



Insight

Assessing the Administration's Freeze of Student Loan Interest Payments

THOMAS WADE | MARCH 16, 2020

Executive Summary

- As part of a suite of emergency responses, the Trump Administration on Friday, March 13, announced that it will temporarily waive interest payments on federal student loans.
- This measure does nothing in the short term to change student-loan monthly repayments, limiting any potential economic relief it could provide.
- It is not obvious that either the president or the Department of Education have the legal or statutory authority to make this change, and details as to how the waiver will be put into practice have not yet been communicated.

Introduction

As fears of the economic and public-health impacts of the COVID-19 coronavirus pandemic grow, on Friday, March 13, President Trump declared a national emergency and announced a series of economic relief measures. In addition to conferring “[broad new authorities](#)” on Health and Human Services Secretary Alex Azar and announcing the purchase of significant reserves of oil, President Trump also declared his decision to waive interest payments on federal student loans, noting “[I’ve waived interest on all student loans held by federal government agencies, and that will be until further notice.](#)”

The Mechanics of Relief

Seemingly included in the interest payment waiver

- As of March 13, interest payments on federal student loans will be waived.
- This waiver, although “temporary,” is in effect “until further notice,” and the Department of Education (ED) has indicated that it [does not know](#) how long the waiver will be in effect.
- The waiver applies only to interest payments on student loans. As a result, it is likely that student loan repayments will continue. These payments, however, would go directly towards paying off principal.
- Students (or, more accurately, graduates) do not need to apply for the waiver, which will go into effect automatically and will be [retroactive back to Friday’s](#)
- Although the authority seemingly belongs to the ED (more on this below), the actual burden for implementation will fall on the nine companies that the ED uses to collect federal loan payments. Scott Buchanan, president of the trade association for federal student loan servicers, the Student Loan Servicing Alliance, [noted](#): “Servicers and the Department have already begun discussions on how to implement this response to the current situation and we look forward to being able to provide more information to borrowers very shortly.”

Seemingly not included in the interest payment waiver

- Despite calls by [congressional Democrats](#) and others, this measure does not represent any form of student loan forgiveness or relief.
- Perhaps most crucially, normal monthly student loan repayments will not change, raising the question of what economic relief this offers in this time of economic difficulty for those with student loans. Entirely separate to this announcement, however, federal student loans have always offered the option to defer payments under certain circumstances, however, including economic hardship, although interest will continue to accrue. The combination of these two factors may offer certain graduates something approaching relief.
- This “freeze” does not apply to private student loans, and only applies to student loans “[held by federal government agencies](#),” indicating that some federal student loans may be ineligible – most notably the majority of Federal Family Education Loans.
- Graduates in default are not covered by this announcement and may still undergo wage garnishment and involuntary seizure of tax refunds. Graduates with significant outstanding uncapitalized interest are also seemingly ineligible, as federal law requires that interest be paid off prior to principal.
- As of publication, neither the ED nor any of the student loan servicers have published any information as to how they intend to operationalize this student loan interest freeze.

The relevant authority

In declaring a national emergency, President Trump referenced his powers to direct the flow of emergency funding and federal assistance under the Stafford Act. This declaration was a somewhat unusual invocation of a law typically employed in response to national disasters such as floods and hurricanes, and this declaration does not appear to be the legal basis for this interest freeze.

Instead we look to the ED in whom this authority seemingly rests. The ED possesses a limited ability to forgive student loans via the Public Service Loan Forgiveness Program, a program that, as of September 2018, had denied [99 percent of all applicants](#). It is assumed that the ED also has the capacity to suspend interest under its authority. *The Washington Post* went so far as to note that “The Education Department can suspend federal student loan payments and accruing interest using the same authority Sen. Elizabeth Warren (D-Mass) said she would employ to cancel education debt.” If such a sweeping authority does exist, it is not clear from where it is derived in statute.

Mark Kantrowitz provides a [far more nuanced account](#) for Forbes. On his review of the Higher Education Act of 1965, neither the president nor the ED have the authority to waive interest repayment; that privilege belongs only to Congress. The ED would need to issue new regulations via a rulemaking process that would take months and involve considerable controversy.

The estimated impact

With [\\$1.2 trillion in direct loans to more than 35 million](#) borrowers, the federal government is the biggest holder of student debt. In 2018, the government collected roughly [\\$20 billion](#) in interest charges as part of some \$80 billion it received in overall repayments. Assuming that this “temporary” measure lasted a full month, it would presumably involve \$1.7 billion less ultimately flowing back to government – a somewhat negligible drop in the bucket of government funding. The impacts may be more severe, however, for the nine student- loan servicing companies, but to the extent that individuals are still making student loan repayments, the impacts could again

be negligible, depending on their servicing agreements. Finally, for those with student loans the impact will be worse than negligible – there will be no change at all to monthly repayments. While graduates may end up paying less over the life of the loan (one month’s worth of interest, perhaps), it is difficult to frame this as an emergency relief measure.

Conclusions

The Trump Administration has embarked on a program far short of student loan forgiveness that rests on dubious authority, has communicated nothing in the way of how it will be operationalized, and ultimately will provide little relief to those with student debt over the long term and none in the short. Although more (really, any) details are expected to come over the next few days, this measure can reliably be dismissed as a PR stunt and nothing that will provide any economic stimulus or relief.