CLOSED SCHOOL DISCHARGES

The Higher Education Act empowers the Education Department (ED) to grant federal student loan discharges to students when their college closes. Students may be eligible for a discharge of their federal student loans if they are unable to complete their program of study because of their school closing while they were enrolled. Students who qualify for closed school discharge can receive a 100% discharge on federal loans obtained to attend the closed school.

Students can receive discharges by meeting eligibility requirements that include:

- Their school (or campus) closes while they are enrolled, and they are unable to complete their program as a result. (Note that if an individual was on an approved leave of absence at the time of the closure, they are considered to have been enrolled.)
- A student’s loans were first disbursed before July 1, 2020, and the school closes within 120 days after they withdraw.
- A student’s loans were first disbursed on or after July 1, 2020, and the school closes within 180 days after they withdraw.

From the beginning of 2014 through the end of 2018, close to half a million students were blindsided by the sudden closure of over 1,200 college campuses. A Chronicle of Higher Education investigation found for-profit companies operated 88 percent of these campuses. Most notably, women, low-income Pell Grant recipients, and people of color have been disproportionately affected by school closures.

The Department continues to collect the student debt owed by thousands of borrowers who are, or should be, eligible for closed school discharges based on both their internal records and the records of loan holders. Most of these borrowers are for-profit students who are primarily low-income and people of color, who as a result of the Department’s own prior negligence and mismanagement, have experienced wage garnishment or Social Security offsets.

The Department has an opportunity now to reinstate the automatic nature of the 2016 closed school discharge rule amendments. ED can also reduce the amount of time students must wait for forgiveness before reenrolling, from three years to one year. The Department should articulate circumstances or conduct that should result in an extension of the eligibility period for closed school discharge.

Earlier this year, the Department issued long-overdue relief for more than 100,000 borrowers who were victims when the defunct for-profit ITT Tech collapsed. To do this, as recommended in a recent paper from Student Defense, the Department extended its look-back period and relied on materials beyond its own investigation to document the origin of fraudulent, deceptive institutional behavior.

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