Public Service Loan Forgiveness Waivers: A Time-Limited Opportunity for Debt Relief

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Policy Overview:

The Public Service Loan Forgiveness (PSLF) program, which was introduced into law under President George W. Bush in 2007 as part of the College Cost Reduction and Access Act, provides full forgiveness of federal student loans for those employed in "public service" for ten years who make "qualifying" monthly payments (120) during this period. With more than 35 million workers[1] comprising nearly 24% of the labor force employed in the public and non-profit sectors, the PSLF program would have been expected to provide relief to a substantial number of borrowers with long-standing public service careers, including teachers, social workers, protection officers, firefighters and many healthcare workers.

Yet, in the first year of eligibility for forgiveness (2017), only 96 borrowers claimed benefits (338 by the end of 2018) and even by the start of 2022 only 84,163 had received benefits. The program has been plagued from the outset by problems of design and administrative mistakes which span multiple presidential administrations. Policies which led to a patchwork of loans and payment plans (in particular, a shift from FFEL loans to Direct Student Loans, see *Appendix A: Timeline of Public Service Loan Forgiveness*) created a confusing pathway to forgiveness for otherwise eligible borrowers.

The low take-up of PSLF comes in the context of national attention to student debt, as more than 40 million people hold student loan debt totaling $1.7 trillion. For some, student loans have been – and continue to be – a vital source of capital to finance high return investments in skill development. Yet, for others, a legacy of predatory and underperforming post-secondary institutions combined with limited labor market opportunities generate compounding balances, with little near term prospects of recovery. And for others, the expectation of loan relief with commitment to public service careers has been illusory.

The high-decibel debate over potential across-the-board student loan forgiveness threatens to overshadow real relief that is now available to teachers and other public service employees through a series of administrative waivers that are set to expire October 31, 2022.[2] These waivers, which include additional provisions enacted in April 2022, should erase all federal student loan debt for public service workers who entered repayment in 2007 or later. And, for those with fewer years of experience, there is now a clear path to complete forgiveness of federal student loan debt after 10 years of post-degree employment.

The immediate challenge for PSLF forgiveness is the problem of takeup: if eligible participants do not take specific actions by October 31, 2022 – before the expiration of the waiver – the window for relief

[1] This estimate includes federal, state, and local government employees as well as non-profit employees and active-duty servicemembers following previous calculations by the Consumer Finance Protection Bureau.
[2] Differences in assessment of the tradeoffs tied to forgiveness appear in the national media, along with often heated exchanges on social media sites like twitter. [See, for example, Eaton, C., Villalobos, A., Wherry, F. (2022, May 17). The Government Gave Out Bad Loans. Students Deserve a Bailout [Editorial]. *The New York Times.* The Editorial Board. (2022, May 14). Student Debt is Crushing. Canceling It for Everyone is Still a Bad Idea [Editorial]. *The New York Times.*]

will likely close.[3] Not only do individuals benefit from taking up PSLF, but states and communities benefit when long-term public service workers gain greater financial security.

Problems Addressed by the Waivers:

Four primary challenges are addressed with the waivers; these concern the type of loans held by individuals, the type of repayment program, the treatment of forbearance, and the periods of employment counting for forgiveness. What is significant about these changes is that they apply retroactively to adjust for demonstrated deficiencies in program administration.

Expanding eligibility to prior payments on non-Direct Loans: The 2007 PSLF authorizing language restricts qualifying payments to those on Federal Direct Loans.[4] Prior to 2010, however, most borrowers received Federal Family Education Loans (FFEL), government guaranteed loans from private lenders. In 2008 $122.5 billion of student loans were direct while $446.5 billion were FFEL; today $225.7 billion in FFEL loans remain outstanding, held by 9.9 million borrowers. Originally, borrowers with non-Direct loans could gain access to PSLF by consolidating them into Direct Consolidation loans; however, any payments made prior to loan consolidation did not count towards PSLF. This led to confusion for borrowers, particularly those among the first cohorts eligible for PSLF. Key recurring issues included:

- Failure of loan servicers to inform borrowers that their loans were ineligible for PSLF. After eventual consolidation, prior payments thought to be fulfilling PSLF did not qualify as payments[5].
- Delays of loan consolidation due to inaccurate or missing information from servicers – the process, which typically takes about 30 days, could take upwards of six months.

Under the PSLF waiver announced in October 2021 by the Department of Education, *borrowers can retroactively receive credit prior periods of repayment on other loans paid before consolidation*, though borrowers must still complete a consolidation to a Direct Loan before forgiveness under PSLF.

