STREAMLINING STUDENT LOAN REPAYMENT

The Department of Education will lend about $100 billion to millions of students across the country this year. Without major reductions in college costs, the majority of students will continue to depend on loans to pay for at least part of their postsecondary education, and the majority of those borrowers rely on the federal student loan program. We face a troubling reality however, that about a fifth of new borrowers will default at some point during repayment.

Of course, for many students, taking on a moderate amount of debt to earn a degree that substantially increases lifetime earnings is a responsible choice. For example, the average graduating college senior who borrows to attend a four-year public school currently leaves with $29,400 in loans, but will earn an estimated $650,000 more over the course of her career due to that credential. It's undeniable that higher education is a wise investment- but why do so many borrowers run into problems repaying their debts?

THE TANGLED WEB OF REPAYMENT

The federal student loan program provides numerous options for borrowers to repay their student loans, too many options in fact. The current repayment plans include:

- Standard Repayment: 10 years of fixed payments (students are automatically enrolled in this plan)
- Graduated Repayment: 10 years of payments that are lower at first, then increase
- Extended Repayment: 25 years of fixed or graduated payments
- Income-Based Repayment (IBR): 15% of discretionary income; for up to 25 years
- Pay As You Earn (PAYE): 10% of discretionary income; for up to 20 years
- Income-Contingent Repayment (ICR): Payments based on debt amount, AGI, and family size; for up to 25 years
- Income-Sensitive Repayment: A monthly payment based on annual income; for 10 years

Many of the repayment options listed above (which don't even include deferment or forbearance) have borrower protections inherent in their design. However they are optional and require borrowers to take proactive and cumbersome steps to enroll. And the sheer number of plans is simply too overwhelming for many students.

Borrowers must: know about the plans; assess which plan, if any, will benefit them; complete paperwork and income verification; and provide ongoing documentation of eligibility.

SIMPLIFYING REPAYMENT OPTIONS HELPS STUDENTS

Even though we are seeing high default numbers, participation in income-based repayment plans is much lower than desired (although it has recently improved due to outreach and awareness campaigns by the Department of Education). Consequently, many individuals who would qualify for IBR don't actually follow through with the application process due to its complexity.

By establishing a single income-based repayment plan, and automatically enrolling borrowers in it, we can ensure that inability to repay would no longer be a reason for default. While this idea wouldn't eliminate loan defaults entirely, default rates would certainly decrease, as would the harmful consequences of defaulting on a federal loan for individuals along with the taxpayers' burden of having to shoulder the costs of a defaulted loan. At the very least we should pare the available repayment options down dramatically, perhaps to one plan based on income and one standard repayment plan.

WHAT CONGRESS CAN DO

Pass legislation that will streamline the student loan repayment process by collapsing the various income-related payment plans into **one single income-based repayment plan**, and make this the plan that borrower are **automatically enrolled** in. While NASFAA research has concluded that this would be the ideal solution, another acceptable action would be to **reduce the number of repayment options** to one plan based on income and one standard repayment plan.