

# The forgotten in student loan forgiveness

By Terry Savage

The \$10,000 student loan forgiveness has created a social debate over fairness and an economic debate over inflation.

But there's one large group of borrowers that has a well-deserved complaint. They are the people who have paid and paid on their loans over the years but still have huge loan balances, some even greater than their original borrowings because of the high fixed interest rates on their loans.

They are the forgotten borrowers in this swirling debate.

First, let's have a look at the outlines of the proposal to forgive \$10,000 in federal student loans for those earning less than \$125,000 on a single return or \$260,000 on a joint return. The forgiveness rises to \$20,000 for those who had Pell Grants.

This "proposed rule" is now in the midst of a 30-day comment period before it becomes final. At that point, the government will set up procedures that must be followed by loan servicers to enact this forgiveness. But in the meantime, there are many unanswered questions including:

Will this forgiveness apply to Parent Plus loans? There is some indication that it will include those loans.

What if you have multiple loans at different rates? It's not yet clear whether the highest-rate loans will be forgiven, or just a portion of each outstanding loan.

Will the amount forgiven be taxable? Likely not, if precedent on student loan forgiveness under other programs is followed.

But while those who are potential recipients of this taxpayer largesse will have to wait to figure out the details, economists are wringing their hands over the possible impact on inflation. Will the forgiveness leave recipients with more disposable income, contributing to inflationary demand? Or will they now be able to buy houses and start families, contributing to economic growth?

The greatest hand-wringing is over the "fairness" of this program — and with good reason. Millions of borrowers worked hard to pay off their loans. Many parents scrimped to pay college tuition. They consider this forgiveness plan a slap in the face. And what about incentives? Will more people borrow, hoping for another round of forgiveness in the future — and push tuition costs even higher?

Previous stimulus programs haven't been exactly "fair" in distributing tax dollars. Yet there were few complaints about the three stimulus programs that put thousands of dollars in pockets, without regard to total assets. Or the popular PPP programs that have been mostly forgiven. Or the \$3,600 payment (called a child tax credit) handed out this year for each dependent child under the age of 6 and \$3,000 for every dependent child under age 17 at year-end 2021.

The forgotten

I've heard from many borrowers like "Sue," a 61-year-old schoolteacher who showed me records starting when she graduated in 1992 with a loan balance of \$11,998. After years of payments (including some years in forbearance as she struggled), Sue paid \$12,870 on the loan over the past 30 years — and still has a student loan balance of \$30,525.88!

Sue is not alone. Many borrowers have repaid their original loans, plus substantial interest — and still owe a fortune. That's because their student loans carry fixed rates as high as 8% or more. The interest keeps compounding — thus their current monthly payments don't make a dent.

My solution: It should be easy to help the forgotten who have repaid their loans plus interest and still owe money. Use those government computers that track borrowers to find those who fall into this "already paid plus interest" category and waive the remaining interest. And lower the fixed rates for those who still owe on their original balances. Now that would be fair.

The government has "refinanced" its debt, borrowing at an average rate of less than 2% over the past 10 years. Now it's time to let student loan borrowers off the hook for those high interest rates that they have continued to pay — long after the original debt has been repaid.

And that's The Savage Truth.