

# Road to Relief: Supporting Federal Student Loan Borrowers During the COVID-19 Crisis and Beyond

February 2021

Even before COVID-19, student loan borrowers struggled under the weight of more than \$1.6 trillion in debt. One in four borrowers was in default or serious delinquency, and many worried about their ability to make student loan payments while covering other basic needs. Because of decades of structural inequities and discrimination, student loans have burdened Black and Latino borrowers more than other groups, and now these borrowers of color are also among those disproportionately harmed by COVID-19. Millions of lives were already stymied by student loan debt before the public health crisis. Now, as borrowers struggle with COVID-19 and income loss and devastated savings, they are bracing for financial disaster.

The COVID-19 recession is on track to last for years, and student loan borrowers need real relief to navigate it. If we are serious about helping communities of color and spurring economic recovery, student debt relief must be a part of the solution. The student loan system has been broken for too long; it is time to clear the books and provide borrowers with a path forward.

*Road to Relief*, originally published in November of 2020, describes the roadmap the President, the U.S. Secretary of Education, and Congress can use to improve the federal student loan program and ensure that 44 million borrowers have one less burden to manage as this crisis continues. Taken together, these steps will ensure that all federal borrowers, accounting for over 90% of the outstanding student loan balances, receive substantial relief.

## The Four Milestones

**1. Across-the-board debt cancellation.** All federal student loan borrowers (including PLUS loan borrowers and those with commercially- or institutionally-held loans) should have their balances reduced. This ensures that the benefits of cancellation reach all of the most vulnerable borrowers and will spur economic recovery.



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**Table 1: Over 75% of Borrowers Would be Debt-Free with \$50,000 of Student Debt Cancellation**

| Outstanding Balance  | Estimated Count of Borrowers | Percent of Borrowers | Cumulative Percent of Borrowers |
|----------------------|------------------------------|----------------------|---------------------------------|
| Less than \$9,999    | 10,891,690                   | 27.9%                | 27.9%                           |
| \$10,000 to \$19,999 | 7,783,041                    | 20.0%                | 47.9%                           |
| \$20,000 to \$29,999 | 5,416,868                    | 13.9%                | 61.8%                           |
| \$30,000 to \$39,999 | 3,472,972                    | 8.9%                 | 70.7%                           |
| \$40,000 to \$49,999 | 2,040,562                    | 5.2%                 | 75.9%                           |
| \$50,000 to \$74,999 | 3,834,135                    | 9.8%                 | 85.7%                           |
| \$75,000 or above    | 5,558,897                    | 14.3%                | 100.0%                          |
| Total                | 38,998,165                   | 100.0%               | -                               |

Source: CRL analysis of Survey of Household Economics and Decision-making (SHED), 2019. Board of Governors of the Federal Reserve System.

**2. Clearing the books of bad debts.** After cancellation, the federal government should clear the books of bad debts, such as: debts that have been in repayment for longer than 15 years, debts that have been in default for three or more years, and debts held by borrowers who have been receiving some federal means-tested benefits for three or more years.

**3. Restoring limitations on collections.** Federal student loans should have common-sense consumer protection standards. Guardrails should include a statute of limitations, a bar on seizure of the Earned Income Tax Credit and Social Security benefits, limitations on the amount that can be seized, and limits on how long creditors can involuntarily collect. Student loans should also be dischargeable in bankruptcy.









**4. Making repayment truly affordable and budget-conscious.** All borrowers on an income-driven repayment (IDR) plan or more than 30 days delinquent following the COVID-19 pandemic should be auto-enrolled in a new IDR plan, the Affordable Budget-Conscious (ABC) repayment plan, that sets monthly payments based on no more than 8% of discretionary income above 250% of the poverty line.

**Table 2: Increased Savings for Single Borrower with \$34,000 Starting Loan Balance Under ABC Plan Compared to REPAYE**

| Individual Starting Adjusted Gross Income | Lifetime Savings Under ABC Plan |
|---|---------------------------------|
| \$15,000                                  | \$1,507                         |
| \$20,000                                  | \$10,567                        |
| \$25,000                                  | \$20,738                        |
| \$30,000                                  | \$27,279                        |
| \$35,000                                  | \$28,494                        |
| \$40,000                                  | \$21,154                        |
| \$45,000                                  | \$14,195                        |
| \$50,000                                  | \$7,448                         |
| \$55,000                                  | \$839                           |

Source: Center for Responsible Lending, UnidosUS, the National Association for the Advancement of Colored People, the National Urban League, and the Leadership Conference Education Fund. September 2019. Quicksand: Borrowers of Color and the Student Debt Crisis.

**Examples of Borrowers' Monthly Savings on ABC Plan**

| Teacher or Social Worker<br>MAKING \$35,000  | Nurse<br>MAKING \$50,000   |
|--|--|
|  FAMILY SIZE OF 1   |  FAMILY SIZE OF 1   |
|  Monthly payment under REPAYE = \$132.17<br><b>DUE: \$132</b> |  Monthly payment under REPAYE = \$257.17<br><b>DUE: \$257</b>   |
|  Monthly payment under ABC PLAN = \$20.67<br><b>DUE: \$21</b> |  Monthly payment under ABC PLAN = \$120.67<br><b>DUE: \$121</b> |
|  <b>MONTHLY SAVINGS \$111.50</b>                              |  <b>MONTHLY SAVINGS \$136.50</b>                                |