Student Loan Borrowers in Default May Start Fresh

On April 6, 2022, President Biden **directed the U.S. Department of Education** to extend the **coronavirus-related payment suspension and 0% interest rate on certain federal student loans** for four months.

The payment suspension was due to expire at the end of April, but it is now extended to August 31, 2022.

Fresh Start for Borrowers in Default

The Department also announced that it will give borrowers with loans in default a “fresh start” on repayment by eliminating the impact of delinquency and default and allowing them to reenter repayment in good standing.

This means that loans that are currently being protected from collection through the payment pause (including **defaulted Direct, FFEL, HEAL, or Department-held Perkins loans**) **should be removed from default status** and restored to good standing by the time the payment pause ends. We will post more when we get more details from the Department, but for now, we expect this relief should at minimum mean that:

- When the pause ends, borrowers with covered loans **should not** experience wage garnishment, seizure of their tax refunds, seizure of money from their Social Security benefits, or collection calls.
- Borrowers should be able to enroll in an income-driven repayment plan to get a more affordable monthly student loan bill and to earn credit toward cancellation of any debt remaining after 20 to 25 years in repayment.
- The record of default **should be removed** from borrowers’ credit history.
- Borrowers who were ineligible for further student aid because of their default **should have their eligibility restored**, allowing borrowers to get a second chance at higher education.

Here’s What Borrowers Need to Know About the Payment Pause Extension:

The **Department of Education’s webpage about coronavirus relief** provides details regarding the terms of the payment pause as well as advice for preparing for repayments to resume.

Other than the removal of borrowers from default, the terms of the payment pause will continue to remain the same. This means the pause will continue to include the following terms:

Covered loans: Relief will continue to apply only to Direct Loans and to **any other federal student loans that are currently held by the Department of Education, as well as to all defaulted FFEL loans**.

This means that borrowers with commercially-held Federal Family Education Loans (FFEL) that **are not in default** and school-held Perkins Loans will not get relief on those loans under this action. (See info **here** on how to figure out whether your loans are owned by the Department.)

Payment suspension: For covered loans, monthly payments will be automatically suspended through at least August 31, 2022.

This means that borrowers will not be required to make payments, though borrowers who want to make payments during the suspension may do so.

Temporary 0% interest rate: For covered loans, the temporary 0% interest rate will continue through at least August 31, 2022.

This means interest is not being charged on covered loans during the suspension and borrowers’ balances should not grow during this time.

Time in suspension counts toward IDR and PSLF Forgiveness: For borrowers enrolled in income-driven repayment plans (IDR), the months spent in the payment pause **will count toward IDR loan forgiveness.**

The same goes for **borrowers working toward Public Service Loan Forgiveness (PSLF):** borrowers who otherwise meet PSLF requirements during the suspension will receive credit toward the forgiveness clock during the period of suspension.

Extension on time to recertify: For borrowers enrolled in IDR, previous extensions of the payment suspension included pushing out the annual recertification deadline to at least the end of the suspension.

This extension should work the same way: according to the Department's website, the earliest borrowers might be required to recertify is November 2022. Borrowers in IDR should continue to check with their loan servicer and the Department of Education's **website** to determine when it will be time to recertify their income.

Borrowers can recertify at any time, so those who have experienced a decrease in income may recertify sooner to ensure that they have an affordable repayment amount when payments resume.

No collection on defaulted loans: During the payment suspension, no collection activities should occur on defaulted covered loans.

This means there should be no collection calls, no wage garnishment, and no money taken out of borrowers' tax refunds or Social Security benefits to collect on defaulted covered loans.

The Department of Education's webpage about coronavirus relief contains more details, including a detailed FAQ for borrowers.

To access or make the most of this continued relief, here are a few actions borrowers with federal student loans might consider taking:

Borrowers with privately-held FFEL and Perkins loans might **consider consolidating into the Direct Loan program** to be eligible for the payment suspension and interest pause, and other benefits afforded to Direct loan borrowers (e.g., lower IDR payments under the Revised Pay As You Earn plan).

But there are serious potential downsides to consolidation, and some borrowers are not eligible to consolidate, so this is not a good idea or even a possibility for all borrowers.

Borrowers can learn more about the pros, cons, and eligibility restrictions for consolidation **here.**

Borrowers who are not currently in an income-driven repayment (IDR) plan should **consider whether it makes sense to switch into an IDR plan** so that the time in suspension counts toward eventual IDR loan forgiveness.

Borrowers who do not want to switch to IDR might consider whether to make voluntary payments on their student loans now, even though payments aren't required so that they can keep making progress toward paying off their loans and becoming student debt-free.
