Transforming loan repayment and protecting borrowers through the new SAVE plan

The Biden-Harris Administration believes that education beyond high school should unlock doors to opportunity, not leave borrowers stranded with debt they cannot afford. That's why from day one we have been working since day one to fix the broken student loan system. Today, the Department published final rules that are part of a permanent solution to the student debt crisis. This regulation will create the most generous student loan repayment plan ever—the Saving on a Valuable Education (SAVE) plan. The SAVE plan calculates monthly loan payments based upon a borrower's income. It ensures that anyone making less than $15 an hour can focus on their basic needs instead of making loan payments, while borrowers earning above that amount will save at least $1,000 a year. It more than halves what a borrower will pay on their undergraduate loans. And it ensures that as long as borrowers make their payments they will never see their balance grow from runaway interest.

The SAVE plan replaces the existing Revised Pay as You Earn (REPAYE) plan with improved terms and conditions. Borrowers currently enrolled in REPAYE will see benefits automatically update without further action. Borrowers who wish to take advantage of these new benefits can start signing up for REPAYE now and starting in July the Department will implement changes that make it easier to enroll and re-enroll in IDR income-driven repayment (IDR) plans. The name will be updated over time.

Generally, Department regulations issued before November 1 of a given year do not go into effect until July 1 of the following year. However, the Department will be implementing a few benefits a year early. Starting July 30, borrowers enrolled in the SAVE plan will see the following benefits:

- More than 1 million additional low-income borrowers, including 400,000 on REPAYE, will be protected from student loan payments pushing them closer to poverty. The SAVE plan increases the amount of income protected from payments from 150 percent to 225 percent of the Federal poverty guidelines (FPL). This year, the SAVE plan will protect nearly $33,000 in income from payments for single borrowers and $67,500 for a family of four.
- The Department will stop charging any monthly interest in excess of the borrower's payment. In other words, borrowers who pay what they owe will no longer see their loans grow due to unpaid interest. We estimate that 70 percent of borrowers on IDR do not currently have payments high enough to cover their interest.
- Married borrowers who file their taxes separately will no longer be required to include their spouse's income in their payment calculation and will also exclude their spouse from their family size.

Borrowers will receive the following additional benefits when the SAVE plan is fully implemented net July:

- Payments on undergraduate loans will decline to 5 percent of incomes above 225 percent of FPL. Borrowers who have undergraduate and graduate loan will pay a weighted average of between 5 and 10 percent of their income based upon the original principal balance of their loans.
- Borrowers whose original principal balances were $12,000 or less will receive forgiveness after 120 payments. Each additional $1,000 in principal will add another years' worth of payments up to a maximum of 20 years for undergraduates and 25 years for borrowers with any graduate debt.

- Borrowers who go 75 days without making a payment will be automatically enrolled in SAVE if they have provided approval for the disclosure of their tax information. Borrowers in default will also for the first time gain access to an IDR plan. Borrowers in default who provide income information that shows they would have had a $0 payment at the time of default will be automatically moved to good standing.
- Borrowers will receive credit toward forgiveness on deferments related to unemployment, cancer treatment, military service, and certain others, as well as certain forbearances such as those related to natural disasters. The Department will credit past periods of deferment next year, while forbearances will only be credited for months after July 1, 2024.
- Borrowers who end up in a deferment or forbearance that is not counted toward forgiveness (except those for in-school enrollment) will be able to make additional payments based upon their current IDR payment for periods beginning on or after July 1, 2024.
- Borrowers will receive credit for payments made prior to a consolidation based upon a weighted average of the principal balances in the loans being consolidated.

These changes will complement the ongoing work to implement the one-time payment count adjustment. Through that process, borrowers will receive credit toward prior months in repayment, non-in-school deferments prior to 2013, and any period in which they spent 12 consecutive or 36 months total in a forbearance. This will give borrowers an updated and accurate count of progress toward forgiveness as the benefits of the SAVE plan are fully implemented.

