



The Administration's Newly Announced Student Loan Debt Cancellation Policy

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On August 24, 2022, the [U.S. Department of Education \(ED\)](#) announced a new student loan cancellation policy “to address the financial harms of the pandemic for low- and middle-income borrowers” that is to make available to millions of qualifying federal student loan borrowers up to \$20,000 of loan cancellation benefits per borrower. This action represents a departure from other types of student loan debt relief, which historically have been available to borrowers on a more targeted basis and typically provide relief to individuals for [fulfilling employment requirements](#), for repaying their loans according to an income-driven repayment plan, or following borrower hardships (e.g., total and permanent disability). These programs, to date, have provided relief to [hundreds of thousands of borrowers](#), although they could ultimately provide relief to higher numbers of borrowers. The Administration’s new policy is broader in scope and would be available to [tens of millions of borrowers](#) based on limited eligibility criteria. This Insight summarizes the recently announced student loan cancellation policy and considerations for Congress as the policy is effectuated.

ED’s Recently Announced Student Loan Cancellation Policy

Federal student loan debt exceeds \$1.6 trillion and is owed by approximately 45 million borrowers. On August 24, 2022, ED announced a new student loan cancellation policy that it estimates will provide some amount of loan cancellation for most borrowers, including total debt cancellation for about 20 million borrowers.

The [administration plans](#) to cancel the following:

- up to \$10,000 in student loans for borrowers whose annual [income in 2020 or 2021](#) was less than \$125,000 for individuals, or \$250,000 for married couples or heads of households; current dependent students will be eligible for cancellation [based on parental income](#), rather than their own income; and
- an additional \$10,000, for a total of up to \$20,000, in student loans for borrowers who meet the above criteria and received a Pell Grant at any point.

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A borrower's cancellation benefit is to be capped at the amount of their outstanding debt. Thus, if an individual is eligible for \$20,000 in cancellation benefits but has an outstanding balance of \$15,000, they would receive \$15,000 in cancellation benefits.

Cancellation benefits are to be available to individuals with ED-held loans. ED-held loans include those loans made under the Direct Loan program and those made under the Federal Family Education Loan program or the Perkins Loan program that have been transferred to ED, and loans must have been disbursed [before July 1, 2022](#).

ED estimates that [nearly 8 million student loan borrowers](#) may be eligible to receive loan cancellation automatically, based on relevant income data already available to ED. For those borrowers for whom ED does not have relevant income data, ED stated it will announce additional details on how borrowers may claim loan cancellation relief "in the weeks ahead" and launch an application for such borrowers [before December 31, 2022](#).

Potential Impacts on Borrowers

In announcing the new student loan cancellation policy, the [Administration estimated](#) that

- up to 43 million borrowers would receive some relief under the policy;
- about 27 million student loan borrowers will be eligible to receive up to \$20,000 in cancellation benefits; and
- about 20 million borrowers would have the full balance of their loans cancelled.

In addition, the Administration provided an [analysis of characteristics of borrowers](#) who may receive relief under the policy, which included the following:

- of eligible borrowers, 21% are 25 years old and under, 44% are ages 26-39, and more than one-third are ages 40 and up, including 5% who are senior citizens;
- only individuals earning in the bottom 95% of incomes in the United States (i.e., not earning in the top 5% of incomes) will receive loan cancellation benefits;
- 87% of loan cancellation benefits (in terms of dollar amount cancelled) will go to individuals earning less than \$75,000 annually.

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