Improving Federal Student Aid by Streamlining Student Loan Repayment and Preventing Overborrowing

The federal government, through the U.S. Department of Education, administers nearly $125.7 billion annually through various grants, loans, and other programs that help students and families access postsecondary education, with loans making up nearly $96 billion of the federal investment. Currently, more than 42 million Americans collectively owe nearly $1.3 trillion in federal student loan debt. While a small number of borrowers (less than 1 percent) have student loans over $100,000, the average debt for those receiving a bachelor's degree is approximately $30,000, an amount that has risen at more than twice the rate of inflation over the last decade. The American Enterprise Institute, New America Foundation, the Heritage Foundation, and other think-tanks have examined the proliferation of student loan debt levels over the last decade and believe that the widespread availability of federal student loans, especially by parents without the ability to repay debt taken to finance their students' education, has contributed to the growing problem of unmanageable debt burdens.

To assist with student loan repayment, the Department offers nine different repayment options to borrowers, including: standard repayment, graduated repayment, extended repayment, five repayment plans tied to borrower income (income-based repayment or IBR, income-contingent repayment or ICR, income-sensitive repayment, Pay As You Earn or PAYE, and Revised Pay As You Earn or REPAYE), and an alternative repayment plan established by the Secretary of Education. While each of the repayment plans have been developed over time by Congress and/or the Administration to address specific borrower circumstances, the differing eligibility requirements, terms, and conditions have confused students and parents as to the best options available to help them pay for their college education. This overly-complicated patchwork is the primary challenge that student and parent borrowers have with understanding the federal student loan program, and must be simplified and streamlined to reduce barriers to higher education for low- and moderate-income students who often believe that a postsecondary education is unaffordable.

According to 2016, fourth quarter data released by the Department regarding the Direct Loan portfolio:

- 50.2 percent of borrowers are in standard repayment to pay back their loans in 10 years or less;
- 14.1 percent are in IBR;
- 12.4 percent are in graduated repayment to repay their loans in 10 years or less;
- 8.8 percent are in extended repayment to repay their loans in over 10 years;
- 4.7 percent are in PAYE; 4.1 percent are in REPAYE; 2.7 percent are in ICR; and 3 percent are in an alternative plan.

Based on these figures, while the number of borrowers enrolled in income-driven plans has increased, it is clear that a majority of borrowers remain with standard repayment, which is often a better option because it allows them to pay off their student loans earlier and at less cost. According to a Government Accountability Office report, the current estimated cost of income-driven repayment plans by cohort are more than double what was originally projected by the Department, resulting in a cost to the federal government of $21 for every $100 disbursed or a 21 percent subsidy rate. As such, Congress should resist legislative proposals that would automatically enroll all borrowers in one of the income-driven repayment plans.

NCHER Reform Proposals

The National Council of Higher Education Resources (NCHER) believes that the federal student aid system is too complicated and confusing for students and families, and many students and families are taking out too much debt that they will never be able to repay. We believe Congress should improve student aid by:

- <u>Simplifying and streamlining the myriad of student loan repayment plans</u>. We urge Congress to retain the standard repayment plan, which should continue to be the choice for all borrowers who can afford to repay their loans quickly in order to minimize the amount of interest paid over the life of the loans. However, borrowers should be given the option to use graduated or extended repayment on a case-by-case basis after looking at their unique financial circumstances. Congress should also collapse all of the existing income-driven repayment plans into a single plan for all Stafford and GRAD PLUS program borrowers, where payments are equal to 15 percent of discretionary income and remaining balances are forgiven after 25 years. As noted above, Congress should oppose proposals that automatically enroll borrowers in an income-driven repayment plan.

- Improving and automating the annual recertification process for borrowers participating in income-driven repayment plans. A survey of the nation's student loan servicers found that most borrowers are falling out of the existing income-based repayment programs primarily because they fail to complete the necessary documentation required under the annual renewal process. Congress should address this overly-complicated renewal process by allowing borrowers to provide a multi-year consent for the automatic sharing of necessary income and household size data from their federal tax filings. This would help ensure borrowers do not face the negative consequences of failing to recertify for income-driven repayment plans, which includes financial penalties and loan delinquencies.

- Dramatically reduce the number of questions on the FAFSA. The Free Application for Federal Student Aid (FAFSA) totals more than 10 pages and includes 108 questions on topics such as income, family size, expenses, and assets. While many students and families complete the FAFSA online, thus avoiding some of the questions, the form's length and complexity has caused a number of low-income families to give up and lose access to federal financial aid. Congress should dramatically reduce the number of questions and the length of time required to fill out the form, including simplifying the needs analysis formula.

- Providing authority to financial aid administrators to lower annual and aggregate student loan limits. The Higher Education Act includes specific annual and aggregate limits on the amount of loans that students can access for postsecondary education. Regarding aggregate limits, dependent students can borrow $31,000, independent undergraduate students can borrow $57,500, and independent graduate or professional students can borrow $138,500. Currently, financial aid administrators can implement 'professional judgment' to factor in special circumstances affecting a family's ability to pay for the student's education or to limit loan amounts. The process, however, is time-consuming. Congress should reverse this trend by providing institutions of higher education with authority to lower loan limits for certain groups of borrowers. The current lack of restrictions has led to students accumulating unnecessary debt without making progress toward their degree goals.

- Consider capping the amount parents can borrow under the PLUS program. Parents today can borrow the full cost of college for all of their dependent children, including amounts for living expenses, under the Parent PLUS program. While some can afford to borrow higher amounts, many parents become saddled with debt for which they have no ability to repay. Recent reports, including a recent University of South Carolina study, indicate that many face garnishment of Social Security benefits due to student loan defaults. During the upcoming reauthorization process, Congress should consider limiting the amounts that parents can borrow under the PLUS program. By doing so, federal policymakers would remove the incentive for those with lower credit scores – those more likely to struggle with their repayment burden – to take out student loans they can ill afford.

If you have questions or need more information, contact James Bergeron, President of the National Council of Higher Education Resources (NCHER), at jbergeron@ncher.us or (202) 822-2106.