

Biden administration launches new student debt repayment program

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The Biden administration launched a new income-based repayment plan for student loans this week. Known as Saving on Valuable Education (SAVE), the plan reduces monthly student loan payments for borrowers by decreasing the percentage of a person's income they must pay.

Starting next July, SAVE participants will pay 5 percent of their discretionary income above 225 percent of the federal poverty line based on their family size. For graduate loans the rate will be 10 percent with a weighted average between the two for borrowers with both. Until then borrowers will pay 10 percent of their discretionary income, defined as their post-tax income minus the 225 percent of poverty level threshold.

Based on these figures, the Department of Education expects that 1 million people will not have to make any payments through the SAVE plan. A single person making \$15 an hour, or just over \$30,000 a year, would be eligible to pay zero dollars a month on their loan.

The income-based plan decreases the percentage by half when compared to other income-based repayment plans and also voids interest accrual if the monthly payment does not cover it. Additionally, married couples will not have to report their combined income and spouses will not count towards a person's family size.

After 20 years for undergraduate loans, and 25 years for graduate loans, borrowers would become eligible for the remainder of their loan to be forgiven. For those with less than \$12,000 in loans, they would be eligible after 10 years, plus an additional year for each extra thousand dollars up to the 20-year threshold.

SAVE was initially proposed in January and comes just weeks before payments are scheduled to begin again in October. Interest accrual begins in September. Participants in the REPAYE income-based program will be automatically enrolled in SAVE and 30 million borrowers will be invited to enroll by the Department of

Education.

The Biden administration has touted the plan as a major reform that will drastically reduce student loan payments and provide a pathway for debt forgiveness for millions of borrowers. In the aftermath of the Supreme Court's decision to strike down a Biden administration plan to forgive \$10,000 in student debt for all borrowers the Democratic Party has heavily promoted the SAVE plan.

Education Secretary Miguel Cardona told reporters Monday afternoon, "With the SAVE plan, we are making a promise to every student. Your payments will be affordable. You're not going to be buried under a mountain of interest, and you won't be saddled with a lifetime of debt."

Democratic Senator Elizabeth Warren said "President Biden's SAVE plan helps Americans with student debt by capping interest growth and lowering monthly payments. That's real money back in people's pockets."

SAVE may reduce monthly payments for many borrowers, and the reduction in interest confronts a major issue that millions have struggled with for decades. Some loans are so large that the interest is greater than the payments made, causing the total loan to grow over time instead of being paid off.

But despite the vast praise from the Democratic establishment, there are a number of remaining issues with the plan.

Parents who took out loans on behalf of their children are not eligible for SAVE. They are only eligible for the most expensive plan that requires participants to pay 20 percent of their discretionary income for 25 years.

There have also been reports from borrowers of irregularities in their loan balances and the application process. *Business Insider* interviewed one woman whose monthly student loan payment was set to more than \$49,000. She reported that she had made multiple efforts to contact her loan service provider over several weeks

but that the error had not been corrected. If the issue is not rectified before October 15 when payments resume her bank account would be overdrawn.

Others have reported on social media that their estimated monthly payments under SAVE are larger than before, or through other programs, while issues with the application process have been reported by others.

Issues with the program process may be addressed but there are longstanding issues with income-based repayment programs that are not resolved by SAVE.

Under previous repayment programs, only 32 people had ever had their student loans forgiven after decades of payments as of March 2021, a product of the abysmal management of student loan accounts by federal contractors in charge of managing the records of borrowers.

The issue was so severe that the Biden administration recently announced the forgiveness of \$38 billion worth of loans to 800,000 people who had made payments for 20 years or more but never saw their remaining balance forgiven due to improper record keeping and reporting by student loan servicers. This action was almost immediately challenged in federal court by The New Civil Liberties Alliance on behalf of the right-wing Cato Institute and the Mackinac Center for Public Policy.

Nothing in the new SAVE plan does anything to correct the egregious mismanagement of billions of dollars of debt. Without addressing this issue it is entirely possible that millions of people will never actually see the debt forgiveness they have been promised under SAVE.

For low-income borrowers the plan will potentially reduce their monthly payments to zero and the voiding of unpaid interest will help control the inability of millions to pay down their loans. But even these reforms are limited in their scope. Millions of borrowers will continue to be saddled by extensive debt and the cost of higher education will continue to balloon, sending more and more students into debt for an education.

The plan is also paired with the expanding assault on education funding in the United States. When the plan was first announced earlier this year, the Department of Education announced that the program would coincide with an intensive review of the performance of university programs, specifically the ratio of debt to income that students take on after graduation.

This is a thinly veiled attack on the humanities and low paying social service professions such as social work. Programs in history, social sciences and the arts will be targeted for funding cuts as part of the growing calls

among the American ruling class to enforce austerity and make funds available for war with Russia and China.

While millions of people will be relieved by the reduction in payments, the SAVE plan is a purposely limited effort to stem the mass outrage over the Democratic Party's refusal to handle the student debt crisis. Nearly \$1.7 billion in student debt will remain, and the Biden administration continues to insist that it cannot do any more to assist student borrowers, particularly rejecting calls that it abolish all student debt.

To the extent that the Biden administration has intervened to manage the debt crisis it is because of the broader economic issues caused by crushing student debt. Millions of people burdened with large debts are unable to pay for homes, vehicles, even basic food items.

According to the Student Debt Crisis Center student loan borrowers are 61 percent more likely to experience food insecurity and eight times more likely to have insecure housing. By reducing monthly payments and interest the Biden administration hopes to free up money for consumer spending as fears of recession grow.

The Biden administration, languishing with just a 40 percent approval rating, is also looking ahead to the 2024 election year with hopes that student debt reform will boost its prospects amid a growing resurgence of the class struggle in the United States.



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