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RELEASED FROM THE DEBT TRAP: REFORMING INCOME-DRIVEN REPAYMENT TO SERVE STRUGGLING BORROWERS

The U.S. Department of Education (ED) must create a substantively different, better, and more generous income-driven repayment (IDR) plan than those currently offered. There is ample evidence that IDR is failing many borrowers, miring them deeper in debt and creating greater financial hurdles for them to overcome. Because these plans are meant to serve low- and middle-income earners, their failures also disproportionately impact Black, Latino/a, and women borrowers. It is imperative that ED adequately reform IDR to remedy the structural issues that harm the borrowers that the plan is meant to help and give younger generations a chance to achieve financial well-being.

Accordingly, N. Joyce Payne Center for Social Justice at the Thurgood Marshall College Fund urges ED to implement these changes in the current round of IDR reform:

- **Reduce the time to forgiveness to 15 years.**
  - This time period is 50% longer than the standard repayment plan period of 10 years.
  - Periods of 20 or 25 years prevent borrowers from adequately saving for retirement, having children, starting businesses, and owning homes. These trends hinder national economic growth and ultimately cost society more.
- **To determine payment amounts, create a progressive, graduated scale based on income that ranges from 5% (for lower earners) to 10% of discretionary income (for higher**
  - A progressive scale will target benefits to those who need it most, and also allow taxpayers to recoup funds from those who can pay more.
- **Subsidize 100% of unpaid interest to prevent negative amortization.**
  - Ballooning loan balances that result from payments that do not cover interest have detrimental, cascading effects on borrowers' financial lives.
- **Automatically recertify income based on data matching with IRS records.**
- **Make the new plan available to all Direct Loan borrowers** without a partial financial hardship requirement, as the REPAYE plan does.
- **Permanently make the balance forgiven at the end of the 15-year repayment tax-free.**
- **Define protected income as 300% of the federal poverty line.**
  - Rent, healthcare, and cost of living expenses have all risen dramatically over the past decade. The new IDR plan must ensure that student loan payments are deducted from the amount beyond what a borrower needs to survive.
- **When an issue with re-certification arises, allow a one-year grace period before removing a borrower from an IDR plan.**
  - If their income rose during that period, allow them to pay the difference without penalty.
- **Automatically enroll borrowers at risk of default in the new IDR plan.**

In addition, **ED should issue a waiver to give retroactive credit for previous payments** under other plans to allow borrowers a fair chance to get on the track to forgiveness and to remedy past IDR program failures.

It is essential that ED reform IDR in a meaningful way to allow generations of student loan borrowers to build stable financial futures. Because student loan debt creates disproportionate challenges for borrowers of color and women borrowers, the new IDR plan must be designed with these borrowers at the center. IDR reform can help ensure that higher education offers equal opportunity and upward economic mobility to all Americans.