

August 2021

For many readers, you are sending off the kids to college. For some this will be their first experience of living away from home and setting up their own household. Post-secondary education can be an expensive undertaking, whether a 4-year liberal arts university, a community college, or vocational education. The costs add up, whether for housing, tuition, fees, and living incidentals, and for many the cost of higher education is paid by borrowing through student loan programs. For recent grads, the repayment process for these loans can be a daunting task.

On August 6, the U.S. Department of Education announced an extension of the pause on federal student loan payments to January 31, 2022. The payment moratorium, currently in effect for millions of federal student loan borrowers, was set to end on September 30, 2021. The Department noted that this extension would be the last one. U.S. Secretary of Education Miguel Cardona stated: "As our nation's economy continues to recover from a deep hole, this final extension will give students and borrowers the time they need to plan for restart and ensure a smooth pathway back to repayment."

Is student loan forgiveness likely when the payment pause ends? Probably not. While some legislators have gone on record in favor of forging a certain amount of federal student loan debt per borrower, the Biden administration has not taken any steps in this direction and has given no indication that it will do so. Borrowers should be ready to start repaying their loans when the pause ends on January 31, 2022. In the case of continued financial hardship at that time, borrowers should contact their loan servicer to inquire about requesting an individual deferment or forbearance.

There have been 4 pauses to federal student loan repayment since the start of the pandemic. The first pause was instituted in March 2020 for 6 months (through September 2020) when Congress passed the Coronavirus Aid, Relief, and Economic Security (CARES) Act. The second and third pauses came via presidential executive order and extended the payment pause through January 2021 and through September 2021, respectively. The fourth and "final" extension is now scheduled through January 31, 2022. This means federal student loan payments will resume beginning February 1, 2022.

Will interest continue to accrue during the moratorium period? No, interest does not accrue during the moratorium period. Essentially, the interest rate is set at 0%. Borrowers can choose to keep making their monthly student loan payments during the moratorium period if they wish. The full amount of a borrower's payment will be applied to principal. Borrowers can also choose to make partial payments during this time.

Private student loans do not qualify and are not eligible for the payment pause. Only student loans held by the federal government are eligible. This includes Federal Direct Loans (which includes PLUS Loans), along with Federal Perkins Loans and Federal Family Education Loan (FFEL) Program held by the Department of Education.

More information is available at the federal student aid website. The Department of Education will begin notifying borrowers about this final extension in the coming days and it will release resources and information about how to plan for repayment as the end of the pause approaches.

In our current economy, the costs of education may be offset by qualification and access to higher earning potential. This opportunity may meet student debt obligations, but required payments eat into any budget. For parents, they may note a sharp decline in the weekly food expense or keeping an 18-year-old fed, but as a note of caution, stock up on laundry detergent in anticipation of the first trip home by the new college student.