



## Federal Student Loan Borrowers Get Expanded Relief in CARES Act

On March 27, 2020, Congress passed the CARES Act, the largest economic stimulus bill in the history of the United States, in response to the coronavirus pandemic.<sup>1</sup> Included in the legislation are new rules for student loan relief that supersede the rules that were announced only a week earlier by the Department of Education. For more information on both sets of rules, visit the [federal student aid](#) website.

### What new relief is being offered?

The new legislation provides a six-month *automatic* payment suspension (administrative forbearance) for any student loan held by the federal government. This six-month period ends on September 30, 2020. Borrowers do not need to contact their loan servicer to request a suspension; they will be automatically placed in administrative forbearance. Under the previous policy, the payment suspension was for two months and it was not automatic; borrowers had to contact their loan servicer to opt in.

The new stimulus legislation also provides a temporary incentive for employers to pay down their employees' student debt balances. Specifically, employers are able to contribute up to \$5,250 toward an employee's student debt through December 31, 2020 without any tax consequences for the employee.

### What loans qualify for the suspension?

Only student loans held by the federal government are eligible. This includes Direct Loans (which includes PLUS Loans), as well as Federal Perkins Loans and Federal Family Education Loan (FFEL) Program loans held by the Department of Education. Private student loans are not eligible.

### Will interest continue to accrue during the suspension period?

No. Interest will not accrue during the six-month suspension period. The interest rate is being set at 0%. Also, due to the Department of Education's earlier student loan relief rules, the interest rate on all eligible federal student loans is effectively set at 0% from March 13, 2020 through September 30, 2020.

### What happens with auto-debit payments?

Auto-debit payments are suspended during the administrative forbearance period. Any auto-debit payments processed between March 13, 2020 and September 30, 2020 can be refunded. Borrowers should contact their loan servicer if they wish to request a refund.

### Can borrowers keep making their student loan payments?

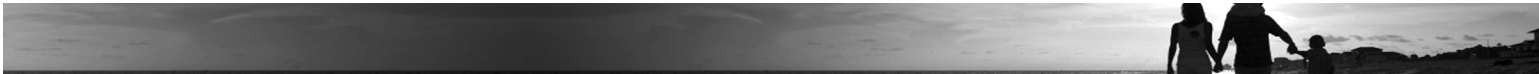
Yes. Borrowers can choose to keep making their monthly student loan payments during the six-month suspension period if they wish. Borrowers should contact their loan servicer to opt out of the administrative forbearance period and continue their auto-debit payments. Borrowers also have the option to make manual (i.e., not auto-debit) payments during the administrative forbearance period.

During this period of 0% interest, the full amount of a borrower's payment will be applied to principal (once all interest accrued prior to March 13, 2020, is paid). Borrowers can also choose to make partial payments during the suspension period.



#### **A new 6-month suspension period**

*The massive economic stimulus legislation passed on March 27, 2020, in response to COVID-19 includes a new six-month automatic suspension of federal student loan payments, with no interest accruing during this period. The six-month period ends on September 30, 2020.*



## How will the suspension period affect the Public Service Loan Forgiveness Program?

Under the Public Service Loan Forgiveness (PSLF) Program, borrowers who work in an eligible public service job and make 120 on-time student loan payments are eligible to have the remaining balance on their federal Direct Loans forgiven.<sup>2</sup> Under the new legislation, the six-month freeze on student loan payments will not affect the 120-month running period for purposes of the PSLF program. In other words, each month of the suspension period will still count toward a borrower's 120-payment tally, even if the borrower does not make any payments during the six-month period.

## How can borrowers contact their loan servicer?

A loan servicer is the company that handles a loan's billing and provides related services. Borrowers who want to contact their loan servicer for any reason should try to do so online or by phone. For borrowers who do not know who their loan servicer is or how to contact them, they can visit [studentaid.gov/login](https://studentaid.gov/login) or call 1-800-4-FED-AID for assistance.

1) Coronavirus Aid, Relief, and Economic Security Act (CARES Act) , enacted March 27, 2020

2) U.S. Department of Education, Office of Federal Student Aid, 2020

---

**IMPORTANT DISCLOSURES** The information presented here is not specific to any individual's personal circumstances. To the extent that this material concerns tax matters, it is not intended or written to be used, and cannot be used, by a taxpayer for the purpose of avoiding penalties that may be imposed by law. These materials are provided for general information and educational purposes based upon publicly available information from sources believed to be reliable — we cannot assure the accuracy or completeness of these materials. The information in these materials may change at any time and without notice.

KMH Wealth Management, LLC is not an accounting firm.