Benefits of the SAVE plan

When fully implemented, the changes to the SAVE plan will create the most affordable repayment option ever for borrowers. In particular, those at the greatest risk of delinquency or default will be given a true student loan safety net. In particular, the Department estimates that under the SAVE plan:

- Future borrowers would see lifetime payments per dollar borrowed fall by 40 percent, on average, compared to the current REPAYE plan.[1] On average, Black, Hispanic, American Indian and Alaska Native borrowers would see their lifetime payments per dollar borrowed cut in half.
- Lifetime payments per dollar borrowed would fall by 83 percent on average for borrowers in the bottom 30 percent of earnings, compared to just 5 percent for those in the top 30 percent.[2]
- A student borrower with an income below $30,500 per year would not be required to make monthly payments on their loans.
- A typical graduate of a four-year public university would save nearly $2,000 a year through lower monthly payments compared to the current REPAYE plan.[3]

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[1] Lifetime payments equal the present discounted value of total payments until the loan is repaid or forgiven. Lifetime payments are expressed on a per dollar borrowed basis to make it easier to compare savings across borrowers that may borrow different amounts. Lifetime payments under current and proposed REPAYE plans based on models of future borrowers' employment, income, marriage (including spousal income and debt), and family size over the lifetime of repayment.

[2] In their first 10 years of repayment, borrowers in the bottom 30 percent of lifetime earnings are in families with earnings less than $29,000, on average while borrowers in the top 30 percent of lifetime earnings are in families with earnings exceeding $90,000, on average.

[3] This example assumes that the borrower is earning $50,000 per year after graduating.

- A teacher with a bachelor's degree just starting in the classroom would save more than $17,000 in total payments while pursuing Public Service Loan Forgiveness (PSLF) over the first 10 years of his or her career—two-thirds less than what they would pay under the current REPAYE plan.[4]
- 85 percent of community college borrowers would be debt-free within 10 years of entering repayment.[5]

The Department developed this proposal with the input of its stakeholders and other affected constituencies through its negotiated rulemaking process in fall of 2021. We first announced details of the plan in August 2022 and published a proposed rule in January of this year. We carefully considered the more than 16,000 public comments received.

Comparing IDR plans

The table below shows how the SAVE plan compares to the existing repayment plans.

Name	Payment terms	Forgiveness time	Effect of Final Rule
Saving on a Valuable Education (SAVE)	5% of discretionary income for undergraduate loans, 10% for graduate loans, and a weighted average for borrowers who have both.	10 years for low-balance borrowers (<$12k) 20 years for only undergrad loans 25 years for any grad loans	Transforms terms of REPAYE.
Revised Pay As You Earn (REPAYE)	10% of discretionary income	20 years for only undergrad loans 25 years for any grad loans	Transformed into SAVE
Pay As You Earn (PAYE)	10% of discretionary income, up to the fixed 10-year payment amount	20 years	No new enrollments
Income-Based Repayment (IBR)	10% of discretionary income, up to the fixed 10-year payment amount. Borrowers before 2014 pay 15% of discretionary income.	20 years. Borrowers before 2014 pay for 25 years.	Remains available, but borrowers cannot select after 60 payments on REPAYE that occur on or after July 1, 2024.

[4] This assumes typical debt of $24,425 (the average debt in bachelor's degree in education programs, according to the College Scorecard), and a starting salary of $43,596 with annual increases of 1.5% per year, both of which are from Table 211.20 in the Digest of Education Statistics. Salary and debt are adjusted for inflation using CPI-U to reflect 2020 dollars.

[5] This example is based on the borrowing patterns and amounts of recent cohorts.

Income-Contingent Repayment (ICR)	The lesser of: 20% of discretionary income and 12- year repayment amount multiplied by an income percentage factor	25 years	No new enrollments for students. Available only to future borrowers with consolidated Parent PLUS.

THESE ARE ALL THINGS THAT WERE IN THE OLD ONE, BUT THIS FEELS LONGER THAN WE NEED NOW?