Credit to Repayment Counts paid under Ineligible Payment Plan: In addition to eligible payments being limited to those on Direct Loans, borrowers must repay their loans under an income-driven repayment plan or standard 10-year plan for their payments to qualify for PSLF traditionally. In 2021, about 6.79 million borrowers were not on a standard or income-driven repayment plan; in 2017, about 4.1 million borrowers were not on a qualifying plan[6]. Borrowers faced informational barriers from servicers as well as bureaucratic difficulties in re-enrolling in income-driven repayment plans[7]:

[3] Potential waiver extension is far from guaranteed and will likely tie to administrative and judicial ruling about the continuing applicability of the "state of emergency" declaration.

[4] By the definition of the statute, this means: Federal Direct Stafford Loan, Federal Direct PLUS Loan, or Federal Direct Unsubsidized Stafford Loan, or a Federal Direct Consolidation Loans. When Congress passed the authorizing legislation for the College Cost Reduction and Access Act, those who borrowed under FFEL were given a path to PSLF but to access the PSLF program they had to consolidate loans under the Federal Direct Lending program. Two "downsides" may have limited consolidation: first is the administrative hassle and second is the required change in interest rate which might have been short term disadvantageous.

[5] Borrowers who consolidated also lost eligibility on prior payments towards the 20 to 25 year timeline to forgiveness under income-driven repayment programs.

[6] Qualifying plans under income-driven repayment include income-contingent and income-based plans, as well as Pay as You Earn repayment plans. Non-qualifying plans included in the data are repayment plans greater than 10 years, graduated payment plans, and alternative plans.

[7] This requirement also exacerbated confusion about limits on *which loans* counted towards PSLF. Because income-based repayments do not apply to FFEL or Perkins loans – only Direct Loans, when public service employees consolidated their loans to later enroll in an income-based repayment plan, their prior payments became ineligible for PSLF (Flannery, 2021; Delisle & Holt, 2017).

- Servicers routinely failed to inform borrowers of repayment-plan requirements, despite indications that they were in public service or pursuing PSLF.
- Borrowers are required to re-enroll in income-based repayment plans (IBR) annually based on family size and annual income ("recertify"). Borrowers faced servicing delays for their recertification paperwork – resulting in both a disqualification for PSLF during those payments and higher payments in general. Recertification issues were larger barriers when borrowers attempted to use alternative documentation for income reporting – of which half of all borrowers in IDR use.

Borrowers may now receive retroactive credit on payment periods under the wrong repayment plan.

Credit to Repayment Counts for Forbearance and Deferment Periods: The Department of Education shared findings that loan servicers often placed borrowers in forbearance rather than into an income-driven repayment plan: from July 2009 to March 2020, more than 13 percent of Direct Loan borrowers used cumulative forbearance periods of at least 36 months. This led borrowers to choose a pause on loan payments – which do not count towards any forgiveness and in some cases, can lead to higher loan balances due to interest accrual – rather than income-driven plans that allow progression towards loan forgiveness.

Under an April 2022 administrative change, forbearance periods of 12 or more consecutive months, or 36 or more cumulative months will count towards PSLF (and IDR) payment counts.

Flexibility for Previously Non-Eligible Payments and Borrowers: The waiver also addresses three particular circumstances that had previously rendered borrowers or payments ineligible for PSLF . Borrowers may now retroactively count periods of payment in which they were pursuing Teacher Loan Forgiveness or when payments were late or less than the amount due; furthermore, borrowers who completed 120 payments with a qualifying employer but are not *employed* with a qualifying employer at the time of their application and forgiveness may receive PSLF.

Under the previous statutory language, periods of repayment in which teachers were also qualifying for Teacher Loan Forgiveness (which requires five years of payment for forgiveness of 5,000 dollars or 17,500 for specific subject areas) forfeited the eligibility of those payments towards full forgiveness under PSLF. In 2021, 27,000 teachers received forgiveness through the TLF program.

Just how many individuals stand to gain under these different waiver provisions? The absence of data linking employment histories and loan balances by the number of years in repayment makes this impossible to know with certainty. A back-of-the envelope calculation of $893 billion in repayment for 10 years or more multiplied by an assumption of 12.5% of borrowers with 10 years of public service would suggest that $111 billion in loans would be eligible for immediate forgiveness under PSLF, with many more borrowers moved closer to the point of forgiveness.[8]

Steps to Gain PSLF Forgiveness for Waiver Beneficiaries

Receiving the benefits of a PSLF waiver is not automatic, reflecting in part the complexity of a loan as a financial instrument. A growing social science literature demonstrates how "hassle costs" and

[8] This calculation follows (Hornsby, 2022) with the assumption of a somewhat higher volume of Direct Loans in repayment for a period greater than 10 years.

