Student-Loan Borrowers Now Have More Breathing Room. It Won't Last Forever.



Justin Sullivan, Getty Images Anne Stokes works on her tablet at the NRG Center evacuation center in September 2017 in Houston after Hurricane Harvey hit Southern Texas.

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The U.S. Department of Education said in a statement that it does not track how many borrowers affected by the 2017 natural disasters eventually defaulted on their federal loans. However, three consecutive quarterly reports by the department’s Federal Student Aid office between August 2019 and January 2020 cited an uptick in defaults or delinquencies due to borrowers whose lives were altered by the disaster exiting forbearance and once again becoming on the hook for repayment.

In January, if payments are suddenly due again, delinquencies and defaults could rise but on a "much larger scale" than in 2017, according to Clare McCann, deputy director for federal higher-education policy at the think tank New America. "I think that the financial circumstances people are facing are clearly much worse for more people now," McCann said. "I think there is a lot of confusion among borrowers about what the forbearances mean and who they apply to and how long they will last."

The Democratic-controlled House of Representatives has proposed some solutions in its pitch for a new stimulus package, called the Heroes Act. Among other measures, it would extend the payment-pause period to the end of September 2021. But the Republican-controlled Senate's proposed bill, the Heals Act does not offer an extension, instead proposing more sweeping changes to the student-loan-repayment system. And the passage of any new stimulus measures appears to be at least weeks away.

The U.S. Department of Education said it started communicating with borrowers in July that the zero-interest payment pause was temporary, that income-driven repayment plans were available, and that they should begin planning. "Communications urge borrowers to explore tools and resources on StudentAid.gov to help borrowers find the right repayment plan for their current financial situation and goals," the statement read.

It is unclear exactly why borrowers who went into emergency forbearance during the 2017 disasters ended up in default. Experts say a combination of factors that resemble the current pandemic may have contributed to the spike.

Borrowers during those disasters may have been struggling to make payments before the disaster and then their financial situation worsened after, said Michele Streeter, a policy analyst at the Institute for College Access and Success.

Others may have been making their payments and staying out of default before the administrative forbearance but, as a result of the disaster, dropped out of

the system and did not get any guidance from their servicing company, she said, such as advice to join an income-driven repayment plan.

Ben Kaufman, a research and policy analyst at the Student Borrower Protection Center, in a recent report placed the blame for the spike in defaults stemming from the 2017 disasters on "sloppy or predatory student-loan-servicing practices." He pointed to a pair of complaints filed by borrowers with the Consumer Financial Protection Bureau against Nelnet and Navient. Kaufman is a former CFPB financial analyst for student-lending issues.

Getting in touch with borrowers who are delinquent on their loans or in default can often be difficult for student-loan servicers and FSA, which struggle to find up-to-date addresses and contact information. It was probably even harder during the 2017 disasters since many people were displaced, McCann said.

During the pandemic, displacement may not be a problem; fewer people are leaving their homes and moving. But 30 million to 40 million people are at risk of eviction over the next several months, according to a recent report by the Aspen Institute.

Compared to past disasters, many more borrowers are going to need regular reminders and assistance so they can re-enter their bank-account information and set themselves back up on automatic payments, Streeter said. Without that communication, it could create "a whole new cohort of people" who find themselves struggling due to the bureaucracy involved in the repayment process, she said.

Lawmakers have the power to protect borrowers from falling off the financial cliff.

Along with extending the repayment pause, the Heroes Act would would forgive up to $10,000 for economically distressed borrowers of federal student loans, among other measures.

McCann said the House's Heroes Act is "a step in the right direction," but it won't solve the problem.

Borrowers often fall off track with their payments simply because income-driven repayment plans can be difficult to enroll in and the annual recertification process is complex, said Sarah Sattelmeyer, director of the Pew Charitable Trusts' student-borrower success project.

While the Senate's Heals Act would not extend the emergency forbearance period, it could improve the process. The act would overhaul the student-loan-repayment system, creating just two plans: an income-based option and a standard 10-year plan. It would also allow borrowers to verbally attest that they are unemployed when calculating their income-driven payment amount, said McCann. But she said it doesn't do enough to help borrowers who may experience a "payment shock" when payments are due again.

Also, while simplifying the system could make sense in another context, said Streeter, overhauling the repayment system in just a few months during a global pandemic is "unrealistic" and "impossible."

There are also effective minor fixes that could be included in the next stimulus package.

The Department of Education and servicing companies are obligated under the Cares Act to communicate to borrowers when they are once again on the hook for payments. A robust outreach campaign by servicing companies before the payment pause ends is crucial, said Sattelmeyer.

But servicing companies should also be given more time to reach and provide additional assistance to borrowers who miss payments immediately after the protections expire, Sattelmeyer added. Congress could also allow servicing companies to enroll borrowers in income-driven repayment plans verbally or

online without requiring extensive paperwork that often acts as a barrier, she added.

A grace period that does not penalize borrowers who are delinquent immediately after the payment pause is lifted could also help ease people back onto repayment and give servicing companies additional time to reach borrowers and get them on income-driven repayment plans, said McCann.

Lastly, no one can predict when the pandemic will finally end. Instead of arbitrary deadlines, Streeter said, the suspended payment period should end at a time when the economy improves to a certain benchmark and borrowers are in a setting where they can afford to make their payments.

While none of the changes will ultimately prevent borrowers from falling behind when the payment pause ends, said Streeter, it could at least lessen the blow.

Update (Aug. 12, 2020, 10:54 a.m.): This article has been updated to include a response from the Education Department about when it started communicating with borrowers.