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Senate Democrats propose bailout for student loan borrowers

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As the White House and Congress assemble a stimulus package to blunt the economic impact of the coronavirus pandemic, Senate Democrats are pushing for widespread relief for the 42 million Americans with a total of \$1.5 trillion in federal student loans.

“The coronavirus outbreak brought with it crushing economic uncertainty, and students and borrowers need targeted, quick relief from payment burdens,” said Senate Minority Leader Charles E. Schumer (D-N.Y.), who introduced the plan Thursday with Sens. Patty Murray (D-Wash.), Elizabeth Warren (D-Mass.) and Sherrod Brown (D-Ohio).

The Democrats are calling for at least \$10,000 in tax-free debt cancellation for all federal student loan borrowers. They want the Education Department to assume loan payments for the duration of the national emergency and then institute a three-month grace period during which borrowers can forgo their payments without penalty. Payments made by the department would still count toward loan forgiveness for borrowers in public service jobs.

The plan would temporarily halt wage garnishment, tax refund seizure and reductions in Social Security benefits to repay past-due student debt. It would also codify into law President Trump’s order last week to waive interest on federal education loans.

Warren first floated the idea of loan forgiveness as an economic stimulus amid the health crisis last week. Congressional aides say the senator from Massachusetts has since been negotiating with colleagues to hammer out the details and get the measure included in the Senate Democrats’ \$750 billion stimulus package.

“Last time our economy crashed, this country made a devastating mistake: we turned our backs on students and families to bail out the giant banks,” Warren said Thursday. “Student loan borrowers — especially students of color — never fully recovered from that economic punch to

the gut. This time around, by canceling student debt payments for millions, we will fix the mistake that still holds back a generation of people and dragged down our economy.”

Thursday’s proposal arrives as consumer groups are urging lawmakers to take bolder steps to help borrowers. The White House decision to waive interest on student loans underwhelmed advocates who have said it will do nothing to help people facing layoffs or other economic hardships amid the health crisis.

Twenty civil rights, consumer and student groups are hailing the Democrats’ proposal as a more forceful response to the economic fallout of the coronavirus pandemic. The liberal coalition, which includes the American Federation of Teachers, Demos and Americans for Financial Reform, estimates as many as 1 in 3 student loan borrowers will have their debts canceled under the proposal.

“The plan will take decisive action to get immediate and impactful relief to millions of Americans,” the coalition wrote Thursday. “It will enable many economically distressed borrowers to focus on their own personal safety and that of others, while also freeing up extra dollars they can use to put back into the economy.”

Critics of the borrower relief package say the loan forgiveness component is arbitrary and raises questions of fairness to the millions of Americans who do not have student loans.

“Some people without loans may need the \$10,000 more than people with them. This policy says, too bad. You have to have a loan to benefit,” said Jason Delisle, a resident fellow at the conservative think tank American Enterprise Institute.

Ben Miller, vice president for postsecondary education at the liberal Center for American Progress, argues that the forgiveness component could be “transformative” for people who struggle the most with student debt. Multiple studies have shown that people who default on their student debt often have less than \$10,000 in loans, primarily because they dropped out of college.

“Cancellation at this level could lift millions of borrowers out of default, freeing up wages that are being garnished and tax refunds and Social Security benefits that are being seized,” Miller said.

In the days since lawmakers and advocates first raised the prospect of some form of relief for borrowers amid the pandemic, conservative and liberal experts have coalesced around the idea of suspending payments — at the least.

“What the coronavirus situation calls for is temporary relief from loan payments as people face a situation where many cannot or will not leave their houses to engage in commerce and the economy slows,” said Neal McCluskey, an education analyst for the libertarian Cato Institute. “But blanket forgiveness ... is far in excess of that, and is unfair to taxpayers who will have to cover its huge costs.”