Protecting more low-income borrowers from unaffordable student loan payments

Currently, borrowers on the REPAYE plan must make payments equal to 10 percent of their "discretionary" income—defined as income in excess of a protected amount set at 150 percent of the Federal poverty guidelines. That means a single borrower starts making payments on income above approximately $20,400. This results in lower-income borrowers still having to make payments, while middle income borrowers may find their payments unaffordable.

Lowering Lifetime Payments for Those Who Need it Most

BOTTOM 30% OF EARNERS	TOP 30% OF EARNERS
Lifetime payments per dollar borrowed drop by **83%**	Lifetime payments per dollar borrowed drop by **5%**

These proposed changes focus on working & middle-class families who need the relief.

The proposed regulations would increase the amount of income protected from repayment to 225 percent of the Federal poverty guidelines—about the annual equivalent of a $15 hourly wage for a single borrower working full-time based upon the 2022 guidelines. As a result, borrowers with family income under this threshold will not have to make monthly payments on their student loans. This would help protect more borrowers from having to choose between making a loan payment and covering basic needs, such as paying rent or buying groceries. More specifically, a single borrower who makes less than $30,500 and a borrower in a household of four with income below $62,400 would make $0 monthly payments. By contrast, the most generous existing IDR plans only protect income up to 150 percent of the Federal poverty guidelines, which is about $20,400 for a single individual and just above $41,600 for a family of four.

Cutting undergraduate loan payments in half

Under the new plan, borrowers would only be required to pay 5 percent of their discretionary income (calculated as income above 225 percent of the Federal poverty guideline) on loans borrowed for their undergraduate studies. This is half the rate charged on the most generous existing IDR plans, including the current REPAYE plan.

Under this proposal, a borrower who has only undergraduate loans would pay 5 percent of their discretionary income toward those loans. Borrowers who have only graduate school related loans would still pay 10 percent. In addition, borrowers who have loans for both types of programs would pay between 5 and 10 percent— based upon a weighted average calculated from the share of their original loan balances borrowed for undergraduate versus graduate study. For example, a borrower who has $20,000 in loans from their undergraduate education and $60,000 in loans from their graduate study would pay 8.75 percent of their income. A borrower who has $30,000 in loans from each would pay 7.5 percent.[6] These percentages would not be recalculated unless a borrower takes on new loans.

Stopping unpaid interest accumulation

The Department estimates that as many as 70 percent of borrowers on existing IDR plans have seen their balances grow after entering those plans. In many cases, even borrowers making all required payments see their balances grow because the payment they can afford is lower than the accrued interest. Under the Department's proposed regulations, borrowers won't see their balances balloon while they're making regular payments, including those who have a $0 payment.

Under the proposed plan, a borrower would continue to have their monthly payment first applied to interest, but if it is not sufficient to cover that amount, any remaining interest would not be charged. This would extend existing interest benefits under the current REPAYE plan, in which borrowers have at least half of their unpaid interest waived each month.

A fair path to forgiveness

The proposed regulations also contain several provisions that would help borrowers make progress to forgiveness and shorten the time spent in repayment for borrowers with smaller balances.

Lowering the number of monthly payments required to receive forgiveness for borrowers with smaller loan balances

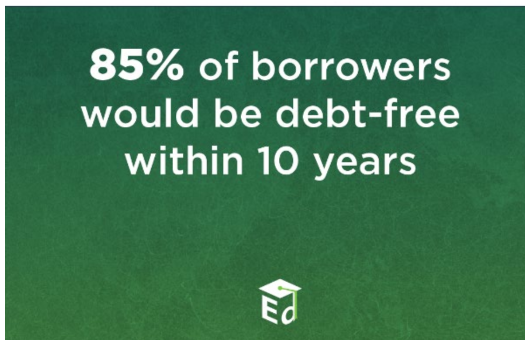
The Department is concerned that borrowers with small balances are discouraged from using existing IDR plans – even if they would benefit from lower monthly payments – because of the length of time required to receive loan forgiveness. Existing IDR plans provide forgiveness to borrowers with remaining balances after 20 or 25 years of payments, regardless of the amount borrowed. For example, a borrower who attended a community college, even for only a semester, and never experiences high earnings will not receive forgiveness for 20 years, only 5 years sooner than a borrower with debt from a professional degree.

