and Praise Removal of Loans from Punitive Default System

April 6, 2022

WASHINGTON – Today, in response to the Department of Education’s announcement that it will extend the student loan payment pause through August 31 and that it will remove federal student borrowers from default and give them a fresh start in repayment when the pause ends, **Abby Shafroth, interim director of the National Consumer Law Center’s Student Loan Borrower Assistance Project**, issued the following statement:

“Today’s announcement means that student loan borrowers who are already struggling with the economic fallout of the pandemic, rising inflation, and—for the many borrowers with children—the end of monthly Child Tax Credit payments, will not be forced to wrestle with yet another bill in May. The Biden Administration made the right call in extending the pause.

“But a longer-term fix is badly needed, or borrowers will face the same challenges four months from now. President Biden promised on the campaign trail that he would address the student debt crisis, including by providing some debt cancellation to all borrowers. Before expecting borrowers to restart payments, he must deliver on that promise.

“Moreover, critical fixes to the student loan system must be made before restarting repayment, so that borrowers are not thrown back into a broken system. To its credit, the Biden Administration has *begun* work on important systems reforms.

“Today’s announcement that the Department plans to remove federal student loans from default is an important step towards fixing our broken student loan system: it will ensure that when the pause ends, borrowers and their families will not be set back by financially destabilizing default collection practices. When borrowers cannot keep up with their loan payments and do not get the help they need from their servicers, they enter default and the entirety of their student loan debt becomes immediately due in full, they lose access to student loan safety net programs like income-driven repayment programs and hardship deferments, and they can have thousands of dollars per year seized from their paychecks and antipoverty benefits, such as the Earned Income Tax Credit, Child Tax Credit, and Social Security.

“Additionally, the Department of Education’s action will improve borrowers’ credit and restore eligibility for federal student aid, allowing borrowers to get better rates on insurance and loans, go back to school, and emerge from the payment pause on much sounder financial footing.

“But the student loan safety net failed these borrowers before, and before resuming repayment the Department must fix the student loan system so that borrowers do not simply fall through the cracks once more.

- The Department is developing a new income-driven repayment plan intended to be more affordable and accessible—the plan should be made available to borrowers *before* resuming repayment.
- It is ushering out several student loan servicing companies and working on reforms to

servicing contracts and oversight—it should complete that process *before* resuming repayment.

- And it is in the midst of amending the rules to expand access to loan cancellation for borrowers cheated by their schools, reduce interest accrual and capitalization, and require schools to show that they don't leave students with unaffordable debt to continue participating in the student aid program. The Department should complete and implement those system reforms before resuming repayment.

"Finally, the Administration is contemplating additional remedies for borrowers who have already been harmed by the broken student loan system, including the long-promised cancellation of some debt for all borrowers along with waiving barriers that have prevented borrowers from getting credit toward full loan cancellation after being in repayment for 20 years. Now—before turning the system back on—is the time to deliver on these reforms."

Additional Resources on Fresh Start and the Experiences of Borrowers in Default:

- NCLC & SBPC blog calling on the Department to automatically rehabilitate all defaulted federal student loans: Without Action, Millions of Families Will Be Denied Biden's Top Anti-Poverty Lifeline Because of Student Loans (June 18, 2021)
- NCLC blog describing lawsuit challenging unlawful wage garnishment during payment pause: Lawsuit Against DeVos Ends; Fight for Defaulted Borrowers Continues (March 22, 2021)
- NCLC Issue Brief: Delivering on the Child Tax Credit: Protect Payments from Government Offset (September 2021)
- NCLC Report: Voices of Despair – How Seizing the EITC is Leaving Student Loan Borrowers Homeless and Hopeless During a Pandemic (July 2020)
- Letter from 25 Legal Aid organizations to the Department of Education re: the impact of restarting repayment and collection against defaulted borrowers (November 1, 2021)

Additional Resources on the Payment Pause:

- Letter from over 200 organizations to President Biden urging extension of the pause on student loan payments (March 7, 2022)