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President Biden appears to be more open to offering student loan forgiveness ahead of the November elections. However, the move is not guaranteed. As an alternative, the president could continue the current moratorium on student loan payments and interest.

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BIDEN CONSIDERS STUDENT LOAN FORGIVENESS

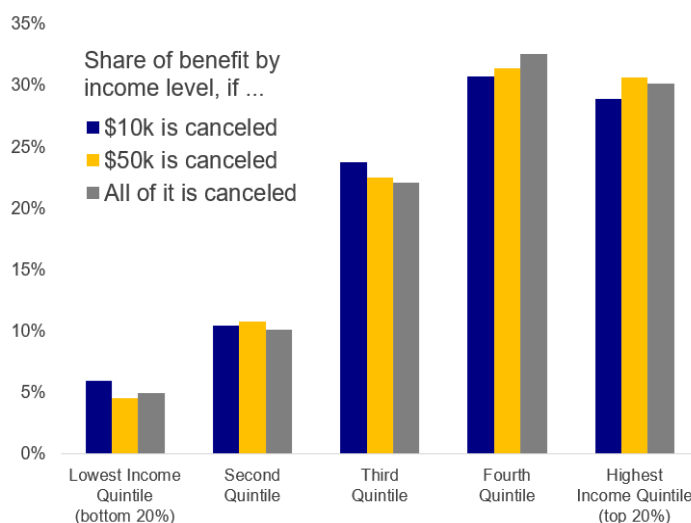
A shift in stance influenced by political realities. President Biden has long expressed support for \$10,000 of student loan forgiveness but has not wanted to use executive action to do it. With a divided Congress unlikely to take up legislation on the issue, the November midterm elections fast approaching, and shaky presidential approval numbers (down 21 points from a year ago among younger voters), the president has recently indicated a greater openness to forgiving loans via executive action. However, Biden also has other political considerations, such as the impact forgiveness would have on inflation and the possibility of alienating voters opposed to the policy.

Forgiveness would likely be limited and means-tested. Any action Biden takes would only impact federal government student loans (not private), but the \$1.7 trillion in outstanding student debt is nearly all federal. According to the Department of Education (DoEd), 43.4 million Americans have student loan debt with an average balance of \$37,113. There have been calls for the president to offer \$50,000 in forgiveness, but data indicates that this would disproportionately benefit high earners (as can be seen in the chart). Biden appears to favor \$10,000 of forgiveness, potentially with a \$125,000 income cap. Eligibility may also be limited to undergraduate loans. Finally, we'd note that a provision of the 2021 American Rescue Plan exempts federal, state, institutional, and private student loan forgiveness from federal income taxes through the end of 2025.

Executive action could lead to legal challenges or red tape. Biden has two forgiveness options: issue an executive order or direct the Department of Education to change its repayment rules. The first would likely face legal challenges as the president's authority to act via executive action is questionable. If it did stand up in court, forgiveness would apply only to existing borrowers with no guarantee that future administrations would continue the policy. The second option would require working through the rules process to modify income-based repayment programs—which could take years to implement.

Extending the payment moratorium is a fallback option. An executive action to forgive loans could come at any time but would most likely coincide with the August 31 expiration of a pandemic-era moratorium on payments of federal student loans and interest. As an alternative to offering loan forgiveness, that moratorium could be extended beyond August 31. This would provide some relief to younger voters while deflecting accusations of providing a handout or contributing to inflation. We'll be keeping an eye on the politics, economics, and mechanics of the developing situation.

Who benefits most from student loan forgiveness?



According to the group Committee for a Responsible Federal Budget (CRFB), the highest earners would get the greatest financial benefit from student loan cancelation. (June 2021)

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