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IN FOCUS

August 10, 2023

# Federal Student Loans: Return to Repayment

In response to the COVID-19 pandemic, since March 2020, the accrual of interest, monthly payments, and involuntary collections have been paused on most federal student loans. The Fiscal Responsibility Act of 2023 (FRA; P.L. 118-5) specifies that the interest accrual and monthly payment pauses shall cease to be effective 60 days after June 30, 2023 (i.e., August 29, 2023). Thus, after over three years of no interest accrual and no required monthly payments on most federal student loans, the Department of Education (ED), contracted student loan servicers, and millions of federal student loan borrowers are preparing for those flexibilities to end.

This In Focus provides an overview of ED's plans for transitioning federal student loan borrowers into repayment on their federal student loans, and of selected policy issues. Detailed information about the federal student loan interest accrual and monthly payment pauses can be found in CRS Report R46314, *Federal Student Loan Debt Relief in the Context of COVID-19*.

## Interest Accrual

Interest accrual on ED-held loans has been suspended during the interest accrual pause. ED has indicated that interest accrual will resume September 1, 2023. As of March 31, 2023, at least 38 million student loan recipients with balances totaling about $1.4 trillion had interest accrual paused on their loans.

For most borrowers, the interest rate charged on their loans will be the same as it was before the interest accrual pause began. Borrowers who consolidated their loans into a Direct Consolidation Loan during the pause would have interest rates on their new Consolidation Loans equal to the weighted average of the interest rates on the loans they consolidated, with the result rounded up to the next higher one-eighth of a percentage point.

## Monthly Payments

During the payment pause, borrowers have not been required to make monthly payments on their ED-held federal student loans. (In practice, ED has placed all such loans in administrative forbearance.) Borrowers may opt out of the payment pause. While periods of forbearance do not typically count toward required payment periods under various loan forgiveness programs (e.g., Public Service Loan Forgiveness [PSLF]), payments that would have been made during the payment pause count toward meeting such loan forgiveness requirements.

ED has indicated that its contracted loan servicers will begin sending monthly billing statements to borrowers in September 2023, and that monthly payments will not be due until October 2023.

As of May 30, 2023, about 29 million student loan borrowers with more than $1.1 trillion in ED-held loans had their monthly payments paused. (Borrowers affected by the interest accrual pause may not necessarily also be participating in the payment pause, such as individuals whose loans are in in-school status.) Of these borrowers, 6.3 million with student loans totaling $264 billion only have loans that have not yet been placed into a repayment plan. This may be an indication of borrowers who have never been in repayment status on their current outstanding loans and, thus, may not have any previous experience making payments on these loans.

### On-Ramp to Repayment

To facilitate transition into repayment status for borrowers, ED announced a 12-month "on-ramp to repayment," which is a set of flexibilities "to protect the most vulnerable borrowers from the worst consequences of missed payments following the payment restart." For October 1, 2023, to September 30, 2024, borrowers who miss monthly payments due on their loans will not be considered by ED to be delinquent on those loans, nor will such borrowers be reported to consumer reporting agencies as delinquent, placed in default status, or referred to private collection agencies. Unlike the payment pause, periods of missed payments will not count toward meeting loan forgiveness requirements, such as under PSLF.

### Saving on Valuable Education (SAVE) Plan

On July 10, 2023, ED published a Final Rule to revise the current Revised Pay As You Earn (REPAYE) repayment plan (a type of income-driven repayment [IDR] plan). In doing so, ED renamed the plan the SAVE plan. In general, the SAVE plan would result in lower monthly payments for all qualifying borrowers as compared to current REPAYE plan rules. Also, after applying a borrower's monthly payment to their loan, any unpaid accrued interest would not be charged. Provisions of the plan are to be implemented on a tiered schedule, with some provisions effective July 30, 2023, and others effective July 1, 2024. Provisions implemented in both tiers would generally lower borrower monthly payments. ED intends to automatically place all borrowers currently enrolled in the REPAYE repayment plan into the SAVE plan before the payment pause ends. Borrowers not already enrolled in the REPAYE repayment plan may apply for the plan as of July 30, 2023.

## Selected Issues

This section highlights selected policy issues regarding federal student loan borrowers' upcoming return to repayment that may be of interest to Congress.

### Risk of Delinquency and Default

Millions of student loan borrowers have not been required to make monthly payments on their federal student loans since March 2020, and a large portion of those borrowers may have no previous experience in making payments on their loans.

