

# The Administration's Newly Announced Student Loan Debt Cancellation Policy

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On August 24, 2022, [invoking the HEROES Act of 2003](#), the [U.S. Department of Education \(ED\)](#) [announced](#) a new student loan cancellation policy “[to address the financial harms](#) of the pandemic for low- and middle-income borrowers” that is to make available to millions of federal student loan borrowers up to \$20,000 of loan cancellation benefits per borrower. ED is referring to this action as “[one-time student loan debt relief](#).” This action represents a departure from other types of student loan debt relief, which historically have been available to borrowers on a more targeted basis and typically provide relief to individuals for [fulfilling employment requirements](#), for repaying their loans according to an income-driven repayment plan, or following borrower hardships (e.g., total and permanent disability). These programs, to date, have provided relief to [hundreds of thousands of borrowers](#), although they could ultimately provide relief to more. The Administration's new policy is broader in scope and is to be available to [tens of millions of borrowers](#) based on limited eligibility criteria. This Insight summarizes the recently announced student loan cancellation policy.

## The One-Time Student Loan Debt Relief Policy

Federal student loan debt exceeds \$1.6 trillion and is owed by approximately 45 million borrowers. On August 24, 2022, ED announced a one-time student loan debt relief policy that it estimates will provide some amount of loan cancellation to most borrowers.

The [administration plans](#) to cancel the following:

- up to \$10,000 in student loans for borrowers whose annual [income in 2020 or 2021](#) was less than \$125,000 (for individuals or married borrowers who file their federal income taxes separately), or \$250,000 (for married couples filing jointly or heads of households); current dependent students will be eligible for cancellation [based on parental income](#); and
- an additional \$10,000, for a total of up to \$20,000, in student loans for borrowers who meet the above criteria and received [at least one Pell Grant](#) in any amount at any point.

A borrower's cancellation benefit is to be capped at the amount of their outstanding debt. Thus, if an individual is eligible for \$20,000 in cancellation benefits but has an outstanding balance of \$15,000, they would receive \$15,000 in cancellation benefits.

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Cancellation benefits are to be available for [ED-held loans](#) and defaulted Federal Family Education Loan (FFEL) program loans held by a guaranty agency (GA). ED-held loans include those loans made under the Direct Loan program and those made under the FFEL program or the Perkins Loan program that have been transferred to ED. For the Direct Loan and FFEL programs, eligible ED-held loans include Subsidized Loans, Unsubsidized Loans, PLUS Loans made to graduate students or parents of dependent undergraduate students, and Consolidation Loans. Loans must have been disbursed on or before June 30, 2022, except that for Consolidation Loans only the underlying loans that were repaid by the Consolidation Loan must have been disbursed on or before June 30, 2022. Thus, borrowers may consolidate their non ED-held federal student loans into a Direct Consolidation Loan to become eligible for the cancellation benefit. Borrowers with qualifying loans in any status, including in school, in repayment, in grace, or in default may qualify for the loan cancellation benefit so long as they meet the income requirements.

If a borrower has multiple qualifying loans, ED has [developed the order](#) in which it would apply the cancellation benefit. In general, benefits are to be applied first to defaulted loans and then to non-defaulted loans, with ED also making allowances for whether a borrower has multiple defaulted or non-defaulted loans and taking into consideration the specific program type (e.g., Direct Loan program, FFEL program) under which the loans were made. If a borrower has multiple loans within a program type, ED would apply the benefits considering the loans' interest rates (e.g., apply benefits to higher interest rate loans first), subsidy status (e.g., apply benefits to unsubsidized loans first), date of disbursement, and outstanding balance.

For borrowers with remaining loan balances after the cancellation benefit is applied, ED has stated it will [recalculate their monthly payment](#) based on their new balance, which may reduce such borrowers' monthly payments.

## How Borrowers May Receive Benefits

Qualifying borrowers may receive the one-time student loan debt relief benefit in one of two ways. First, ED estimates that [nearly 8 million borrowers](#) are eligible to receive the benefit automatically, based on relevant income data already available to ED. Such borrowers need not take any action and are to be informed by ED of the debt relief they are to receive. For borrowers for whom ED does not have relevant income data, ED has indicated that an online application will be available [“by early October”](#) and a paper version will be available at a future date. ED has stated that once a borrower completes an application, they can [“expect relief within 4-6 weeks.”](#) Borrowers must submit the application [by December 31, 2023](#).

## Potential Impacts on Borrowers

In announcing the new student loan cancellation policy, the [Administration estimated](#) that

- up to 43 million borrowers would receive some relief under the policy;
- about 27 million student loan borrowers will be eligible to receive up to \$20,000 in cancellation benefits; and
- about 20 million borrowers would have the full balance of their loans cancelled.

In addition, the Administration provided an [analysis of characteristics of borrowers](#) who may receive relief under the policy, which included the following:

- of eligible borrowers, 21% are 25 years old and under, 44% are ages 26-39, and more than one-third are ages 40 and up, including 5% who are senior citizens;
  - only individuals or households in the bottom 95% of incomes in the United States (i.e., not in the top 5% of incomes) will receive loan cancellation benefits;
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- 87% of loan cancellation benefits (in terms of dollar amount cancelled) will go to individuals earning less than \$75,000 annually.

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