[6] In the first example, the borrower's total loan balance is $80,000, of which one quarter is undergraduate and three-quarters is graduate. The calculation is thus (25% x 5%) + (75% x 10%) = 8.75%. In the second example, the borrower has $60,000 in total debt, half of which is undergraduate and half is graduate. The calculation is thus (50% x 5%) + (50% x 10%) = 7.5%.

Under these regulations, the Department proposes a shortened timeframe for receiving loan forgiveness for borrowers based upon their original principal balance. Those who borrowed $12,000 or less would receive loan forgiveness after making the equivalent of 10 years of payments. Every additional $1,000 borrowed above that amount would add 1 year of monthly payments to the required time a borrower must pay before receiving forgiveness.

Making Sure Community College Doesn't Lead to a Lifetime of Student Loan Debt

COMMUNITY COLLEGE BORROWERS



This shortened path to forgiveness will be particularly beneficial for the typical community college borrower. With this change, the Department estimates that 85 percent of community college borrowers would be debt free within 10 years of entering repayment. It will also help increase the likelihood that lower balance borrowers who are currently at a high risk of default will enroll in an IDR plan, which includes millions of borrowers who did not finish their programs, a group that commonly has low debt and the worst loan outcomes. As in the current REPAYE plan, no borrower would be required to make payments for more than 20 years if they only have undergraduate loans or 25 years for borrowers with any graduate loans.

Eliminating pitfalls to forgiveness by giving borrowers credit for certain deferments and forbearances and not resetting the clock to forgiveness when consolidating loans

There are too many ways for borrowers who make well-intentioned choices to lose progress toward forgiveness under current IDR options. The Department proposes to eliminate many of these pitfalls and traps through several changes. These actions build upon steps announced in April to ensure that borrowers have accurate counts of their progress toward IDR forgiveness and address longstanding concerns about the use of deferments and forbearances.

First, the Department proposes to give borrowers credit toward loan forgiveness for certain periods of deferments or forbearances that were not previously counted. Currently, economic hardship deferments (including Peace Corps service deferments) are the only type of deferment or forbearance that can be counted toward forgiveness under IDR. The Department proposes allowing forgiveness credit for the same deferments and forbearances that are now eligible for credit toward PSLF as a result of a separate final rule published on November 1. This includes: cancer treatment deferments, military service deferments, post-active-duty deferments, national service forbearances, National Guard Duty forbearances, Department of Defense student loan repayment program forbearances, and certain administrative forbearances. The Department also proposes to provide credit toward forgiveness for rehabilitation training deferments and unemployment deferments, which are not eligible for PSLF because neither allows for the borrower to be working full time as required under PSLF.

Second, borrowers in other types of deferments and forbearances would have some opportunity to make catch-up payments to help them get back on track toward loan forgiveness. This provides borrowers a path to receive credit for other periods in deferment or forbearance that are not being credited automatically, including months where a borrower would have had a $0 required monthly

payment. Finally, borrowers would not see their progress toward forgiveness fully reset after they consolidate their student loans, as is currently the case. They would instead receive a weighted average of credit for prior payments.

Protecting at-risk borrowers

The plan includes several provisions that would help struggling borrowers access the benefits of IDR.

Automatically enroll delinquent borrowers into an IDR plan

Far too often, borrowers struggle with repayment and end up in default, even when they would have qualified for a lower or even $0 payment on an IDR plan. To help struggling borrowers avoid default, the Department proposes automatically enrolling borrowers who are at least 75 days behind on their payments into the IDR plan that provides them the lowest monthly payment. This change would apply to borrowers for whom the Department has the necessary approval to obtain their income information from the Internal Revenue Service.

Grant borrowers in default access to an IDR plan

These proposed rules would also for the first time give borrowers currently in default access to an IDR plan. This will allow those who are unable to exit default to gain access to more affordable monthly payments and a path to loan forgiveness.

