

Student Loan Forgiveness: Biden's Latest Debt Cancellation Plan Under Attack - What a Lawsuit Could Mean

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Here's something that will ring familiar if you've followed the federal student loan forgiveness drama over the last year or so: Conservative groups are trying to block President Joe Biden's latest attempt to provide debt relief just a few weeks after the U.S. Supreme Court struck down an earlier plan to provide loan forgiveness.

Last week, the right-leaning Cato Institute and Mackinac Center for Public Policy filed a lawsuit challenging the Biden administration's plan to cancel \$39 billion in federal student loans. The Washington Post reported. The two organizations are asking the court to halt the program, which they allege violates federal law because the administration didn't follow the proper rulemaking process or let the public weigh in.

As previously reported by GOBankingRates, the Biden administration announced, in July, that it would cancel \$39 billion of debt for 804,000 student loan borrowers. The U.S. Department of Education said in a statement that the discharges are a result of "fixes" designed to ensure all borrowers have an accurate count of the number of monthly payments that qualify toward forgiveness under income-driven repayment (IDR) plans.

Borrowers are eligible for forgiveness if they have accumulated the equivalent of either 20 or 25 years of qualifying months.

In a legal brief dated Aug. 4, 2023, the Cato Institute and Mackinac Center for Public Policy stated that the \$39 billion cancellation is "part of an even broader plan to wipe out the federal student-loan debt owed by over 3.6 million borrowers. Under a so-called One-Time Account Adjustment, the [Education] Department is crediting borrowers with at least three years of 'forbearance' from making monthly payments on their loans as qualifying monthly payments needed to earn loan forgiveness under the Public Service Loan Forgiveness (PSLF) and Income-Drive Repayment (IDR) programs."

The lawsuit takes issue with the Education Department's process for determining forgiveness under the \$39 billion plan. It also alleges that "in addition to illegally accelerating PSLF and IDR forgiveness by three years, the 'One-Time Account Adjustment' scheme will outright cancel a massive amount of debt owed to the Treasury. By having their loans cancelled three years early,

3.6 million borrowers will each make 36 fewer monthly payments, resulting in the cancellation of 130 million monthly payments.”

The lawsuit targets both Education Secretary Miguel Cardona and Richard Cordray, head of the Federal Student Aid office. It was filed just days ahead of when the forgiveness plan was due to take effect, USA Today reported. Borrowers involved in the plan include those with Direct Loans or Federal Family Education Loans held by the Education Department, including Parent PLUS loans. Many of the borrowers affected are likely 50 or older, according to USA Today.

“A forgiveness program of this magnitude should have gone through rulemaking. The administration cannot impose a policy like this without going through the proper channels,” Sheng Li, an attorney at the New Civil Liberties Alliance (NCLA), told The Washington Post. The NCLA is representing the groups in the lawsuit.

However, an unnamed spokesperson from the Education Department told the Post that the lawsuit is “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. We are not going to back down or give an inch when it comes to defending working families.”