What's Next for Student Loan Borrowers?

The U.S. Supreme Court recently heard arguments in two cases challenging the Education Department's debt relief program. The first lawsuit, Biden v. Nebraska, was filed by several Republican-controlled states claiming that debt relief will hurt the profits of a private student loan servicer chartered by one of the states and may negatively affect future state tax revenues. The other suit, Department of Education v. Brown, was filed by the conservative organization Job Creators Network Foundation Legal Action Fund on behalf of two individual student loan borrowers claiming to be opposed to the plan's eligibility requirements.

The Biden administration's plan, announced last August, would cancel up to $10,000 in federal student debt for borrowers who earn less than $125,000 ($250,000 for joint tax filers), and $20,000 for Pell Grant recipients. The administration cited its authority under the Higher Education Relief Opportunities for Students, or HEROES, Act of 2003 to discharge existing federal student loans. The law grants the administration authority to "waive or modify" any federal student loan provisions to ensure that borrowers are not left worse off because of a national emergency.

The nine justices are expected to rule on whether the plaintiffs have standing to sue, and if so, whether the HEROES Act authorizes the administration's debt relief program. The Supreme Court is expected to issue a decision by late June 2023. The student loan payment pause will end 60 days after a ruling is made by the court or 60 days after June 30th, whichever comes first.

This uncertainty can be stress-inducing for the millions of borrowers who had been approved for relief and the millions more who were eligible to apply before the plan was put on hold by the courts. Approximately 26 million borrowers had applied for or were deemed automatically eligible for relief before the program was put on hold.

While the Biden administration has maintained its confidence that it has the legal authority to carry out the program, it's important for student loan borrowers to prepare for any scenario. Here are some steps borrowers can take to prepare while they await the court's ruling:

- **Stay updated:** It will take months for the lawsuits to play out, but borrowers can stay up to date on what's happening by subscribing to the Department of Education's (ED) Federal Student Loan Borrower Updates. Due to the lawsuits, ED is not currently accepting applications for cancellation, but the original application deadline of December 31, 2023, is still in place. If the Supreme Court allows the cancellation program to proceed, it is unclear if that deadline will remain the same. To avoid delays, borrowers should apply as soon as they're allowed.

- **Know your loan servicer:** Loan servicers are assigned by the ED to handle federal student loan billing, repayment options, relief options, loan consolidation, and other services on behalf of borrowers, at no cost. If you're not sure who your servicer is, visit the Federal Student Aid website or call the Federal Student Aid Information Center (FSAIC) at 1-800-433-3243.

- **Pay attention to any mail or email communication:** The ED uses mail and email to communicate with borrowers (be careful not to share personal information to protect yourself from scams). Be on the lookout for information from your servicer or Federal Student Aid (FSA) about repayment or requests for updated details to recertify your payment plan, such as proof of income or your family size, which must be updated annually to stay enrolled in an IDR plan.

- **Log in to your FSA account to verify details and update your contact information:** Borrowers should log into their FSA account to ensure their loans are listed and accurate. They should also note who their servicer is for each loan and confirm their contact information is up to date. Additionally, it's a good time to ensure documents, like proof of income for those in income-driven repayment plans, are uploaded on your servicer's website. If you need help with your account, contact your servicer.

- **Check your eligibility for other cancellation programs:** The ED has several programs in place for loan forgiveness, cancellation or discharge, such as Public Service Loan Forgiveness (PSLF) for those employed by the government or not-for-profit organizations, teacher loan forgiveness, closed school discharge, disability discharge, borrower defense, and others. It's important to note that PSLF has had significant program updates, and you may qualify now even if you didn't previously.

- **Consider holding on to refunds:** Those who made payments on their federally-held student loans during the payment pause are entitled to receive a refund. If you requested and received a refund, be aware that if the Biden administration's cancellation plan is struck down by the court, then you will still be on the hook for your full current loan balance. Holding onto your refund now may help ensure that you'll be able to make your payments if cancellation is blocked.

- **Maximize the benefits of the IDR Account Adjustment:** Borrowers are eligible for a one-time adjustment that will increase their progress toward loan cancellation through IDR and PSLF. Under the account adjustment, more of the time that a borrower spent in repayment or forbearance will count toward the 120 months of payments needed to reach cancellation in PSLF and the 240 or 300 months' worth of payments needed to reach cancellation under IDR.
  - Borrowers with government-held student loans (e.g., loans that have been subject to the payment pause) should receive the benefits of the adjustment automatically. However, borrowers with certain FFEL or Perkins loans that are not held by the government must consolidate into a Direct Consolidation Loan by the end of 2023 to benefit. This type of loan allows the borrower to consolidate multiple federal education loans into one at a fixed interest rate for the life of the loan.
  - Borrowers who have loans with different amounts of time in repayment can maximize the benefits of the account adjustment by consolidating all their loans into a Direct Consolidation Loan. This loan will be credited with the greatest period of repayment that accrued on the loans before they were consolidated. Borrowers can apply to consolidate at studentaid.gov.

- **Get a Fresh Start on loans in default:** Borrowers with loans in default are currently eligible to remove their loans from default through a time-limited Fresh Start program. Borrowers with Direct Loans or other federally-held loans in default can request a "Fresh Start" by contacting the Default Resolution Group (DRG) at 1-800-621-3115 or by making a request through their online account portal. Borrowers with defaulted FFEL loans that are not held by the government should contact their Guaranty Agency to request a Fresh Start. They can also contact DRG if they need help contacting their Guaranty Agency. The Fresh Start program is available for one year after the payment pause ends.