President Trump announced interest forgiveness on student loans. Below are a few topics to help shed light on the announcement and what employees can do instead.

1. Trump’s proposal waives interest payments but payments are still due.
2. Not all federal loans qualify for interest forgiveness.
3. Should you refinance since rates are low?
4. Isn’t interest the only thing I get to write off on my taxes- how does this help me?
5. Servicers will not be able to implement this in the time borrowers need help
6. FINALLY - What should you do now if you need lower payments?
Trump’s proposal waives interest payments but payments are still due

According to the Department of Education, student loan interest stops accruing on federal loans for an undetermined amount of time. This includes loans in forbearance and for those still in school. This does NOT mean your payment stops.

Advocacy groups wanted a freeze on all payments and continue to count payments towards loan forgiveness. However instead, Trump stopped payments on the portion that is the student loan interest only. By having people continually make student loan payments on the loan principal amount, public servants can still use payments to count towards the 120 payments they have to make in order to get their loans forgiven. You may also benefit from this by filing into a plan that is based on your income. More on this in the last section.

If you are aggressively paying off your student loans and or you do not have large interest accrual on your loans, this announcement makes a very small difference on your monthly payment.

Not all federal loans qualify for interest forgiveness

Most federal loan borrowers qualify for the President's interest freeze.

The types of loans specifically that qualify for interest forgiveness include:

- Direct Stafford Subsidized
- Direct Stafford Unsubsidized
- Direct Grad PLUS
- Direct Parent PLUS
- Federally Held FFEL (Federal Family Education Loan)
- Federally Held Perkins

Private banks hold FFEL and Perkins loans and as a result they will not receive interest subsidy. Private student loans do not qualify for subsidy or interest forgiveness.

Should you refinance since rates are low?

Refinancing is not the right solution if you are a nonprofit or government employee and qualify for the public service loan forgiveness program (PSLF).
If you are not working towards PSLF, the value of the interest savings from Trump’s announcement could outweigh refinancing right now. However, the execution and ability for servicers to properly calculate the interest subsidy for each borrower accurately is unlikely. This will be a pain to deal with and we have no idea the benefit of the interest savings, since this announcement was made for an unforeseen amount of time.

Considering the circumstances, refinancing is the right decision if you believe the interest freeze will only be for a short period of time, the interest rates will increase significantly in the future, and you don’t want to deal with your servicer. Obviously, refinance is right only if you continue to have steady income and ability to pay off your loans.

However, if your income and job stability is not great, I don’t recommend refinancing. Private lenders can pause payments for up to 90 days and you will never qualify for zero dollar payments and ultimate forgiveness if you lost your job. These are economically precarious times and it may be best to err on the side of caution.

Isn’t interest the only thing I get to write off on my taxes- how does this help me?

It’s true you get to write off $2500 off your taxes if your adjusted gross income is less than $85,000 (filing single) and $170,000 if you are married filing jointly. This means that interest forgiveness just means less to write off in 2021.

However the spirit of this interest freeze was to help lower payments for borrowers now. If you are caught up and have fairly little interest in your loan, this is little benefit for you. Also, the exact interest subsidy amount is based on different programs and it will be extremely hard for servicers to manage. A student loan “holiday” with the time counting towards loan forgiveness would have been way easier for servicers to implement and not cause a huge amount of implementation issues. Either way would have meant less to write off in 2021, but at least with the payment “holiday” you wouldn’t have had to pay your entire student loan payment.

Servicers will not be able to implement this in the time borrowers need help

Loan Servicers’ employees are also affected by the virus. This means things are moving slowly. It took servicers months to figure out how to capitalize interest for new income-driven plans when they were last legislated. This means that servicers are very unlikely to be able to execute this in the greatest time of need, implying now.

**************
Request a Demo or Refer Your Employer
There are so many programs out there to help borrowers now that can be utilized. Borrowers may be able to lower their payments and get payments counted towards forgiveness. If you are already on an income-driven plan, continue to make payments as usual, if your income is unaffected.

FINALLY - What should you do now if you need lower payments?

If your income is affected, we recommend you submit or resubmit your paperwork to receive a lower payment. If you lost your job or are receiving significantly reduced wages, you can get a payment as low as $0 and qualify for forgiveness. We can help you with that. We recommend the best plan and file your paperwork for you.

If you qualify for lower payments through the income driven plan, do **not** apply for temporary relief. This only puts your loan on forbearance and deferment. This temporarily stops payments and although interest does not accrue right now, why not use this opportunity to effectively lower your payments for the year? Your payments would be lowered for 12 months until you have to recertify your income and submit paperwork to verify your income again. Whether you never applied or applied and did not get your paperwork approved, you’re not alone.

We can help you [here](#).

Request a Demo or Refer Your Employer