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Student Loan Forgiveness May Begin This Week Under Adjustment, But Uncertainty Looms

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This is a critical week for hundreds of thousands of borrowers, as the Education Department is set to begin implementing nearly \$40 billion in student loan forgiveness. This represents just the first wave of borrowers eligible for student debt relief under the IDR Account Adjustment, a sweeping one-time initiative.

But conservative groups have filed a lawsuit to stop the loan discharges from happening, and prevent any more borrowers from benefiting from the initiative. Will borrowers actually receive student loan forgiveness?

Here's the latest.

Nearly \$40 Billion In Student Loan Forgiveness Approved Under Account Adjustment

The Biden administration approved \$39 billion in student loan forgiveness last month under the IDR Account Adjustment. This is a temporary program allowing the Education Department to credit borrowers with prior loan periods that otherwise would not have counted toward their 20- or 25-year student loan forgiveness term under income-driven repayment plans. This includes most prior periods of repayment (regardless of the specific repayment plan), as well as certain periods of deferment and forbearance. The credit can also apply toward Public Service Loan Forgiveness for those employed by qualifying nonprofit or public employers.

The adjustment is designed to remedy historical problems with the IDR and PSLF programs. Millions of borrowers were not told that these options existed, or were improperly steered into costly forbearances rather than IDR plans. Other borrowers were tripped up by complex program requirements, or were hampered by poor record keeping by loan servicers and other administrative mistakes.

In July, the Education Department notified over 800,000 borrowers that they qualify for student loan forgiveness under the one-time adjustment. Borrowers had until August 13 to opt out of that loan forgiveness. With that deadline now passed, the department is set to begin implementing the discharges this week.

Lawsuit Seeks To Block Student Loan Forgiveness Under Adjustment

Earlier this month, the New Civil Liberties Alliance filed a legal challenge to the IDR Account Adjustment on behalf of the Cato Institute and the Mackinac Center for Public Policy — conservative organizations which have tried to stop other Biden administration student debt relief initiatives in the past.

In their latest lawsuit, the groups want to block student loan forgiveness under the adjustment, and stop the Biden administration from implementing any other relief under the program. The groups argue that Biden’s initiative is illegal, and will harm their interests as nonprofit organizations by devaluing Public Service Loan Forgiveness.

“This lawsuit is nothing but a desperate attempt from right wing special interests to keep hundreds of thousands of borrowers in debt, even though these borrowers have earned the forgiveness that is promised through income-driven repayment plans,” an Education Department spokesperson said, according to The Hill. “We are not going to back down or give an inch when it comes to defending working families.”

Court Has Not Yet Ruled In Student Loan Forgiveness Challenge

The groups are asking a federal judge to impose an injunction, blocking student loan forgiveness under the IDR Account Adjustment as the legal process plays out. The organizations specifically asked the court to stop the student debt relief before the Education Department implements it.

So far, the court has not ruled. And there are no signs yet that the Education Department intends on pausing or delaying student loan forgiveness under the program. If the debt relief is allowed to proceed, borrowers could start receiving loan discharges this week. And the Education Department is set to run the IDR Account Adjustment again in September, at which point additional borrowers may be notified that they qualify for student loan forgiveness.

But if the court rules in favor of the challengers, student debt relief under the IDR Account Adjustment could be suspended, and possibly blocked indefinitely.