Restoring Income-Driven Repayment

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Income-driven repayment (IDR) plans are designed to help borrowers make affordable student loan payments for no more than 20 or 25 years, depending on the type of plan. However, the complexity of these programs has made it notoriously difficult for borrowers to navigate:

- The application process is lengthy and requires annual re-enrollment;
- Servicing errors and abusive practices keep low-income borrowers in IDR for too long;
- Lack of broad forgiveness has kept millions trapped in a cycle of debt.

According to a report published recently by the U.S. Government Accountability Office (GAO), as of June 2021, the Department of Education has only ever approved forgiveness for 157 IDR loans. However, about 7,700 loans in repayment (or 11 percent of analyzed loans) could qualify for IDR forgiveness.

The Center for Responsible Lending (CRL) is advocating for $50,000 of student debt cancellation per borrower as a way to level the playing field for borrowers of color and low-income students who are disproportionately affected by the student debt crisis. CRL believes this amount would help struggling low-income students who may not be covered by IDR or other forms of forgiveness such as Public Service Loan Forgiveness (PSLF), a program that allows borrowers who work for the government or a nonprofit to qualify for tax-free forgiveness after 10 years' worth of payments.

CRL and the National Consumer Law Center (NCLC) have proposed developing forward-looking policy solutions to improve IDR so that more borrowers are able to receive forgiveness. A plan like the Affordable and Budget-Conscious Plan (ABC Plan) – outlined in Road to Relief, a joint CRL/NCLC 2020 publication— would help borrowers make affordable payments that lead to eventual cancellation and not a lifetime debt repayment burden. The ABC plan sets borrowers' monthly payments to no more than 8% of their discretionary income above 250% of the poverty line in their state and allows for tax-free loan forgiveness after the borrower has made income-based payments for 15 years.

A Path Forward

The U.S. Department of Education recently announced changes to its IDR programs that would allow thousands of borrowers to receive immediate relief. About 40,000 borrowers are also scheduled to have their loans cancelled through the Department's PSLF program. This change will provide low-income and low-wealth borrowers a pathway to affordable student loan payments. But the Department of Education also must track qualifying payments and older loans that are at higher risk for payment tracking errors, so that borrowers may receive the IDR forgiveness to which they are entitled. The department must also accurately track demographic data, borrower progress and time in repayment and make this information available to advocates and researchers.

Prior to the Department of Education's announcement, borrowers have seen and witnessed a flawed IDR program. The Department of Education needs to address past failures and ensure that they are not repeated. They also should hold servicers responsible if they fail to abide by the new IDR changes.

IDR reform alone will not solve our nation's student debt crisis since many students are not covered by IDR plans or PSLF. Moreover, without canceling $50,000 worth of student loan debt per borrower, students' balances will continue to grow due to high interest rates, and their monthly payments will remain elevated. Without debt cancellation, many borrowers will not be able to buy a home, save for an emergency, start a family or fulfil their American dream.