administrative burden may deter takeup of public benefits. In this sense, simple nudges or basic notifications can not be expected to resolve the takeup problem.[9]

The steps required to achieve forgiveness include the need to consolidate FFEL loans and the completion of the PSLF waiver form, with the latter requiring extensive documentation or certification of an employer. And there are a host of circumstances that may create additional complications. Helping public service workers realize the benefits of PSLF waivers will likely require concerted collective action. How could public and nonprofit entities help individuals avail themselves of PSLF benefits? A necessary but not sufficient condition is basic outreach and engagement. Two pieces of information are needed for any outreach effort: 1) who is a public service worker and what is the duration of public service? And 2) who has student loans outstanding?

Neither states, public sector employers nor post-secondary institutions have both pieces of information linked and while such links may be technically feasible, the legal and logistical barriers are prohibitive in the short term.

1. *Employer outreach*: Whether it is states or public schools – these entities have credibility in outreach and should be able to identify workers by tenure of employment; however, they DO NOT know who has loans.
2. *Post-secondary outreach*: Institutions and servicers know who has loans (particularly FFEL) but do not know who is a public service employee.

For those individuals who hold FFEL loans and would need to consolidate to receive PSLF (or IDR) relief, the channel of engagement from post-secondary institutions may be particularly important.

Providing effective outreach and takeup assistance requires iterative design and testing. There would be a substantial return to focus groups with some identified borrowers, A/B testing with initial design and then a rollout that, again, facilitated some efficacy testing (not to mention learning about borrower actions). Such testing would allow for the development of automated solutions for as many of the steps in the PSLF waiver as possible. A further reason for a staggered rollout is that one would want to avoid overwhelming support resources. Specific ways to provide needed supports that encourage takeup include: 1) providing partial automation of the certification or work experiences, 2) pre-filling forms with administrative data (including employment history and loan information), and 3) development of dedicated support teams with the capacity to resolve challenges that involve consolidation, employment certification and loan payment histories.

The stakes are high and pressing: PSLF loan forgiveness could provide immediate relief, constituting billions of dollars for millions of borrowers.

Achieving these gains requires immediate investment (before the expiration of the waivers) and the collaboration among stakeholders – state & local governments, employers, researchers and those who support policy innovation.

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[9] Finkelstein, A., & Notowidigdo, M. (2019). "Take-up and targeting: Experimental evidence from snap." *Quarterly Journal of Economics*, 134(3), 1506–1556.

Appendix A: Timeline of Public Service Loan Forgiveness

2007

Passage of PSLF authorizing bill The PSLF program was introduced into law under President George W. Bush as part of the College Cost Reduction and Access Act

2008

Student loan limits increase by $875 for first-year students and $1,000 for second year students. Loan limits increase again by $2,000 for all students in 2009.

2010

FFEL program is eliminated for all new loans beginning July 1, 2010 in law passed by Congress and signed by President Barack Obama. All following loans are made under Direct Loan program.

2017

The first cohort of student loan recipients is eligible for apply for PSLF forgiveness in October 2017.

2018

Congress enacts the Temporary Expanded Public Service Loan Forgiveness, which allows borrowers who made prior payments on Direct loans on non-qualifying payment plans to use those payments towards PSLF*

- → *June 2020 – all loan servicers include TEPSLF information on websites as mandated by FSA in January 2020*
- → *November 2020 – DoE releases combined form to apply and certify for both PSLF and TEPSLF*
- → *December 2020 – TEPSLF information integrated into online PSLF help tool*
- → *June 2021 – revised denial letters to include information on contesting TEPSLF decisions*

**Eligibility remains complicated – borrowers must have either been enrolled in an income-driven repayment plan in the last 12 months of their 120 payments or paid at least as much as they would have if enrolled in an income-driven repayment plan*

Oct. 6, 2021

DoE announces a series of waivers allowing borrowers to receive credit for prior repayment periods under PSLF
Payment periods which would not have otherwise counted now count towards PSLF now count, including those:

- **Under incorrect payment plan or under other loan programs**
- **Paid before consolidating loans**
- **Late or lower-than-amount payments**
- **During which borrower received Teacher Loan Forgiveness**
- **Even if not employed or not employed by qualifying employer *at time of application/forgiveness***
- **Specific periods of forbearance or deference**

Steps for Qualifying for PSLF Waiver:

- *Consolidate outstanding loans (FFEL and Perkins loans) into a Direct Loan if applicable*
- *Complete an Employer Certification and PSLF Form*
- *Borrowers with Direct loans and completed forms for a qualifying employer will receive automatic forgiveness*

Oct. 31, 2022

Waiver Expires