SBPC and NCLC Warn Education Department that Delaying “Operation Fresh Start” Will Deny Promised COVID-19 Protections to Millions of Student Loan Borrowers in Default

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WASHINGTON — Today, the Student Borrower Protection Center and the National Consumer Law Center released the following statements in response to press reports that the U.S. Department of Education is weighing but has not yet taken steps to protect millions of struggling federal student loan borrowers from the harsh consequences of default — relief that is critically needed for millions in poverty or living in its shadow. The March 2020 CARES Act gave President Trump and President Biden authority to give these borrowers a pathway to a second chance. The Department must now use its authority to provide an automatic pathway out of default, referred to as “Operation Fresh Start.”

Statement from Student Borrower Protection Center Policy Director Mike Pierce:

“Before the pandemic, more than seven million student loan borrowers had already fallen through the cracks of our badly broken student loan system. Secretary Cardona and the Biden Administration must not fail these borrowers a second time. Instead, the Department of Education should keep its promises to borrowers in default and provide them with a clean slate.”

Statement from Persis Yu, Director of the National Consumer Law Center’s Student Loan Borrower Assistance Project:

“Without action on the part of the Department of Education, on February 1, millions of student loan borrowers are going to immediately lose access to much needed wages, social security benefits, and anti-poverty payments made through tax refunds – including the Child Tax Credit and Earned Income Tax Credits which have lifted millions of children out of poverty. Defaulted student loan borrowers – disproportionately women and people of color – desperately need relief in order to recover from the economic impacts of the pandemic. We call on the Department of Education to take all steps within its power, including cancellation and rehabilitation, to keep these borrowers from falling over the financial cliff on February 1.”

Background

On October 18, 2021, POLITICO reported that “the Education Department is weighing a plan to automatically pull more than 7 million borrowers out of default on their federal student loans. The effort to help those borrowers, which has not been finalized, is being internally referred to as “Operation Fresh Start,” according to the sources familiar with the plan.”

In March 2020, Congress enacted the CARES Act, which suspended student loan payments, interest charges, and debt collection for tens of millions of borrowers who owe student loans held by the U.S. Department of Education. As part of this emergency legislation, Congress required the Secretary of
Education to count each month during which payments were suspended as a month spent making progress toward the Education Department’s “loan rehabilitation” program for borrowers in default.

Beginning in September 2020, President Trump and President Biden have extended the suspension of student loan payments under the same terms as those enacted by Congress at the start of the COVID-19 pandemic. As a result, all borrowers with defaulted student loans have now earned two years of credit toward “loan rehabilitation”– a program that ends student loan default and restores borrowers’ access to income-driven repayment and other consumer protections and safety net programs intended to help economically vulnerable borrowers make ends meet.

Because eligibility to rehabilitate loans out of default requires only nine qualifying months of payment, all of these borrowers are now eligible for rehabilitation, and the Biden administration should automatically remove all of them from default and give them a fresh start at repayment. If the Biden Administration fails to take this necessary action as authorized under the law, millions of student loan borrowers will be at the mercy of the Education Department’s out-of-control debt collection machine. Earlier this year SBPC and NCLC warned that millions of low-income student loan borrowers would be vulnerable to wage garnishment, offset of tax refunds and social security checks, and the seizure of President Biden’s signature Child Tax Credit.

Read the Letter: SBPC and NCLC Demand President Biden Give a Second Chance to Millions of Student Loan Borrowers in Default

Read the SBPC and NCLC Blog on Student Loan Default and the Child Tax Credit: Without Action, Millions of Families Will Be Denied Biden’s Top Anti-Poverty Lifeline Because of Student Loans