

# A Deep Dive Into the New Student Loan Forgiveness Program

The new loan forgiveness program will eliminate a massive amount of federal student debt for millions of borrowers.

Up to 43 million federal loan borrowers will qualify to have debt forgiven. Roughly 20 million borrowers, according to a [White House fact sheet](#), will have all their debt eliminated.

## How much debt will be forgiven for borrowers?

Borrowers, who don't exceed an income cap, will qualify for an elimination of \$10,000 or \$20,000.

Borrowers, who were recipients of a Pell Grant, the major federal grant for low and middle-income individuals, will have \$20,000 in college debt discharged. Pell Grant recipients represent roughly 60% of student borrowers. The vast majority of Pell Grants are awarded to households making under \$60,000.

To qualify for \$20,000 in loan forgiveness, borrowers did not have to be awarded a Pell Grant during all their undergraduate years. Receiving just one full or partial Pell Grant will suffice to qualify for the highest loan forgiveness amount.

Borrowers who aren't sure if they ever had a Pell Grant can sign into their account at [StudentAid.gov](#) and click on *My Aid* in their account to find out.

Eligible borrowers who never had a Pell Grant while in college, will have \$10,000 of debt wiped away.

## Can you pocket the maximum loan forgiveness amount allowed if the balance is lower than \$10,000 or \$20,000?

Borrowers can't have more than the amount of their outstanding loan balance forgiven. For instance, if a previous Pell Grant recipient owes \$14,000, that would be the amount of the forgiven loan and not \$20,000.

## What is the qualifying income cap?

An individual borrower with federal student loans must have income below \$125,000 in either 2020 or 2021. For a married couple filing joint taxes or a head of household, the annual income must not exceed \$250,000.

Eligibility will be based on adjusted gross income. Borrowers can use either income from 2020 or 2021 to qualify. Income from 2022 cannot be used.

Current dependent college students can qualify for the loan forgiveness, but they would have to use parental income from 2020 or 2021 to qualify.

## What period of time are loans eligible for forgiveness?

All federal college loans are eligible as long as the loans were issued no later than June 30, 2022.

## What loans are eligible and ineligible?

Any federal Direct Loan will be eligible.

Here are the four types of Direct Loans:

- Direct Subsidized and Unsubsidized Loans
- Direct Grad PLUS Loan
- Direct Parent PLUS Loan
- Direct Consolidation Loan

Another category of loan—the Federal Family Education Loan—is also eligible with some caveats. The FFEL program, which was discontinued in 2010, worked with private lenders to provide education loans guaranteed by the federal government.

The holders of FFEL loans are eligible as long as the debt is held by a federal loan servicer.

What doesn't automatically qualify for loan forgiveness is a FFEL loan that is held commercially. Borrowers can find out if their FFEL loan is held commercially or by a federal loan servicer by visiting [StudentAid.gov](https://studentaid.gov) and signing in with their FSA ID. They should click on the My Loan Servicers list. If the servicer's name is preceded by DEPT OF ED, the loan is federally held.

If the FFEL loan is commercially held, there is a potential workaround. The debt could be moved to a federal Direct Consolidation Loan, which would make it qualified for loan forgiveness. At least that's what officials in the U.S. Department of Education say they are working on.

If your clients have FFEL loans that would have to be consolidated for forgiveness, they should not delay in contacting their loan servicer. Ask the service what needs to be done to move the debt to a federal Direct Consolidation Loan.

**Can borrowers receive additional forgiveness if they hold two different types of federal loans? For instance, a parent has a Direct Loan for him or herself and a Parent PLUS Loan for a child.**

Sorry, no double dipping is allowed. No matter how many types of federal loans that an individual possesses, there will only be one payment for either \$10,000 or \$20,000 or less if the loan balance is lower.

## **Is private loan debt eligible for forgiveness?**

No.

## **What about federal student loan debt that was refinanced into a private college loan?**

These borrowers are out of luck. When borrowers replace their federal loans with private loans, they lose all federal protections. Ironically, borrowers who refinance to a private loan do it to reduce payments. That's because private loans for people with very good credit scores can sometimes offer lower interest rates than federal loans.

## **Do borrowers, who made loan payments during the loan pause period, have any recourse if they qualify for their debt being wiped out? Could they ask for a refund?**

Yes. Any of your clients in this situation should contact their loan servicer and request a refund. What allows this move is the wording in the CARES Act, which put a pause on federal loan repayments beginning on March 13, 2020.

Borrowers should obtain proof of loan payments that they made during the pandemic starting from March 13, 2020. Once they've got that, they should request a payment refund from their loan servicer.

## **Do borrowers need to apply for loan forgiveness?**

The Department of Education says it's going to work "quickly" and "efficiently" to set up a simple application process for borrowers to claim debt relief.

The administration says the application will be available in early October. Borrowers should apply as soon as the application becomes available so the forgiveness will hopefully take place before the loan pause stops on Jan. 1, 2023. The federal government says the forgiveness should be seen on a borrower's balance by no more than six weeks after the forgiveness submission.

Borrowers should be on the lookout for messages from their loan servicer and they should also make sure the servicer has their right contact information.

If borrowers see that their balance have dropped or been eliminated thanks to the forgiveness, they should print out the statement just in case something goes wrong later.

Nearly 8 million borrowers may be eligible to receive relief without filing an application because their relevant income data is already available in the federal system.

## **Will taxes be owed on the forgiven federal debt?**

No federal taxes will be owed on the forgiven debt. Thanks to the American Rescue Plan, passed by Congress last year, student loan forgiveness will not be subject to federal taxes through 2025.

Borrowers in some states, however, could be subject to state taxes for the forgiven amount.

According to the Tax Foundation, an independent tax policy nonprofit, 13 states have the potential to tax forgiven debt though that number might decline.

Currently, here are the states that could potentially tax discharged debt:

- Arkansas
- Hawaii
- Idaho
- Kentucky
- Massachusetts
- Minnesota
- Mississippi
- New York
- Pennsylvania
- South Carolina
- Virginia
- West Virginia
- Wisconsin

## **How can borrowers get the latest information regarding this evolving debt forgiveness initiative?**

Borrowers can be notified about any new developments in the loan forgiveness initiative by signing up for emails with the U.S. Department of Education. Here is the link to sign up for Federal Student Loan Borrower Updates: <https://www.ed.gov/subscriptions>.

## **Watch out for scammers**

The loan forgiveness program will almost certainly get scammers excited. Borrowers shouldn't give out personal information, such as date-of-birth and Social Security numbers to individuals who say they represent a loan servicer. Borrowers should log-into the loan servicer portal to verify any communication.

## **Is loan forgiveness a sure thing?**

It's expected that the loan forgiveness program will be challenged in court. In a legal memo, the Biden Administration said it was using executive authority permitted under the HEROES Act, passed after 9/11, that allowed for expanded presidential powers during a national emergency. Critics argue that President Biden does not have the authority to forgive debt on such a massive scale and that it does nothing to curtail the rising cost of college. Here is a [rundown of critics' arguments](#) on the loan forgiveness plan, which could end up being decided by the U.S. Supreme Court.