

# President Biden's Student Loan Scheme

**With a price tag of nearly \$500 billion, the Biden administration is attempting to cancel over 40 million borrowers' loans and push an Income-Driven Repayment (IDR) plan that advances his radical free college agenda at the expense of students, families, and taxpayers.**

## Background on Biden's Debt Transfer Plan

- On August 24, 2022, the Biden administration announced it was cancelling up to \$20,000 in student debt for borrowers with incomes below \$125,000 (\$250,000 for married couples), providing blanket “forgiveness” for over 40 million borrowers with federal student loans.
- The President is transferring the debt from borrowers who willingly took out student loans to hardworking taxpayers who did not, including those who never stepped foot on a college campus.
  - Just 13 percent of Americans have student loans, and over half of all outstanding student debt was borrowed for graduate school.
- There have been several legal challenges to this action, including a set of pending Supreme Court cases.

## Background on Biden's Radical IDR Plan

- IDR caps a borrower's monthly payments at a percentage of his or her discretionary income (income above 150 percent of the federal poverty line) for up to 25 years. If the borrower makes all payments in a timely manner, the outstanding balance is cancelled.
- The first IDR plan was created in 1995 and was rarely used; however, significant expansions by the Obama administration resulted in an explosion in IDR enrollment.
  - These plans were already costing taxpayers hundreds of billions of dollars even before President Biden's radical proposal.
- The President's proposed IDR plan would turn student loans into untargeted grants by:
  - **Increasing exempted income.** The Biden rule would increase the income exemption to 225 percent of the federal poverty line, meaning that a borrower with \$67,500 in income in a four-person household – roughly the median in the United States – would pay \$0 per month on his or her loan and eventually receive forgiveness.
  - **Calculating payments off a smaller percentage of discretionary income.** Monthly payments would be based on 5 percent of an undergraduate borrower's discretionary income as opposed to the current 10 percent, resulting in just 22 percent of undergraduate borrowers fully repaying their loans.
  - **Expanding loan forgiveness.** Not only would borrowers pay less per month, but they would also be eligible for forgiveness in as early as 10 years depending on the size of their loan.



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## Key Concerns

- The president's proposals will have a devastating impact on the federal budget, college costs, and student debt.
- According to the Congressional Budget Office (CBO), the President's student debt transfer could cost taxpayers up to **\$400 billion** over the next decade.
- CBO estimates that the changes to IDR could cost taxpayers as much as **\$230 billion**, 66 percent more costly than the Education Department's faulty estimate of \$138 billion.
  - This assumes legal challenges to the president's efforts to provide blanket cancellation of up to \$20,000 are unsuccessful; if the plan is blocked, the cost of the proposed rule to taxpayers could increase by an **additional \$50 billion**.
- The president's policies do nothing to solve the root issues of student debt or the rising cost of college, as outstanding student debt will return to current levels in just five years.
- Coupled with opaque financial aid offers, overly generous repayment terms, and the lack of accountability for college costs and student outcomes, CBO estimates that by 2027 student borrowing will increase by 12 percent (\$10 billion) annually if Biden's IDR plan is enacted.
  - Studies show that college prices increase by one dollar for every dollar that graduate students borrow.

## The Bottom Line

Coupled with his permanent repayment pause and expansive regulations, taxpayers could end up spending as much as **\$975 billion** on debt cancellation since March 2020 if the President's policies are enacted, more than the federal government has ever spent on postsecondary education. Biden's policies will lead to colleges and universities increasing their prices, which will force students to borrow more and more while shifting the cost of those loans onto the backs of taxpayers.



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