Young Invincibles' Student Loan Repayment Agenda

YOUNG INVINCIBLES

In 2018, the total amount of student loan debt swelled to an unprecedented high of $1.5 trillion dollars, held by over 40 million student loan borrowers.[1] This massive amount of debt is managed and monitored through a complex network of government agencies, contracted loan servicers, debt collectors, and individuals. Students of color are most acutely impacted by the student debt crisis, borrowing for college at higher rates, borrowing higher amounts, and struggling to repay more than white students.[2]

In response to this ongoing crisis, Young Invincibles has advocated for policies to address the complexities of our student loan system and make it easier for borrowers to become debt-free. Student loan default rates have improved since 2010,[3] and more individuals have entered into income-based plans to manage their debt payments upon leaving school.[4] However, despite some progress, too many borrowers continue to default and troubling racial disparities persist. For instance, black and Latinx borrowers are at least twice as likely as white borrowers to default on their loans.[5]

In looking at our repayment system on the whole three major issues emerge:

- The overall complexity of the system is still a common complaint among borrowers.[6]
- The process for enrolling in and remaining in income-based plans is clunky, and over half of enrollees are thrown out of their plans after one year.[7]
- Too many borrowers struggle with payments and student loan defaults remain too common,[8] indicating that some who may benefit from income-based repayment are not enrolling.

Our repayment system is crying out to be simplified and streamlined. Thankfully, lawmakers recognize the need, and there have been a variety of plans and proposals designed to improve repayment. In considering changes to legislation, we must preserve the existing borrower-friendly terms that are essential to providing insurance against defaults, managing monthly payments, and provide low-income borrowers a path out of debt. The following is a set of principles that Young Invincibles recommends be included in any new student loan repayment system to achieve those goals and alleviate the challenges described above.

The system should be simple to understand and easy to access:

1. *Make one income-based repayment (IBR) plan: There should be one income-based repayment plan for all federal loan borrowers to enroll in.* The current system, which includes several different income-based plans, frustrates and confuses borrowers trying to make the best decision for their financial situation, and hamstrings advocates and servicers when trying to educate borrowers on their options. In addition to making the system simpler with one plan, individuals should be allowed to pay more than their minimum required amount in a given month, and the servicer should be required to adjust and apply their payments in accordance with the borrower's wishes. There is no reason to restrict individuals' ability to pay down their principal faster; it's truly an everyone wins situation.

2. *Add multi-year consent for IBR: Borrowers should be allowed to consent to remain in an income-based plan for multiple years when enrolling, rather than having to re-enroll each year.* Multi-year consent would eliminate instances of mistaken non-renewal or servicer delays that result in borrowers being dumped into the current 10-year payment plan without their consent and at much higher monthly payment rates they cannot afford. It would also greatly lessen the burden on the borrower to report information back to the federal government it already possesses.

3. *"Standard" terminology should be discarded: While there should be a time-based amortization plan for those that can afford it, it should not be labeled the "standard" plan.* Calling the plan "standard" implies that it is the correct choice for everyone, and we have heard from young people that it leads them to assume that is the plan they should enroll in, regardless of their individual situation. "Fixed" or a plan that directly indicated the time frame the loan would be paid off over ("the ten-year plan") would be better options. Policymakers should also consider allowing time-based repayment windows longer than ten years for larger debt amounts.

The system should be simple to understand and easy to access:

4. *Low income borrowers need relief: Income below 250% of the Federal Poverty Line should become exempt from repayment.* Individuals shouldn't have to choose between food on the table and paying down their student loan debt. All current IBR plans contain a cost of living exemption, and that should continue. However, expanding the exemption to 250% will maximize the ability of low-income borrowers just starting out in the workforce to obtain financial stability by prioritizing necessary expenses. This change would currently exempt the first $30,150 an individual makes.[9]