Simplifying access to equitable repayment

Borrowers consistently report that the number of repayment options is an impediment to finding and enrolling in a plan that meets their needs. The Department believes the proposed changes to the REPAYE plan would make it the best IDR option for nearly all student borrowers because it offers borrowers the lowest required payments. Borrowers could still voluntarily choose to pay their loans down more quickly if they choose. While the Department cannot force borrowers to switch from their existing plans or eliminate plans created by statute, these regulations would simplify repayment options for borrowers going forward. The Department also proposes to sunset new student borrower enrollment in the PAYE and original ICR plans.[7]

The new plan will benefit working and middle-class borrowers

The Department also analyzed what would happen to borrowers' lifetime payments if all future borrowers signed up for the proposed REPAYE plan compared to the current REPAYE plan, modeling variation in borrower employment, income, marriage (including spousal income and debt), and family size – all factors that may affect payments in IDR.

We estimate that borrowers' average lifetime payments per dollar borrowed would fall by 40 percent in the new REPAYE plan compared to average lifetime payments per dollar borrowed in the current REPAYE plan.[8] Borrowers in the lowest 30 percent of projected lifetime earnings would see the greatest benefit with average lifetime payments per dollar borrowed 83 percent less than under the current

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[7] Borrowers who consolidated a Parent PLUS loan would not see any changes in their eligibility to enroll in the existing Income-Contingent Repayment plan.

[8] Lifetime payments equal the present discounted value of total payments until the loan is repaid or forgiven. Lifetime payments are expressed on a per dollar borrowed basis to make it easier to compare savings across groups that may borrow different amounts.

REPAYE option.[9] By contrast, borrowers in the top 30 percent will see average lifetime payments per dollar borrowed fall by less than 5 percent compared to the current REPAYE plan.[10]

Benefits will reach a diverse range of borrowers across all racial groups. Where differences exist in earnings, unemployment, and other factors for borrowers of different races and ethnicities, these groups may also experience differences in average benefits received from the new REPAYE plan for borrowers in these groups. For Black, Hispanic, American Indian and Alaska Native borrowers, the Department estimates that lifetime payments per dollar borrowed would be around 50 percent of what they would be on the current REPAYE plan. White borrowers' projected lifetime payments per dollar borrowed would be 37 percent less than under the current REPAYE plan. Asian and Pacific Islander borrowers would see average lifetime payments per dollar borrowed fall by approximately 33 percent.

Significant savings for borrowers in public service

Improvements to REPAYE would also provide significant monthly savings for borrowers as they seek PSLF.[11] We estimate that the typical teacher who has a bachelor's degree and is seeking PSLF would save more than $17,000 in total payments over 10 years—a two-thirds reduction in what they would pay in total under REPAYE.[12] A teacher who obtains a master's degree after 5 years of work would see their total payments fall by about 45 percent compared to their total payments on the current REPAYE plan.[13]

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[9] In their first 10 years of repayment, borrowers in the bottom 30 percent of lifetime income are in families with earnings less than $29,000, on average.

[10] In their first 10 years of repayment, borrowers in the top 30 percent of lifetime income are in families with earnings exceeding $90,000, on average.

[11] The IDR rules apply equally to workers in and out of the public sector worker. The savings illustrated here result from the lower monthly payments public servants would make on their loans until they qualify for forgiveness under PSLF.

[12] This assumes typical debt of $24,425 (the average debt in bachelor's degree in education programs, according to the College Scorecard), and a starting salary of $43,596 with annual increases of 1.5% per year, both of which are from Table 211.20 in the Digest of Education Statistics. Salary and debt are adjusted for inflation using CPI-U to reflect 2020 dollars.

[13] This assumes typical debt of $24,425 from a bachelor's degree in education and an additional $35,030 in debt from a master's degree in education (calculated from College Scorecard data), a starting salary of $43,596 with annual increases of 1.5% per year for the first 5 years of teaching and a salary of $53,897 with annual increases of 1.7% per year after receiving a master's degree for the 6th through 10th years of teaching (Table 211.20 in the Digest of Education Statistics). Salary and debt are adjusted for inflation using CPI-U to reflect 2020 dollars.