



**Insight**

# Education Provisions in the HEROES Act

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## Executive Summary

- The Health and Economic Recovery Omnibus Emergency Solutions (HEROES) Act, the proposed fourth coronavirus aid package, contains several education provisions that expand upon those that were in the Coronavirus Aid, Relief, and Economic Security (CARES) Act.
- Under HEROES, “economically distressed” student loan holders would see up to \$10,000 in outstanding balances forgiven, which could cost up to \$31 billion in lost revenue for the Department of Education.
- HEROES initially provided \$10,000 in forgiveness for all holders of student loans, which would have cost the Department of Education up to \$440 billion, but that provision was ultimately dropped due to cost concerns.
- HEROES would provide an additional \$90 billion in state grants to be used for early childhood, elementary, secondary, and post-secondary education systems; a third of funds must go to higher education institutions.

## Introduction

Democrats in the House of Representatives recently released the Health and Economic Recovery Omnibus Emergency Solutions (HEROES) Act, a fourth-phase federal response to the COVID-19 pandemic. The HEROES Act contains multiple provisions for the federal government to cancel student debt and provide additional funding for education systems.

## Student Loan Forbearance and Forgiveness

Under the HEROES Act, students, including those with private loans, would see their loan repayments suspended, interest free, until September 30th, 2021. Economically distressed student borrowers would also be eligible for up to \$10,000 in loan forgiveness. HEROES defines economically distressed students as those who are 30 or more days delinquent on their student loans, or in deferment/forbearance prior to March 12, 2020. The bill originally extended forgiveness to all holders of federal and private loans, which could have cost up to \$440 billion, but this provision was scaled back due to cost concerns. As of Q1 2020, about 3.1 million federal student loan holders were delinquent or in default out of a total of 45.2 million. In total, the current forgiveness provision would cost the Department of Education about \$31.4 billion compared to the prior \$440 billion.

These provisions contrast with those in the Coronavirus Assistance, Relief, and Economic Security (CARES) Act, which provided loan forgiveness for students that dropped out for the semester and suspended loan repayments, interest free, until September 2020 for only federal student-loan borrowers.

## Additional Funding for States and Higher Education Institutions

Under HEROES, the Department of Education would provide up to \$90 billion through September 2022 for states to use on their early childhood, elementary, secondary, and post-secondary education systems. A third of this total must go toward higher education institutions. In contrast, the CARES Act provided about \$14 billion, which the Department of Education distributed directly to colleges.

The allocation formula under HEROES is very similar to that of CARES, however. Under CARES, the federal government allocated funds to colleges based upon the number of full-time Pell Grant recipients at a specific college. Pell Grants are rewarded to students that demonstrate financial need. Unlike loans, the grants do not need to be paid back. The CARES allocation formula used Pell Grants as a proxy for the number of low-income students at a specific institution, thereby weighting the distributed funds more heavily toward schools with higher numbers of low-income students.

The challenge with allocating funds by the number of full-time Pell Grant recipients is that community colleges lose out on funding because about 65 percent of students at community colleges are enrolled part-time. The Pell Grant program also tends to underserve many eligible students. In California, for example, about 20 percent of community college students qualified for Pell Grants but did not receive them. These factors have reduced the amount that community colleges have received in CARES and therefore would receive under HEROES.

## **Conclusion**

The HEROES Act has two key implications for education. It provides relief for economically distressed student debt holders by cancelling their balances by up to \$10,000; this provision would ultimately cost the federal government up to \$31.4 billion. Second, HEROES, much like CARES, prioritizes relief funding for four-year universities over two-year community colleges.