the institute for college access & success

Helping Students Make Wise Borrowing Choices and Repay Federal Student Loans

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The Institute for College Access & Success' white paper, *Aligning the Means and the Ends: How to Improve Federal Student Aid and Increase College Access and Success*, makes practical policy recommendations to help students make wise borrowing decisions, repay their loans, and avoid default. The recommendations include:

Improve the timing, content, and effectiveness of student loan counseling to help students borrow wisely and pick a repayment plan that works for them. For example, the exit counseling should guide borrowers who want to reduce their debt's overall cost and can afford to pay it down faster to shorter term repayment plans. It should guide borrowers who want assurance that their monthly payments will remain affordable to a streamlined income-based plan.

Prevent unnecessary, risky private loan borrowing by requiring schools to certify private loans and provide counseling that includes informing the student of any remaining federal aid eligibility, before a private loan is disbursed. Currently, many students who borrow private loans – and the parents who co-sign these loans – do not understand the difference between federal and private loans until it is too late.

Streamline and improve federal loan repayment options by:

- *Enabling all borrowers to make one payment that covers all their federal loans;*
- *Basing the maximum repayment period on the borrower's total federal loan debt; and*
- *Offering one income-based repayment plan that lets any borrower choose the assurance of manageable payments and forgiveness after 20 years.* One new and improved income-based plan would replace four income-driven plans: Income-Based Repayment as currently available (IBR), IBR for new borrowers starting in 2014, Pay As You Earn, and Income-Contingent Repayment. Borrowers already enrolled in these plans could stay in them or switch to the new plan. This streamlined plan would:
    - Be available to all federal loan borrowers, regardless of their debt or income level, whether their loans are Direct or FFEL, or when they borrowed.
    - Better target benefits to those who need help the most by making two changes:
        1. Gradually phase out the "income exclusion" for higher income borrowers, which affects the calculation of their monthly payments. Borrowers with very high incomes can afford basic necessities without shielding a share of their income. Borrowers with AGIs below $100,000 would not be affected, and monthly payments for all borrowers would never be greater than 10 percent of total income.
        2. Remove the 10-year standard payment amount as a cap on monthly payments because it results in some higher income borrowers making payments that are less than 10 percent of their income. Setting the maximum payment at 10 percent of income better targets benefits by allowing those with high incomes to make larger monthly payments, and thereby prevents them from receiving substantial loan forgiveness when they could have afforded to pay more.

Better prevent student loan defaults by automatically enrolling severely delinquent borrowers who have not made a payment in six months in the income-based repayment plan; targeting outreach to borrowers showing signs of financial distress; and providing discharges when students are defrauded by their college, paid for by the school.