THE PROJECT ON
STUDENT DEBT

# Loan Repayment Issues in S. 359

On January 22, 2007, the leadership of the Senate Health, Education, Labor and Pensions (HELP) Committee introduced S. 359, the "Student Debt Relief Act of 2007." The bill contains provisions that would improve protections for borrowers with high federal student loan debt burdens (high debt relative to income) through the creation of a Fair Payment Assurance program and changes to the existing Income-Contingent Repayment (ICR) program.

<u>Fair Payment Assurance</u>

- The bill directs the Secretary of Education to create a Fair Payment Assurance program to protect borrowers with high federal student loan debt burdens from unmanageable repayment requirements. Under the program, borrowers earning less than 150 percent of the poverty level for their family size would have their payments deferred on their federal student loans. Above that level of income, borrowers' required payments could not exceed 15 percent of each additional dollar earned. Under this approach, the majority of borrowers would see their loan payments capped at less than 10 percent of their total income.
- On Subsidized Stafford or Perkins loans, the Department of Education would cover any unpaid interest resulting from reduced payments. Interest would continue to accrue on all other federal loans including Unsubsidized Stafford and Grad PLUS loans. Parent PLUS loans are not included in the Fair Payment Assurance program.
- Payments made under the Fair Payment Assurance program, as well as under a standard (10-year) or income-contingent repayment (ICR) schedule, would count toward eligibility for debt cancellation after a maximum 25 years of repayment. Loans covered by this provision include Subsidized and Unsubsidized Stafford, Perkins, and Grad PLUS loans. Parent PLUS loans are not eligible for cancellation.
- Borrowers in high debt burden situations will benefit the most from this legislation. Because the Fair Payment Assurance program recognizes that borrowers with family responsibilities have less income available for loan repayment, the interest relief will be greatest for parents and married borrowers.
    - A college graduate earning $35,000 and carrying $32,000 in student loan debt would have to devote almost 13 percent of his monthly income to loan payments with a standard 10-year repayment plan. Under the Fair Payment Assurance program, his loan payments would be nine percent of his monthly income.

- Under the current system, a borrower with the same debt and income as above, and a family size of two, has the same monthly payment as the single graduate (in this case, 13 percent). Under the Fair Payment Assurance program, her monthly payments would be seven percent of her monthly income; if she had a family of four, her payments would be two percent of her monthly income.

Loan Forgiveness for Public Sector Work

- The legislation also provides forgiveness of federal education loans for public sector workers who are employed for at least 10 years in one of the following areas: emergency management, government, public safety, law enforcement, public health, education (including early childhood education), social work in a public or family service agency, or public interest legal services (including prosecution or public defense). The forgiveness includes any balance (interest and principal) remaining after 10 years.
- To qualify for loan forgiveness, an individual must make 10 years of payments (120 payments total) in the current Income-Contingent Repayment (ICR) program and be employed for at least 10 years in a public sector job.
- Covered loans include Subsidized and Unsubsidized Stafford, Perkins, and Grad PLUS loans. Parent PLUS loans are not eligible for cancellation.

Other Debt Related Provisions

- S. 359 also contains a number of other provisions related to student debt, including: an increase for the federal Pell grant from $4,050 to $5,010; interest rate reductions on federal Subsidized Stafford loans from 6.8 percent to 3.4 percent; and a $1,500 tax credit for interest on higher education loans (including eligible private loans).

The Project on Student Debt
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