ED has indicated that federal student loan borrowers may be at heightened risk of delinquency and default as they exit forbearance. Specifically, ED has pointed to previous instances in which it provided student loan borrowers who experienced local and regional natural disasters with forbearances. ED cited data showing that in the calendar year before the disaster declarations for Hurricanes Maria, Harvey, and Irma, and the northern California wildfires in late 2017, only 0.3 percent of borrowers living in a state (and county, when relevant) that was a federally declared disaster area defaulted on their loans. However, 6.5% of borrowers defaulted in the calendar year after they exited the mandatory administrative forbearance in which they were placed in response to those disaster declarations.

Recent Consumer Financial Protection Bureau (CFPB) research indicates that one-in-five student loan borrowers have risk factors (e.g., pre-payment pause delinquencies on student loans) that suggest they may have difficulty making scheduled payments on their student loans when they become due.

### Loan Program Administration and Loan Servicing

Since the beginning of the payment pause, the federal student loan programs have experienced several large policy and administrative changes. Statutory updates, which ED has not yet fully implemented, to streamline administration of the IDR plans have been made. ED has also substantially updated numerous loan program regulations (e.g., PSLF, IDR plans like the SAVE plan, elimination of instance of regulatory interest capitalization) to effectively expand benefit eligibility and to ease administrative processes. Many of these changes recently became effective or are to be effective in the coming year.

Significant statutory and regulatory changes and borrower return to repayment may each pose implementation challenges to ED on their own. Their near simultaneous implementation may further complicate their execution. For example, with limited staff and monetary resources, ED may need to prioritize some activities over others, which may result in suboptimal or delayed implementation of some policies.

ED-contracted federal student loan servicers play an integral part in administering the day-to-day aspects of the federal student loan programs, including sending billing statements to borrowers, processing payments, and communicating with borrowers about and processing borrower requests for loan program benefits and features (e.g., deferment and repayment plan options).

Recently, several loan servicers have ended their contracts with ED, thus requiring ED to transfer borrower accounts to other servicers. (The CFPB estimates more than 30 million borrower accounts may be affected by transfers among loan servicers or to different servicing technology platforms.) Issues with previous transfers among loan servicers have been identified, including the following:

- some loan servicers have experienced significant operational challenges in managing borrower account transfers while also implementing major loan program changes, and
- transferee loan servicers have reported receiving incomplete borrower account information from the transferor loan servicer.

Other issues with the administration and loan servicing environment of the federal student loan programs have also been previously identified. For example, the CFPB has identified problems relating to loan servicers' disclosure of student loan terms and conditions and breakdowns in customer service. Loan servicers have reported receiving fragmented, incomplete, and untimely guidance from ED with respect to implementing ED policies.

Transfers of student loan accounts among servicers and historical issues encountered in the administration and loan servicing environment may pose additional complications for borrower return to repayment.

### Funding for Administration and Servicing

Funds for the administration of the federal student aid programs, including the student loan programs, are provided via annual discretionary appropriations. Over the past several years, funding for aid administration has gradually increased. For FY2023, ED requested a $620 million (30%) increase in discretionary appropriations over the FY2022 amount for student aid administration, but funding for FY2023 was provided at the same amount as FY2022.

ED and loan servicers have indicated that such "flat funding" may be inadequate to support borrowers' smooth transition into repayment. For instance, in light of this flat funding, it has been reported that ED has decreased funding to support federal student loan servicers' customer service efforts. As a result, federal student loan servicers have recently reduced their customer service staffing numbers, and ED has reduced the minimum number of customer service hours loan servicers are required to provide. Inadequate staffing may hamper customer service and leave borrowers transitioning into repayment with insufficient support in navigating the terms and conditions of their student loans.

For FY2024, S. 2624, the proposed Departments of Labor, Health and Human Services, and Education and Related Agencies (Labor-ED-HHS) Appropriations Act, 2024, would provide an additional $150,000,000 in appropriations over FY2023 amounts (a 7% increase), specifically for "ensuring the continuation of student loan servicing activities, including supporting borrowers reentering repayment." It would also authorize ED to transfer a higher proportion of appropriations among accounts than is typically authorized for "continuation of basic operations, including student loan servicing." The House FY2024 Labor-HHS-ED appropriations bill would decrease funding for student aid administration by $264,736,000 (-13%).

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