

Report: Student Loan Borrowers Teetering on the Edge of Catastrophe after Having Tax Refunds Seized

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Congress Must Act to Stop Snatching of Earned Income Tax Credits

Boston – This Tax Day, the National Consumer Law Center (NCLC) has released *Voices of Despair: How Seizing the EITC Is Leaving Student Loan Borrowers Homeless and Hopeless During a Pandemic*. The updated report builds on a 2018 NCLC report that compiled stories from dozens of borrowers recounting the hardship caused by the federal government's seizure of their Earned Income Tax Credits (EITC) because of defaulted student loans and lays out what Congress can do to remedy this destructive practice that is ripping families apart.

Since the initial report, NCLC has continued to hear from distressed borrowers who had their EITCs seized for defaulted student loans. Even after the passage of the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), which suspended all student loan collection activity until September 30, 2020, some borrowers are still losing the EITC that they and their families rely on. In the 2018 report, many borrowers described the things their growing children would have to do without (including school clothes and food). Two years later, during the COVID-19 pandemic, the situation is even more dire: many student borrowers noted that the seizure of their EITC meant they were teetering on and in some cases, pushed into homelessness.

"The loss to these families is heartbreaking and infuriating," said Persis Yu, National Consumer Law Center attorney, director of NCLC's Student Loan Borrower Assistance Project, and author of the report. "The Earned Income Tax Credit helps lift extremely poor working parents and their children out of poverty. Robbing families of these funds is counterproductive and makes absolutely no sense. During a pandemic, it is even more catastrophic and can literally mean the difference between homelessness and keeping a family safe and healthy at home. Members of Congress have known about the problem for years so why aren't they doing more to take action to help these families?"

The Center on Budget and Policy Priorities (CBPP) credits the EITC with pulling about 3 million children out of poverty and reducing the severity of poverty for another 6.1 million children in 2018 alone.

Taking the EITC also compounds the harms borne by low-income borrowers and borrowers of color, many of whom were denied the promised benefits of education. For example, many students were lured to attend a predatory school or a school that closed in mid-course.

Students of color are disproportionately impacted by student loan debt. "Student loan debt is a critical racial justice issue. Borrowers of color are not only more likely to borrow from the federal government to pay for their postsecondary education than their white peers, but they also take longer to pay back their loans and are significantly more likely to face default," **said Yu.** "The

government's coercive collection tools, such as seizing the Earned Income Tax Credit, hits borrowers of color the hardest and drains vital resources from communities of color. It should not take a pandemic to realize that borrowers need this money to survive."

Key Recommendations

To stop this draconian and counterproductive practice, the report calls for:

- Congress to ban the seizure of the EITC;
- Department of Education to reimburse all borrowers whose tax refunds were taken for tax year 2019; and
- An overhaul of the country's draconian student loan debt collection and default policies, which threaten borrowers' financial security.

In 2019, U.S. House of Representative Sylvia Garcia (D-TX) along with 12 co-sponsors introduced the Stop EITC and CTC Seizures Act which would protect student loan borrowers from having their EITC and Child Tax Credit seized to repay their defaulted federal loan.

"Congress needs to act now to put a hard stop to this punitive and morally bankrupt federal government practice," **said Yu.**