

Temporary CARES Act student loan repayment opportunities

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Federal student loan payment rules have been temporarily adjusted to provide relief from the economic impacts of COVID-19, creating opportunities for borrowers. The Coronavirus Aid, Relief, and Economic Security (CARES) Act includes a provision to [suspend interest and payments on federal student loans](#) between March 13 and September 30, 2020.

Your federal loans are eligible if they say “Direct” or “FFEL” (Federal Family Education Loans) in the title of the loan and are owned by the U.S. Department of Education. If your loans are eligible for this administrative forbearance period, the interest rate shown on your student loan servicer website should automatically show 0%. If you make automatic debit payments, they will automatically be suspended unless you opt out of the administrative forbearance.

Most Perkins loans are not eligible if not owned by the U.S. Department of Education. HRSA (Health Resources and Services Administration) loans are also not eligible since they are administered through a separate government department from the Department of Education. While no private loans are covered under this legislation, we recommend reaching out to your private lender to see if they are offering any relief options.

If you do not make payments towards your federal student loans during this period, there are no penalties or negative impact to your credit.

This does not mean stopping payments during this period is the best strategy for everyone. Individuals have unique strategies for repaying their student loans, and the best strategy to take in response to this provision will vary from borrower to borrower.

Public Service Loan Forgiveness (PSLF)

If you are aiming for [PSLF](#), which is a tax-free forgiveness program where forgiveness is based on attaining the required ten years of qualifying monthly payments, it does not benefit you to make payments during this period. This is because the \$0 monthly payments during this period count as qualifying payments.

Let's look at someone going for PSLF whose monthly payment based on their income is normally \$500 a month. By not making payments during the six-month period between April to September, that

equals \$3,000 back in your pocket, and those six \$0 payments go towards your 120 required payments for forgiveness. Note that these six months of \$0 payments only count for PSLF if you were on a qualifying income-driven repayment plan before March 13, 2020, have a Direct Federal Loan and work full-time at a qualifying employer during this period.

We recommend you continue to keep good recordkeeping to confirm credit of these qualifying \$0 payments, as the student loan servicers do not have a great track record for accurately counting borrowers' qualifying payments.

If you have already made a payment after March 13, you can call your loan servicer and request a refund to get these dollars back in your pocket. This [Q&A on the Federal Student Aid website](#) states, "any payment you made during the administrative forbearance period (March 13, 2020, through September 30, 2020) can be refunded."¹

Income-Driven Repayment (IDR) and taxable forgiveness

If you are currently on an IDR plan not qualifying for PSLF, you might have the goal of staying on that plan for the entire 20- or 25-year term to eventually reach taxable forgiveness on the remaining balance. If you choose not to make payments during this six-month period, those six months of \$0 payments will also count towards your 20 or 25 years of qualifying monthly payments.

A downside to IDR plans is often that income is low enough where your payments aren't covering interest. This causes your interest to capitalize, increasing your principal and causing you to pay interest on interest. During this period, the Department of Education has stated their intent is not to have interest capitalize due to these six-months of no payments. If this is the case, by not making payments during this period, you should be in the same student loan position come September 30 as you were when the forbearance began.

You could decide to make payments during this period to pay down principal and reduce future taxable forgiveness. Or if your income is going to spike and you plan to switch to a standard federal repayment plan or refinance with a private lender, you could make payments to pay down principal, ultimately reducing your total repayment amount. However, if you are currently on an IDR plan, it is likely your income is at a level where you may need to put these six months of payments towards living expenses, other debt at higher interest, emergency fund or retirement savings. Those are great options as well.

IDR/PSLF

If you are currently on an IDR plan such as REPAYE, PAYE, IBR or ICR and your income fell or you lost your job during this administrative forbearance period, you should apply for an adjustment to recalculate your monthly payment instead of waiting until your annual recertification.

You could wait until September 2020 to apply to recalculate your payment, which would allow you to keep lower payments until September 2021. That way you would get to have \$0 payments until this September and then lower payments or \$0 payments for another year.

On the other hand, you may be unsure when you will become employed or your income will increase again. In that case, you might want to apply to recalculate your payment now to be safe so that you at

¹ "Questions About the Forbearance (Temporary Suspension of Payments)," Federal Student Aid, <https://studentaid.gov/announcements-events/coronavirus#forbearance-questions>, accessed May 22, 2020.

least benefit from lower payments for this fall and a part of 2021 instead of missing out on the chance to recalculate.

To recertify your income, see this page of the [Federal Student Aid website](#),² scroll down to “returning IDR applicants” and click “log in to start” where it says “recalculate my monthly payment.” This is especially impactful for those aiming for PSLF since the goal is to pay as little as possible towards your 120 qualifying payments before the rest is forgiven.

Federal loans while aiming for other state/federal assistance programs

If you have federal student loans eligible for these provisions and are aiming for a loan assistance program where you receive a pre-determined loan assistance amount, you will want to look at your total loan balance.

Let's say you are a healthcare professional on track towards [National Health Service Corps](#) or a state-run program such as [Wisconsin's Health Professions Loan Assistance](#),³ and the amount you have in total loans is right around what you will receive in total loan assistance. In this case, it wouldn't benefit you to make payments during this period, as you are going to be receiving loan assistance amounts that take care of your outstanding balance anyway.

If you have a balance larger than what you are aiming to receive in loan assistance, you may want to make payments during this period to pay down your balance interest-free, reducing total repayment left once you receive assistance.

Federal loans while not aiming for assistance/forgiveness

If you have federal student loans eligible for this suspension and are not going for an assistance or forgiveness program, you may want to make payments during this period. This could be the case if you have a steady cash flow and healthy emergency fund. You should consider making payments during this period because you have the opportunity to pay down principal directly, which could significantly reduce your overall cost of loan repayment.

If you are able to do this, you may want to look at all your federal loans eligible for this suspension and begin to put payments towards the loans that have the highest interest rate prior to this suspension. If you choose to make payments, you are not required to make the same amount you were making before this period started, so you are able to make as large or small of payments as you would like.

Federal loans not owned by the Department of Education

If you have federal loans, such as Perkins or FFEL, not owned by the Department of Education, that you were making payments towards before March 13, 2020, you should consider consolidation into a Direct Federal loan owned by the government. This would allow those loans to then qualify for the CARES Act provisions of 0% interest and suspended payments until September 30.

² “What is income-driven repayment,” Federal Student Aid, <https://studentaid.gov/app/ibrInstructions.action>, accessed May 26, 2020.

³ “Wisconsin's Health Professions Loan Assistance Programs,” Wisconsin Office of Rural Health, <http://www.worh.org/sites/default/files/HPLAPinfo.pdf>, accessed May 26, 2020.

Once you submit your [Direct Consolidation application](#), it could take one to two months for the consolidation to complete, leaving you only a few months until September 30. However, this consolidation could then make you eligible for future relief programs similar to this one.

You will want to consider before consolidating that any outstanding interest on your loans will be capitalized if consolidated. Your interest rates will also be averaged on all your loans into one, so if you were using the strategy of paying down your highest interest rate loan first, you will no longer be able to do that.

Going through your student loan repayment options

If you want help identifying your best student loan repayment/forgiveness options, Wipfli Financial offers individualized student loan plans. [Get in touch with one of our advisors at wipflifinancial.com/contact if you want to start a personalized plan.](#)

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