

What the CARES Act Means for Repayment of Federal Student Loans

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The CARES Act includes several provisions that apply to certain loans owed by some federal student loan borrowers. Most provisions apply only to Direct Loans and Federal Family Education Loans (FFEL loans) **currently owned** by the U.S. Department of Education (Department). Critically, neither Perkins Loans nor commercially-held FFEL loans are covered by the bill. We estimate roughly 9 million federal student loan borrowers have at least one loan not covered by the Act. Private student loans are also not covered by most of the provisions discussed below.

Payment Suspension

The Act suspends all payments due on certain federal loans until September 30, 2020. Specifically, this provision applies only to non-defaulted Direct Loans and FFEL loans currently owned by the Department.

Interest Waiver

The Act states that interest shall not accrue while the loan payments are suspended. Because this provision applies only to loans for which payments have been suspended, that means that this provision also applies only to Direct Loans and to FFEL loans currently owned by the Department.

Time in Suspension Counts Toward Forgiveness or Loan Rehabilitation

The Act states that each month for which a loan payment or involuntary collection was suspended under this law shall be treated as if the borrower made a payment for the purpose of any loan forgiveness program or loan rehabilitation program authorized for which the borrower would have otherwise qualified. This means that for borrowers in an income-driven repayment plan, the suspended payments are considered qualifying payments that can be counted toward forgiveness. Borrowers working toward Public Service Loan Forgiveness will also have time in suspension counted toward their 10 years of qualifying payments. It also means that for defaulted loans that are enrolled in a rehabilitation program, each month during the collection suspension (discussed below) will count as a month in which an on-time rehabilitation payment was made—even if the borrower does not make payments.

Credit Reporting

For credit reporting purposes, any payment that has been suspended is treated as if the borrower made a regularly scheduled payment.

Collection Suspension

The Act suspends all involuntary collection of defaulted Direct Loans and Department-owned FFEL loans until September 30, 2020. This explicitly covers non-judicial wage garnishment, tax offsets, and federal benefit offset (e.g., seizure of Social Security benefits). There is also a catch-all provision to cover other types of involuntary collection by the Department of Education.

Borrower Notification

The Act requires the Secretary of Education (the Secretary) to notify borrowers for whom payments have been suspended and interest waived, or for whom involuntary collection has ceased, within fifteen days of these changes. The notification will also inform borrowers of the option to continue making payments toward principal. Beginning August 1, 2020, the Act also requires the Secretary to give each borrower a notice at least six times, stating when the borrower's normal payment obligations will resume and that the borrower has the option to enroll in income-driven repayment.

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