Simplifying and Improving Federal Student Aid by Streamlining the Myriad of Student Loan Repayment Plans

The federal government, through the U.S. Department of Education, administers more than $135 billion annually through various grants, loans, and other programs that help students, borrowers, and families access postsecondary education. The Department also currently offers nine different repayment options to student borrowers who need help paying back their federal loans in a timely manner. The repayment plans include: standard repayment, graduated repayment, extended repayment, five repayment plans tied to borrower income (income-based repayment, income-contingent repayment, income-sensitive repayment, Pay As You Earn or PAYE, and Revised Pay As You Earn or REPAYE – added in December 2015), 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 degree is unaffordable.

According to recent information released by the Institute for Higher Education Policy, 58 percent of all student loan borrowers are in repayment. Of this total:

- 70 percent of student and parent borrowers are in standard repayment where they will pay back their loans in approximately 10 years;
- 13 percent are enrolled in one of the four available income-driven plans (REPAYE was not available until December 2015), with only 1 percent enrolled in the Pay-As-You-Earn program;
- 12 percent are enrolled in graduated repayment plans; and
- 5 percent are enrolled in the remaining repayment plans.

Based on these enrollment figures, it is clear that a majority of borrowers have remained with standard repayment, which is a better option because it allows them to pay off their student loans earlier and at less cost. Congress should resist legislative proposals that would automatically enroll all borrowers in one of the income-driven repayment plans. A better approach would be to largely continue the focus on standard repayment where the majority of students are making on-time, reasonable payments and develop a single, income-driven repayment plan for those that need lower payments.

In a recent survey of many of the nation's student loan servicers, they 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. Multiple communication attempts and the additional disclosures required of borrowers under existing income-driven repayment programs have not improved program retention.

Congress should also continue to focus on dramatically reducing the number of questions and the length of time required to fill out the Free Application for Federal Student Aid (FAFSA), which totals more than 10 pages and includes 108 questions on topics such as income, expenses, family size, 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 also support the Administration's efforts to begin using "prior-prior year" tax information when applying for federal financial aid, starting in October 2016. Currently, the FAFSA relies on income tax data from the previous year to calculate family contribution and student need, which may not be readily available at the time that students start filling out their college applications. This results in significant delays in FAFSA completion and leaves financial aid administrators with little time to put together grant and loan packages for incoming students. Just as important, students and families do not know how much in financial aid they will receive for the upcoming semester, which makes it difficult to plan for the costs of their postsecondary education. The Administration's recent actions will help students apply for financial aid earlier and better prepare for college.

NCHER Reform Proposal

The National Council of Higher Education Resources (NCHER) believes that the federal student aid system is too complicated and confusing for students, families, and borrowers, especially those low- and moderate-income individuals who may be the first in their family to go to college. We urge Congress to retain the standard repayment plan, but give borrowers 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 income-based repayment plan for all Stafford and GRAD PLUS program borrowers, where payments are equal to 15 percent of discretionary income and a 25-year forgiveness term. This revised income-based repayment plan would also reduce the burden for borrowers to annually re-apply for the plan by capturing their initial consent on their plan application to allow loan servicers to reset the payment amount for all subsequent years. The 10-year standard repayment plan 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. NCHER believes these simplification efforts must be paired with the availability of personalized financial education services to help students and families choose the right repayment plan and realize postsecondary education access and success.

If you have questions or need more information, contact Sean Deverey, Vice President for Government Relations at the National Council of Higher Education Resources (NCHER), at sdeverey@ncher.us or (202) 822-2106.

Legislative Language

1. Section 455(d)(1)(D) of the Higher Education Act (20 U.S.C. 1087e(d)(1)(D)) is amended by striking the semicolon at the end of the sentence and inserting the following:

> ", provided that beginning one year after enactment, an income contingent repayment plan (including all versions of plans implemented by the Secretary pursuant to this subparagraph) shall not be available to borrowers who are not already repaying one or more loans under such a plan;".

2. Section 455(d)(2) of the Higher Education Act (20 U.S.C. 1087e(d)(2)) is amended by striking "subparagraph (A), (B) or (C) of paragraph (1)" and inserting "subparagraph (A) of paragraph (1)".

3. Section 455(d) of the Higher Education (20 U.S.C. 1087e(d)) is amended by –

    a. Striking paragraph (4).

    b. Renumbering paragraph (5) as paragraph (4).

c. In paragraph (4), as renumbered, strike “an income contingent repayment plan” and insert “an income-based repayment plan under subparagraph (E) of paragraph 1”.

4. Section 428(b)(9)(A)(iii) of the Higher Education Act (20 U.S.C. 1078(b)(9)(A)(iii)) is striking the semicolon at the end of the sentence and inserting the following:

> “, provided that beginning one year after enactment, an income-sensitive repayment plan shall not be available to borrowers who are not already repaying one or more loans under such a plan;”.

5. Section 428(b)(9)(A)(iv) of the Higher Education (20 U.S.C. 1078(b)(9)(A)(iv)) is amended by inserting “and Part D” after “outstanding loans under this part”.

6. Section 493C of the Higher Education Act (20 U.S.C. 1098e) is amended by adding the following at the end of subsection (c):

> “Beginning six months after enactment, the borrower application for income-based repayment under part B and D shall authorize the Secretary to acquire from the Internal Revenue Service income and family size information needed to determine the payment amount for the duration of the borrower’s participation in the income-based repayment plan without the need for subsequent authorizations. The Secretary shall make all necessary arrangements with the Internal Revenue Service to acquire updated information annually based on the initial authorization.”

7. Section 493C of the Higher Education Act (20 U.S.C. 1098e) is amended by striking subsection (e).