Insight

Assessing the Effect of the CARES Act on Student Loans

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Executive Summary

• The Coronavirus Aid, Relief, and Economic Security (CARES) Act provides deferment of principal and interest payments on federal student loans for six months.
• The Act only provides loan forgiveness for students that have or will withdraw from enrollment due to the coronavirus pandemic. Depending on the type of loan, the amount could range from about $2,000 to $10,000.
• Senate Democrats have pushed for loan forgiveness in the amount of at least $10,000 for all holders of federal student loans but those provisions have not been included.

Introduction

The Coronavirus Aid, Relief, and Economic Security (CARES) Act recently introduced in the Senate provides temporary student loan relief for borrowers of federal student loans to help address the economic difficulties of COVID-19. The measure will temporarily suspend principal and interest payments for Federal Direct and Federal Family Education Loans (FFEL) for six months. It currently cancels only loans for a specific semester in which a student has withdrawn from enrollment due to the pandemic.

Suspended Principal and Interest Payments

On March 13th, the Trump Administration announced it would temporarily waive interest payments on federal student loans for about a month. That proposal would have continued to require principal payments on those loans. The CARES Act goes further by temporarily suspending principal, in addition to interest payments, on federal direct and FFELs for six months. All students with these types of loans would receive automatic six-month deferment. No interest would accrue and the Department of Education would consider those six months as if the holder had continued making payments.

In the first quarter (Q1) of 2020 there are about 35 million holders of direct loans whose balances total about $1.3 trillion. About 12 million are holders of FFELs whose balances total about $250 billion. In 2018, the federal government received about $20 billion in interest payments out of a total $80 billion in overall repayments of student loans. Under the CARES Act, roughly $40 billion of total repayment to the federal government would be delayed for up to six months.

Balance Cancellation

The CARES Act currently contains very narrow provisions to cancel outstanding student debt. Cancellation would require students to withdraw from the university due to the pandemic, and the portion of outstanding balance on their loans for that particular semester would be waived. Depending on the loan type and student, that amount could range from $2,000 to $10,000. Most students have continued their university enrollment, partaking in remote online classes. It is difficult to estimate the number of students that have or will withdraw from classes during the emergency but the number is likely to be small considering the switch to online classes.

On March 21, Senate Democrats wrote a letter to fellow members urging the cancellation of up to $10,000 in outstanding balances for every holder of federal student loans, regardless of enrollment status. With such a provision, almost a third of total outstanding debt on all federal student loans would be forgiven. In its current form, however, the CARES Act does not contain this measure.

Conclusion

As it stands, the CARES Act will provide student debt relief in the form of suspended payments of federal loans for six months for most students. Loan forgiveness will only apply for students that have withdrawn from enrollment due to the pandemic. The CARES Act does expand on the Trump Administration's prior proposal to freeze interest on federal student loans but stops short of the Democratic proposal to cancel at least $10,000 in outstanding balances for all holders of federal loans, regardless of enrollment status.