UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF POSTSECONDARY EDUCATION

Issue Paper #10: Creating a new income-driven repayment plan
Session 1: October 4-8, 2021

Issue: Creating a new income-driven repayment plan

Statutory cites: §455(d) of the Higher Education Act of 1965, as amended

Regulatory cites: 34 CFR 685.209

Summary of issues: Federal student loan borrowers increasingly rely upon income-driven repayment (IDR) plans to navigate loan repayment. These are a set of plans in which the borrower's monthly payment is set based upon their income and any remaining balances are forgiven after a certain number of years. There are currently several different IDR plans. Some, such as two versions of income-based repayment (IBR), are fully spelled out in statute. Others, such as Income-Contingent Repayment (ICR), Pay As You Earn (PAYE), and Revised Pay As You Earn (REPAYE), stem from Section 455 of the Higher Education Act of 1965, as amended, which authorizes the U.S. Secretary of Education to create repayment plans based upon the income of the borrower, paid over a period not to exceed 25 years. These plans are only available on Direct Loans held by borrowers. Currently, Parent PLUS loans may only be repaid through the ICR plan if they are part of a consolidation loan.

While the Department believes that IDR is a crucial payment option for millions of borrowers across the country, it has identified the following challenges with these plans:

- Most IDR plans offer payments equal to 10 or 15 percent of a borrower's discretionary income, defined as their income above 150 percent of the poverty line based upon their household size. While this formula results in lower payments for borrowers, many lower-income borrowers are still not able to afford these amounts.
- Although IDR plans can reduce monthly payments, borrowers who pay less than the rate of accumulating interest see their balances grow, sometimes significantly.
- The IDR plans offer forgiveness of remaining balances after 20 or 25 years. While this may be appropriate for those with higher balances, that could be too long to repay for borrowers who have low loan amounts or who have low incomes for long periods of time.
- Despite the presence of IDR plans, many low-income or lower-balance borrowers still end up delinquent or default on their loans, suggesting that these plans are not doing enough to ensure the borrowers most at risk of negative repayment outcomes enroll and stay enrolled.
- The variety of IDR plans and their differing terms and benefits may create tradeoffs that complicate which IDR plan provides the strongest protections and best repayment option for borrowers and may make it difficult for borrowers to choose among them.

Solution: The Department is interested in creating a new IDR plan using the ICR authority that could address the challenges identified above. In crafting this plan, we are interested in feedback from negotiators on the following questions:

1) There have been proposals to lower the percentage of income that must be paid for undergraduate borrowers. Should the Department reduce payments to 5 percent of discretionary income? If so, which types of borrowers should be eligible for payments set at 5 percent? Should the percent of income devoted to student loan payments rise as income increases?
2) Does exempting income up to 150 percent of the federal poverty level based upon family size protect enough income for borrowers, particularly low- and middle-income ones? If not, what is the appropriate level to protect sufficient income?
3) How should the Department think about the interaction between changes in the share of income devoted to payments and changes in the amount of income protected in terms of ensuring plans are affordable for low- and middle-income borrowers?
4) Existing IDR plans either use the same time to forgiveness or vary the time based upon whether a borrower has any graduate school loans. Should the Department consider other bases for variations in time to forgiveness, such as whether a borrower is consistently low income, whether the borrower has lower loan balances, or any other factors?
5) A lot of borrowers raise concerns about how interest accumulation results in them owing more after years in repayment. How should the Department address this, and should that approach vary based upon factors such as borrower income?
6) Data show that underserved populations and communities of color face higher rates of student loan struggles than others. What design factors and changes can better support equitable access and success in repayment?
7) Observers note that existing IDR plans may not be optimally designed to reduce delinquency and default. Borrowers at the highest risk of delinquency and default are typically non-completers who owe low balances, yet who do not enroll in existing IDR plans at a high rate. What design factors and changes can better support borrowers at high risk of delinquency and default or otherwise encourage enrollment in IDR plans that match their financial circumstances and loan balances?
8) There are currently several IDR plans available to borrowers. How can the Department use this rulemaking to reduce borrower confusion and make it easier for borrowers to access IDR? What should the Department do with other plans created in regulation if it establishes this new plan?
9) In 2019, the Government Accountability Office released a report about verifying income data and family size for IDR programs. How can regulations address the fraud and error concerns raised in that report?