CARES Act provides relief for many student loan borrowers

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Borrowers with certain federally held student loans have been aforded multiple benefits thanks to the COVID-19 Pandemic Education Relief Act of 2020, part of the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) passed by the House on Friday March 27, 2020 and signed into law.

The most signifcant relief for these borrowers is:

- An automatic 0% interest rate on their student loans, and
- An automatic suspension of all payments due.

These relief provisions were slated to expire on September 30, 2020, however, as a result of multiple Executive orders, they have been extended until May 1, 2022.

Which federally held student loans qualify for the relief?

	William D. Ford Federal Direct Loan Program Loans	Federal Family Education Loan Program Loans	Federal Perkins Loan Program
Qualify for relief under COVID-19 Pandemic Education Relief Act of 2020?	Yes	Yes – if the loan is federally held No – if the loan is held by a private lender	Yes – if the loan is federally held No – if the loan is held by the institution

For purposes of certain loan forgiveness programs, including the Public Service Loan Forgiveness Program and the Teacher Loan Forgiveness Program, each month a loan payment is suspended will be treated as if a payment had been made.

The following is a list of additional benefits included in the COVID-19 Pandemic Education Relief Act of 2020:

- Suspension of wage garnishment and Treasury offset (i.e. withholding monies from federal income tax returns, Social Security payments, etc. to repay a defaulted student loan);
- Federal Work Study payments may continue to work-study students who were unable to fulfill their work-study obligation for all or part of an academic year due to a qualifying emergency (not to exceed one academic year);[1]
- If a student does not complete a semester due to a qualifying emergency, that semester will not count for purposes of subsidized loan usage limits or Federal Pell Grant duration limits;

- If a student withdraws from an institution of higher education as a result of a qualifying emergency, the student will not have to repay any portion of a federal grant associated with that payment period or repay a Direct loan made during the payment period;
- Institutions of higher education may award emergency financial aid grants to assist undergraduate or graduate students with unexpected expenses and unmet financial need as a result of a qualifying emergency (not to exceed $6,495 per student in 2021);[2]
- Teaching service that is part-time or temporarily interrupted as a result of a qualifying emergency will be considered full-time service and fulfill the service obligations under the TEACH Grant requirements;
- If the teaching service of a borrower is temporarily interrupted due to a qualifying emergency and after the temporary interruption the borrower resumes teaching services and completes a total of 5 years of qualifying teaching service, the requirement that such years of teaching service be consecutive will be waived for purposes of eligibility for Teacher Loan Forgiveness.

WHAT'S A BORROWER TO DO?

Those borrowers with federally held student loans

This is a great opportunity for borrowers who had fallen behind to get current on their loans. Borrowers have time to save and put that money towards their student loans to pay down any accrued interest or late fees and make up any missed payments.[3]

However, any borrower who has been adversely financially impacted during this time (i.e. loss of a job, reduced earnings, etc.) doesn't have to do anything as far as their student loans are concerned. It's as if a "pause button" has been hit on their student loans. No interest will accrue and no payments will be due. They can pick up exactly where they left off, in February 2022.

If borrowers are struggling financially come February, here are few things they can consider at that time:[4]

— Changing repayment plans
— Applying for a deferment
— Applying for a forbearance

For those borrowers who were not adversely financially impacted during this time and otherwise are in a strong financial position, continuing to make monthly payments will ultimately reduce the cumulative amount repaid over the life of the loans (because the entire monthly payment will be going towards principal).[5]

However, for those borrowers aiming for forgiveness under the Public Service Loan Forgiveness Program, it doesn't make much sense to make any payments during this time because the legislation provides that the number of months that payments are suspended *will count* towards time in repayment. (Borrowers who qualify for Public Service Loan Forgiveness will have the remaining balance of their loans forgiven after 120 qualifying monthly payments.)

A final word of caution for all borrowers of federally held loans, particularly those who have not been adversely financially impacted during this time and are otherwise in a strong financial position: You may be bombarded with offers to refinance your student loans for a lower interest rate with a private lender. Once that occurs, poof! You have lost all the benefits of recent legislation and all the benefits (i.e. safeguards) of keeping your loans with the federal government, for example:

— Repayment plans (at least eight to choose from and many are exceptionally generous)
— Deferments
— Forbearances
— Forgiveness programs

No private lenders are offering 0% interest. Borrowers who refinance will likely be required to begin making monthly payments immediately. It may be prudent to reassess the decision to refinance your student loans in February when things have (hopefully) returned to normal.

Those borrowers without federally held student loans

Those borrowers with loans from state governments or agencies, institutions of higher education, or private lenders should reach out to their lenders as soon as possible if they anticipate having trouble continuing to make their monthly student loan payments to explore all the relief possibilities offered by their lender.

This material is not a recommendation to buy or sell a financial product or to adopt an investment strategy. Investors should discuss their specific situation with their financial professional.

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[1] A qualifying emergency is defined in the COVID-19 Pandemic Education Relief Act of 2020 as: (a) a public health emergency related to the coronavirus declared by the Secretary of Health and Human Services, (b) an event related to the coronavirus for which the President declared a major disaster or an emergency, or (c) a national emergency related to the coronavirus declared by the President.

[2] Not to exceed the maximum Federal Pell Grant for the applicable award year.

[3] A loan is considered delinquent if a monthly payment is made after its due date. A delinquent loan will generally enter default after 270 days of delinquency.

[4] The Student Loan Simulator can be used to compare different repayment plans: https://studentaid.gov/loan-simulator/. You can access forms to request a deferment or forbearance, here: https://studentaid.gov/app/formLibrary.action.

[5] You should confirm with your loan servicer, either on the phone or in writing, that your monthly payment will be used to entirely pay down principal.