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Student Loan Rollercoaster and How It Impacts Nonprofit Workers

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The ups and downs of student loans and [debt cancellation affect an estimated 43 million borrowers](#), including many nonprofit employees. At a time when nonprofits are fighting for their workforce and competing against the public sector to attract and retain quality talent, the highs, lows, and free falls of how much workers owe Uncle Sam for their education can make even the strongest stomach queasy. This article tracks significant developments in the Public Service Loan Forgiveness program, and separate proposed changes in law and policy regarding student debt cancellation and payment pauses.

The Highs

Public Service Loan Forgiveness

The [Public Service Loan Forgiveness \(PSLF\) program](#) provides certain workers in public service, including at ALL 501(c)(3) organizations, the ability to earn forgiveness on federal loans after making 120 payments, typically 10 years. The program remains in effect after a Temporary Waiver permitted additional payments to count towards forgiveness.

In October 2022, the Department of Education [released final regulations](#), which are to become effective July 1, 2023. The regulations codify some of the access provided under a previous Temporary Waiver (now closed) and [expand eligibility and types of payments that count towards forgiveness](#) under PSLF. Certain types of deferment and forbearance as well as lump sum and late payments will be counted. Payment counts will be automated, reducing burdens on borrowers. Under the new policies, fewer options will be permitted for interest capitalization, i.e., when additional interest costs are added to the principal loan amount, thus reducing the possibility of increased payment amounts for borrowers.

Changes to the definition of “full-time” employment and “qualifying employer” will also allow more workers to access forgiveness. Full-time will now be defined as working at least 30 hours per week at one or more qualified employers. Qualified employers include government employers, 501(c)(3) employers, and other tax-exempt organizations that are more clearly defined under the regulation, including emergency management, public safety, public interest law services, early childhood education, public library services, certain public health occupations, and more.

Some workers may have previously been in more precarious positions when it comes to whether they did or did not make payments while working at a nonprofit due to their ability to pay based on income. Some borrowers may have been chosen or been placed in forbearance despite qualifying for \$0 payments. Under the regulations, the Department will make a one-time “count adjustment” for borrowers in Income-Driven Repayment (IDR) plans. Borrowers will be credited if they spent at least 12 consecutive months in forbearance or a total of 36 or more months in forbearance, or were in deferment prior to 2013. Additionally, more repayment statuses and loan types will be counted as well as partial or late payments and periods prior to consolidation. Other borrowers may qualify for the [Fresh Start Initiative](#) that allows them to get out of default and regain eligibility for PSLF.

The Twists and Turns

Student Debt Cancellation

In August 2022, President Biden [announced student debt cancellation and changes to federal student loan programs](#) of up to \$10,000 in student loan debt for individuals with income less than \$125,000 and \$250,000 for married couples. Individuals who received a Pell Grant may get up to \$20,000 in debt cancellation. The cancellation would not be treated as taxable income for federal income purposes. The Administration has begun notifying borrowers that applications have been received, with an estimated [16 million applicants already approved](#).

However, ever since the announcement, borrowers have been on a rollercoaster as the promise of debt cancellation rose and then litigation caused expectations to plummet. Currently, the Administration has stopped taking applications for debt cancellation [due to the plethora of lawsuits](#) from across the country. Nonprofit workers are on the edge of their seats to know how much they owe and when some relief may come. Nonprofit employers, meanwhile, can continue to attract more workers with the ability to qualify for PSLF, which is not affected by the lawsuits.

Several lawsuits by individuals, public interest lawyers, and small-business groups have failed to [move beyond the initial phase due to various procedural reasons](#) like the person or party bringing the lawsuit not having “standing” or not showing enough harm to bring the suit. Arguments for the lawsuits have ranged from increasing taxes on borrowers and [reducing the attractiveness of PSLF](#) to administrative procedural issues. The U.S. Supreme Court has [denied several of the appeals for an emergency order](#) on the program.

However, borrowers are still strapped in as two cases are pending in federal court, the decisions of which will determine if any debt cancellation actually occurs. One lawsuit has been [brought by six Republican state attorneys general](#). The states argue that President Biden exceeded his authority, and the debt cancellation plan only helps the “well-off” while placing further burdens on the poor. The federal district judge had ruled that the “Court lacks jurisdiction to hear this case.” The 8th Circuit of Appeals overruled the district court and blocked the program from going into effect nationwide and paused any debt cancellation payments during the pending litigation. The Department has asked the U.S. Supreme Court to consider the case.

In the second suit, a [Texas federal judge declared the plan unlawful](#). The plaintiffs in the case argue that the program is unfair in who qualified for debt cancellation and how much debt relief a borrower may get based on whether they received a Pell Grant or not. The Department argues that the states lack standing to challenge the plan and that the program “falls squarely within the plain text” of the Secretary of Education’s [authority during a national emergency](#), such as a pandemic. The Department has appealed to the 5th Circuit of Appeals.

Payment Pause

On Nov. 22, 2022, the Biden Administration announced that it was once again [extending the pause on student loan repayments](#) for borrowers. Nonprofit workers and other borrowers with federal debt were able to sigh a breath of relief that they would not be facing loan payments come the New Year, when payments were scheduled to resume. The announcement continues the payment pause, which has been ongoing since March 2020, and keeps borrowers in forbearance with 0% interest rates for the time being.

Currently, the ride is in limbo, as ongoing litigation runs its course. The announcement from the Education Department states, “If the program has not been implemented and the litigation has not been resolved by June 30, 2023 – payments will resume 60 days after that.” The extension alleviates some uncertainty for nonprofit workers as well as nonprofit employers looking to fill workforce gaps during the holiday season. However, borrowers must continue to endure the uphill climb in anticipation of when payments will resume.

When Will the Ride End?

Tens of millions of workers are now strapped in for the ride, whether wittingly or not. Public Service Loan Forgiveness continues to be a key recruitment tool and lever for nonprofit employers and workers to join and remain in the sector. Debt cancellation, on the other hand, may or may not occur in the next few months as the courts weigh in. Nonprofits must be prepared for when the ride comes to an end and their workers face making payments for the first time in several years.