5. *Automatically enroll struggling borrowers into IBR: An automatic income-based repayment program should be created and used immediately to help borrowers who are more than 90 days behind on their payments or in default, and then its further expansion should be piloted.* Automatic IBR for all borrowers is a system that contains benefits like simplicity for the borrower and ease of collection for servicers, but also creates other problems and has many unresolved administrative issues.[10] In conversations with young people, we found they liked the ease and simplicity of creating such a system but were worried about employers getting access to their loan information and that the system might not be flexible enough to respond to desired changes in their plans. It's important that any repayment system allows for borrowers to both prioritize their everyday needs and does not function as a wage garnishment tool through the use of payroll withholding. However, to curb unnecessary defaults, borrowers delinquent for over 90 days should be given notice and automatically enrolled in IBR plans. Beyond that, pilot programs should be designed to enroll small cohorts of lower-risk borrowers in automatic IBR plans to learn how to solve the challenges that option presents.

The plan shouldn't have added costs for borrowers that result from the system:

6. *Restrict interest and eliminate origination fees: Borrowers shouldn't be charged excessive interest, and origination fees should be eliminated.* For many borrowers, it is simply impossible to manage their debt and make progress on paying it down due to accumulating interest, despite on-time monthly payments in IBR plans. Any IBR plan should prevent remaining unpaid interest from accruing on all loans for the first three years of repayment if borrower's overall monthly payment amount is less than the monthly amount of interest charged. If a borrower is struggling to pay a share of the principal or even all of the interest charged, especially when first starting their career, they shouldn't get hit with interest costs that make repayment even harder. After three years, 50 percent of the remaining unpaid interest can be charged should their monthly payment amount remain less than the monthly interest charged. Additionally, different circumstances trigger the capitalization of interest across various income-based plans, resulting a sudden increase in the loan balance as the outstanding interest is added to it. Capitalization of unpaid interest for borrowers enrolled in IBR plans should be eliminated altogether to simply the system and make it easier for borrowers to pay off their balance. Finally, borrowers should also be exempt from being charged loan origination fees.

7. *All forgiveness should be tax-free: Requiring borrowers to pay taxes on debt that is forgiven defeats the purpose of forgiveness.* Borrowers who are still paying off their loans after 20 years are unlikely to have the disposable income to pay of the tax liability associated with forgiveness. Providing tax-free forgiveness simplifies the existing student loan system, avoids further complicating borrower tax returns, and honors the original conception of why loan forgiveness was created.

The plan should have debt forgiveness that is fair and that supports a diversity of jobs and experiences:

8. *Income-based repayment terms should be the same: All student debt forgiveness windows should be 20 years and all payments made, regardless of consolidation, should qualify.* Creating multiple forgiveness windows adds unnecessary complexity to the existing system, and blanket characterizations of undergraduate and graduate loans ignores the fundamental differences in between different types of undergraduate and graduate programs. Some graduate level programs, like social worker or teacher, are not expected to yield large windfalls over the course of a person's life, whereas undergrad STEM fields are often more lucrative than the average job.[11] Making the graduate window longer effectively penalizes those who chose careers that require graduate schooling, many of them essential to public service, but derived no significant monetary advantage from doing so. Additionally, a 20-year window allows older individuals to begin saving for retirement and prioritizing their children's education. Finally, any payments made before consolidating older loans with new loans should count for forgiveness on those loans. Otherwise, the forgiveness window is artificially and unfairly extended beyond 20 years to the detriment of borrowers.

9. *Public Service Loan Forgiveness (PSLF) should be maintained: PSLF is a vital investment in America's civic and public professions designed to attract diverse, qualified graduates to public service through the promise of future debt relief.* The program offers teachers, nurses, firefighters, and other essential public and non-profit workers student debt forgiveness after ten years of on-time monthly payments. The program benefits our armed forces as well: the U.S. Naval Institute reports that almost 6,800 active duty military personnel are enrolled in PSLF,[12] and the Navy,[13] the Department of Defense,[14] and 35 servicemembers organizations[15] oppose its elimination. The effect of PSLF elimination would be felt across hundreds of jobs and industries, both civilian and military. PSLF should be preserved to give public servants a path out of debt.

We believe the above recommendations are essential to the construction of a simplified, fair, and effective student loan repayment system. We urge lawmakers to draw upon these principles as they embark upon reforms that will impact millions of student loan borrowers.

End Notes

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