



Congress Must Provide Relief to Defaulted Student Loan Borrowers

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Recommendations for Higher Education Act Reauthorization

Currently 44 million student loan borrowers owe \$1.6 trillion of student loan debt. Over a million federal Direct Loan borrowers entered default in a 12-month period alone. Borrowers in default are disproportionately low-income and people of color. These are the borrowers currently experiencing the brunt of America's student loan crisis. They are the borrowers most in need of Congress's help. Any reauthorization of the Higher Education Act *must* tackle the problems these borrowers face if it is to address the student loan crisis in a meaningful way.

Federal student loan practices and policies hammer borrowers who fall behind on their loan payments. Through its coercive [collection powers](#), the federal government often siphons thousands of dollars per year from these borrowers, who are typically very low-income and already experiencing financial distress. Many of these borrowers would owe far less than the amounts seized from them if they were instead on a federal income-driven repayment (IDR) plan, but borrowers in default are excluded from such plans.

Current policies trap borrowers in perpetual poverty and default:

- Borrowers currently only have one shot at getting their loans out of default and back into repayment through rehabilitation. If they redefault, as many do, they may be stuck in default for decades or even for life.
- While in default, not only will they be at risk of having their tax refunds seized or their wages garnished, but many suffer damaged credit that can hurt employment and housing opportunities and also drive up the cost of cars and insurance.
- Many of these borrowers default because they were unable to complete their education or the school they attended made false promises and failed to deliver real value. For many, going back to school may be the best way to achieve financial security and to be able to pay back their loans. But perversely, current law prevents defaulted borrowers from getting a second chance by denying them access to additional Title IV funds (Pell Grants and federal loans).
- Despite clear eligibility for loan discharges and cancellations (including for school closure and because of total and permanent disability), too many borrowers needlessly experience default and languish there.

In October 2019, the [College Affordability Act](#) (CAA), a comprehensive proposal to reauthorize the Higher Education Act, was voted out of the House Committee on Education and Labor. The CAA helps prevent student loan default in the future by taking measures designed to curb abusive practices by schools that leave students with debt but no meaningful education. It also takes important steps to help struggling borrowers avoid default by getting enrolled in (and, critically, staying in) an IDR plan.

But more help is needed for the millions of borrowers already in default.

Recommendations

To address the ways in which the government's coercive collection powers trap low-income student loan borrowers in perpetual poverty and inflict enormous costs on financially struggling families, Congress should:

- Ease the process of getting out of default and end the "one-shot" policy that closes the door for borrowers to get back on track with repayment.
- Restore the student loan safety net:
 - Eliminate seizure of the Earned Income Tax Credit and Social Security benefits;
 - Hold borrowers accountable only for past-due amounts rather than making the entire loan balance due when a borrower defaults;
 - Limit wage garnishment to amounts borrowers would pay under IDR;
 - Restore bankruptcy rights; and
 - Restore a statute of limitations for collection of federal student loans.
- Ensure timely identification and automatic relief for borrowers who are eligible for loan cancellation due to school closure or due to their total and permanent disability.
- Enroll delinquent borrowers in IDR automatically to help prevent default.

Additionally, Congress urgently needs to address the student debt crisis by eliminating unnecessary barriers to all existing loan cancellation options. Congress should also go further: it should mandate and implement widespread debt cancellation.

Find more details on these recommendations in the National Consumer Law Center's Comments on Reauthorization of the Higher Education Act of 1965 to the Senate Committee on Health, Education, Labor and Pensions.

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