the institute for college access&success

THE AFFORDABLE LOANS FOR ANY STUDENT ACT MAKES CRITICAL IMPROVEMENTS TO HELP BORROWERS MANAGE THEIR DEBT AND AVOID DEFAULT

There is broad, bipartisan agreement that Congress needs to simplify and improve the current array of repayment plans that base monthly federal student loan payments on borrowers' incomes, broadly referred to as income-driven repayment or IDR. The Affordable Loans for Any Student Act, led by Senator Jeff Merkley (D-OR) and Representative DeLauro (D-CT), stands out as the reform borrowers urgently need to simplify and improve the repayment of federal student debt.

The Affordable Loans for Any Student Act makes common-sense changes to simplify and improve student loan repayment, and will ultimately reduce borrowers' risk of the worst repayment outcome: default.

The bill incorporates longstanding TICAS recommendations to streamline today's multiple income-driven repayment (IDR) plans into a single, improved plan that works better for students and taxpayers. By basing monthly payments on income and family size, IDR helps keep student debt manageable for millions of borrowers. For borrowers struggling to make their student loan payments, IDR is a crucial safeguard against student loan default: borrowers in IDR are less likely to be delinquent or to default than borrowers in other repayment plans. Because IDR is not the right repayment plan for everyone, the bill preserves borrowers' ability to choose to repay their loans through predictable monthly payments over a fixed period of time.

The Affordable Loans for Any Student Act's streamlined IDR plan includes the following key features:

- **Monthly payments are capped at 10 percent of income.** A borrower's monthly payments are equal to 10 percent of his or her adjusted gross income – as is currently the case in three of the five existing IDR plans. This helps ensure that student loan payments are a manageable share of a borrower's income.
- **The monthly payment formula protects very low earnings**. All of today's IDR plans recognize that borrowers must cover basic needs like housing, food, and transportation before making payments toward student loans. The IDR plan created in this bill expands this "income exclusion" threshold from 150 percent to 250 percent of the federal poverty level, such that a single borrower earning less than $30,000 a year would not be required to make loan payments (their monthly payment would be $0). This income exclusion is gradually phased out for high-income borrowers.
- **Any remaining balance after 20 years of payments is forgiven**. All borrowers in the PAYE and 2014 IBR plans, as well as borrowers with only undergraduate debt in the REPAYE plan, receive forgiveness after 20 years of payments. This represents a critical light at the end of the tunnel for borrowers whose incomes remain very low, relative to their debt, for decades. Maintaining this protection is important because extending the repayment period for any subset of borrowers in IDR disproportionately harms the lowest income students, who take longer to repay their loans than higher-income borrowers.
- **Automates annual recertification process so borrowers do not accidently lose the ability to make payments based on income**. Missing an annual deadline to update income information can lead to unaffordable spikes in monthly payment amounts and interest capitalization that adds significant cost to a loan. To eliminate this unnecessary burden on both students and loan servicers, this bill allows borrowers to give permission for the Department of Education to automatically access their required tax information, with the ability to revoke that permission at any time. These reforms are also included in the bipartisan FAFSA Act that passed out of the Senate in December 2018, and the bipartisan SIMPLE Act introduced in the House in 2017.
- **All borrowers in IDR make payments based on income**. Following the existing REPAYE plan, the bill does not cap monthly payments at the borrower's fixed 10-year payment amount, ensuring that payments are always based on income, even as it rises.
- **Automatically enrolls distressed borrowers in IDR**. The bill requires that delinquent borrowers be notified of their IDR eligibility, and enables the automatic enrollment into IDR of severely delinquent borrowers (those who have not made any payments for 120 days), as well as borrowers who defaulted and completed rehabilitation. Borrowers would be able to opt out of this process. These reforms are also included in the bipartisan SIMPLE Act.

In addition to the above, the bill includes other important reforms to student loan borrowing and repayment. The bill eliminates interest capitalization and origination fees, limits income seizure for loan payments from borrowers in default, and consolidates existing deferment and forbearance options into a single, easy-to-understand "pause payment" process. It also increases student access to timely, key information to support student borrowing decisions, and requires school certification of private loans to ensure students are advised of their federal loan options and eligibility first.