Think tanks sue Biden for $39 billion student loan relief plan

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A group of think tanks are pushing a federal court to block the Biden administration's plans to cancel $39 billion in student loan debt for 800,000 borrowers.

The New Civil Liberties Alliance filed a lawsuit in Michigan on behalf of the Mackinac Center for Public Policy and the Cato Institute. The groups argued that the Biden administration was overstepping its authority in moving forward with student loan forgiveness initiatives.

Previously, the Supreme Court shut down President Joe Biden's wide-reaching student loan forgiveness plan. That move would have forgiven $10,000 in student loan debt for lower-to-middle income borrowers and up to $20,000 for those who also received Pell Grants. The law could have wiped out $441 billion in outstanding student debt, according to an estimate by the Federal Reserve Bank of New York.

In response to the plan’s shutdown, the Biden administration announced a series of initiatives to cancel student loan debt for millions. The president also declared updates to the existing public student loan forgiveness (PSLF) program. That program was designed to eventually forgive debt for Americans who make timely student loan payments and are employed in public service.

The department's "one-time adjustment" would count certain periods of past nonpayment as if borrowers had been making payments during that time. As a result, it pushed 804,000 borrowers across the mark of 20 or 25 years needed for cancelation, and millions of others closer to that point.

But the two think tanks at the center of the new lawsuit said this update to the PSLF program illegally expedites progress toward relief, thereby hurting nonprofit employers.

"This unlawful reduction in the PSLF service requirement injures public service employers that rely on PSLF to recruit and retain college-educated employees," plaintiffs said in the lawsuit.

But the Education Department said the change was designed to amend existing problems in the program.

"For far too long, borrowers fell through the cracks of a broken system that failed to keep accurate track of their progress towards forgiveness," Secretary of Education Miguel Cardona said in a statement. "By fixing past administrative failures, we are ensuring everyone gets the forgiveness they deserve, just as we have done for public servants, students who were cheated by their colleges and borrowers with permanent disabilities, including veterans. This administration will not stop fighting to level the playing field in higher education."

Changes to PSLF program

As part of the Department of Education’s "one-time adjustment" to the PSLF program, the initiative would now benefit borrowers during any of the following periods.

- Any month in which a borrower was in repayment status, regardless of whether payments were partial or late, the type of loan, or the repayment plan
- Any period in which a borrower spent 12 or more consecutive months in forbearance
- Any month in forbearance for borrowers who spent 36 or more cumulative months in forbearance
- Any month spent in deferment (except for in-school deferment) prior to 2013
- Any month spent in economic hardship or military deferments on or after January 1, 2013

"Inaccurate payment counts have resulted in borrowers losing hard-earned progress toward loan forgiveness," the Department of Education stated. "This action also addresses concerns about practices by loan servicers that put borrowers into forbearance in violation of Department rules. The Department previously began discharging loans for borrowers who reached forgiveness for Public Service Loan Forgiveness (PSLF) through these changes."

If you hold private student loans, you won't be able to enroll in a federal income-driven repayment plan, but you could refinance your loans into a lower interest rate. Visit Credible to compare options from multiple lenders at once.

In response to the Supreme Court's decision, the Biden administration also launched a new income-driven repayment (IDR) plan. The Saving on a Valuable Education (SAVE) plan could reduce borrowers' monthly payments to zero, lower monthly payments in half or save those that do make payments at least $1,000 a year, the White House said. Borrowers can enroll in SAVE this summer before the repayment pause ends.
In addition, the Education Department rolled out its 12-month "on-ramp" program set to run from Oct. 1 to Sep. 30, 2024.

"Financially vulnerable borrowers who miss monthly payments during this period are not considered delinquent, reported to credit bureaus, placed in default or referred to debt collection agencies," the White House said in a statement.

Still, interest on student loans would accrue.

The Biden administration is still attempting to provide widespread student loan forgiveness. In fact, it's currently trying to pass its initial student loan forgiveness plan under the Higher Education Act. HEA contains a provision that allows the Secretary of Education to compromise, waive or release federal student loans.

If you have private student loans, you could consider lowering your monthly payments by refinancing your loans to a lower rate. Visit Credible to speak with a student loan expert and get your questions answered.