

The Dark Side of Payroll Withholding to Repay Student Loans

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BOSTON - Last week, U.S. Senate Committee on Health, Education, Labor and Pensions Chair Lamar Alexander proposed a program that would require student loan borrowers to repay their loans through mandatory automatic deductions from their paychecks. The National Consumer Law Center released a policy brief, *The Dark Side of Payroll Withholding to Repay Student Loans*, today explaining why forcing borrowers to pay their student loans through their employers will harm the very borrowers these programs are hoping to help.

“While the student loan repayment system is in desperate need of overhaul, forced automatic payroll withholding misses the mark,” said Persis Yu, director of National Consumer Law Center’s Student Loan Borrowers Assistance Project.

“For many borrowers, including those who lack stable employment or work in the gig economy, forced automatic payroll withholding may mean diverting money away from rent, heat or food in order to pay their student loans,” said Yu. “Payments should always be voluntary and affordable.”

The policy brief highlights some of the problems a program of mandatory automatic payroll deductions would face, including:

- Income-driven repayment plans (IDR) are an important option for many borrowers, but forcing all borrowers into an inflexible withholding requirement will cause serious problems for many borrowers with special circumstances.
- Mandatory withholding based on the size of a paycheck does not account for borrowers with seasonal or other fluctuating income.
- In some months, a fixed withholding amount coupled with unusual expenses may deprive a family of sufficient income for heat, rent, food, or medicine.
- Requiring thousands of employers to apply a complicated formula to withhold wages will inevitably result in errors.
- Employers computing withholding for student loan repayments will by necessity become informed about students’ personal financial information and loan borrowing, invading their employees’ privacy.
- Employers will be liable to student loan borrowers if they withhold too much and liable to the United States if they withhold too little, placing obligations on businesses that they do not want and that have no connection to their business. The result may be in employment discrimination against the very Americans to whom the United States offered student loans as a way to help them obtain employment.