

The Student Loan “ON-RAMP” Shouldn’t be a DEAD END

Opportunities to Get Student Loan Borrowers on Track

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When the pause on student loan repayments ended in the fall of 2023, the Department of Education (DOE) sought to ease the transition to resuming student loan payments by implementing a 12-month “on-ramp” period designed to protect student loan borrowers by temporarily removing the threat of default and protecting borrowers from having their credit harmed. During the “on-ramp” period, student loan borrowers who do not pay their student loans will receive the following benefits: (1) they will not fall into delinquency or default; (2) missed payments will not be reported to credit bureaus; (3) credit scores will not be affected by missed payments; and (4) collection activities will not be taken. These benefits are set to expire on Sept. 30, 2024.

While these measures temporarily shield borrowers from the consequences of missing payments, they come at a cost. First, despite not having to make payments, interest on student loans has been accumulating since Oct. 1, 2023, increasing amounts borrowers owe. Second, and perhaps more importantly, borrowers who have been lulled into taking no action

during this “on-ramp” period are missing opportunities to take control of their student loans. Some opportunities like *Fresh Start* are temporary and will not be available after Sept. 30, 2024. Others, like enrollment in Income-Driven Repayment (IDR) plans and discharges through bankruptcy, will be available after the “on-ramp” ends, but borrowers would serve themselves well to

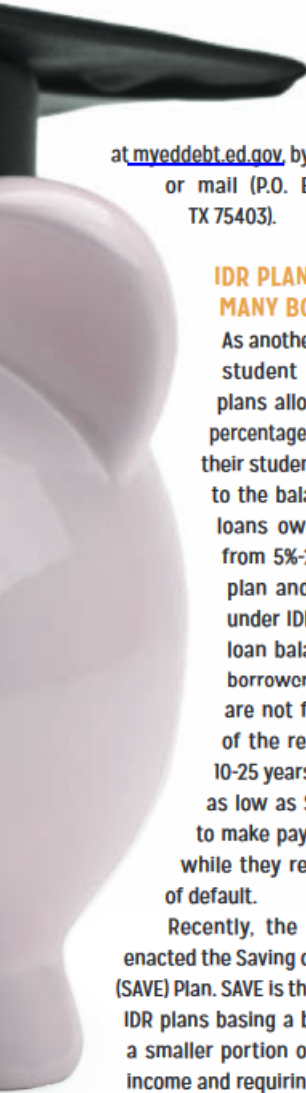
take advantage of these programs as soon as possible to avoid accruing more interest and potentially ending up in default after Oct. 1, 2024.

Consumer debtor attorneys are well-positioned to help their clients by advising them to seek relief under the many options currently available to debtors as soon as possible to maximize their benefits, especially since student loan discharges in bankruptcy are now a real possibility.

FRESH START PROGRAM PROVIDES SOLUTION FOR PRE-COVID DEFAULT

For student loan borrowers with federal loans that were in default before the pandemic, enrolling in the *Fresh Start* program is a no-brainer. *Fresh Start* allows borrowers to get out of default and bring their loans current. In addition, the record of default will be removed from the borrower’s credit report. Enrolling





In *Fresh Start* is easy and can be done online at myeddebt.ed.gov by phone (1-877-825-9923) or mail (P.O. Box 5609, Greenville, TX 75403).

IDR PLANS A GOOD FIT FOR MANY BORROWERS

As another option for distressed student loan borrowers, IDR plans allow borrowers to pay a percentage of their income towards their student loans without regard to the balance of the amount of loans owed. Percentages vary from 5%-20% depending on the plan and loan type. Moreover, under IDR plans, any remaining loan balance is forgiven if the borrower's federal student loans are not fully repaid at the end of the repayment period (from 10-25 years). IDR payments can be as low as \$0 allowing borrowers to make payments they can afford while they remain current and out of default.

Recently, the Biden Administration enacted the Saving on a Valuable Education (SAVE) Plan. SAVE is the most generous of the IDR plans basing a borrower's payment on a smaller portion of their adjusted gross income and requiring a smaller percentage of income on undergraduate loans (5%). In addition, SAVE has an interest benefit. If a borrower's monthly SAVE payment isn't enough to cover the accrued interest for the month, the government will subsidize the interest payment. In other words, under SAVE, the borrowers loan balance will never grow due to unpaid interest. SAVE also provides for a more accelerated forgiveness schedule with some borrowers qualifying for full loan

forgiveness in as little as 10 years. Every month that borrowers wait to enroll in SAVE means more interest owed and lost months toward forgiveness.

BANKRUPTCY DISCHARGE NOW A VIABLE PATHWAY

In addition, many debtors are now achieving a discharge of their student loans in bankruptcy. On Nov. 17, 2022, the DOJ introduced new guidance regarding the discharge of student loans in bankruptcy cases, marking a significant shift from previous approaches. While the underlying law has not changed—"undue hardship" is still the standard—DOJ and DOE have provided a road map explaining how they will evaluate cases under this standard. This road map includes clear and objective standards against which debtor attorneys can measure their clients to determine if they are likely to achieve discharge. If debtors can meet these standards, DOJ has instructed its attorneys to stipulate to a discharge of the federal student loans eliminating the need for costly trials and lengthy discovery and providing immediate and total relief to debtors.



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BANKRUPTCY ATTORNEYS AS AGENTS OF CHANGE

The “on-ramp” period was implemented with the intent of giving student loan borrowers a safety net coming out of COVID. Unfortunately, millions of borrowers appear to have mistaken the “on-ramp” as an extension of the pause exposing them to a potentially rude awakening when it ends on Oct. 1, 2024.

By consulting with their clients who carry significant student loan debt, consumer debtor attorneys can become agents of change and play a guiding role in making the transition to student loan repayment less painful. While the pathway out of student loan debt will not be easy for most, it can be achievable with the student loan management programs and options available as well as the resources and expertise that knowledgeable attorneys can provide along the way. ■