Protecting Borrowers & Advancing Equity

Recommendations for Student Loan Repayment

In a report released in May 2022, NASFAA seeks to fill the gaps in the conversation around federal student loan reform by providing thoughtful, systemic, and targeted policy solutions to address underlying flaws in the current repayment and servicing systems that lead borrowers into financial hardship. In all, the report — which was generously grant funded — outlines recommendations to improve student loan servicing practices, rethink the terms and conditions of student loan repayment, and reform student loan default. The full report may be found on NASFAA's website at: https://www.nasfaa.org/protecting_borrowers_advancing_equity.

Following are the recommendations for **student loan repayment.**

These recommendations are put forth by:

NASFAA
NATIONAL ASSOCIATION OF STUDENT FINANCIAL AID ADMINISTRATORS

NACUBO

and the American Association of Community Colleges

Additional supporters of individual recommendations are listed in the full report.

Recommendation 1: **Consolidate the existing repayment plans into three options: a single income-driven repayment plan, a standard 10-year repayment plan, and an extended 25-year plan. Transition all borrowers into one of these three plans and sunset all other existing repayment plans.**

Recommendation 2: **Design a single income-driven repayment plan.**

Sub-recommendation 2A: Raise the poverty thresholds used to determine a borrower's discretionary income from 150% to 200% of the federal poverty guideline.

Sub-recommendation 2B: Assess borrowers' income above 200% but less than or equal to 300% of the federal poverty guidelines at a rate of 5% and assess borrowers' income greater than 300% of the federal poverty guidelines at a rate of 10%.

Sub-recommendation 2C: Eliminate negative amortization for all borrowers, ensuring borrowers who are making payments on an income-driven repayment plan do not see their principal balance grow.

Sub-recommendation 2D: Provide forgiveness of the loan's outstanding balance after 10 years for borrowers who have had a $0 income-driven repayment plan payment for 120 consecutive months, and after 20 years (240 monthly payments) for all other borrowers using income-driven repayment.

Sub-recommendation 2E: Allow income-driven repayment plan payments made before a borrower consolidates to count toward income-driven repayment plan forgiveness.

Sub-recommendation 2F: Allow all undergraduate and graduate borrowers to access the single income-driven repayment plan. Parent borrowers could access economic hardship deferments but would be ineligible for income-driven repayment.

Sub-recommendation 2G: Mandate that all student loan debt forgiven or discharged under income-driven repayment plans is free from taxation.

Recommendation 3: **Explore ways to reform the use of interest in the federal student loan programs to better align with their purpose of expanding postsecondary access.**

Sub-recommendation 3A: Drastically lower interest rates for all types of Federal Direct Loans (subsidized, unsubsidized, PLUS) to advance the program's primary goal of promoting postsecondary access.

Sub-recommendation 3B: Restore graduate and professional student eligibility for subsidized loans so graduate students with financial need can access loans that do not accrue interest during their enrollment.

Sub-recommendation 3C: Once the lower interest rates recommended in Sub-recommendation 3A are implemented, automatically adjust all outstanding federal student loans with interest rates higher than the new rate to match the new, lower rate.

Sub-recommendation 3D: Eliminate negative amortization for all borrowers.

Sub-recommendation 3E: Eliminate interest capitalization for all borrowers.

Recommendation 4: **Eliminate student loan origination fees.**

Recommendation 5: **Maintain a single loan program for graduate/professional students with loan limits that allow students to borrow up to the in-state cost of attendance at public institutions. Allow additional borrowing based on earnings data for the student's program of study or a debt-to-income ratio.**

Recommendation 6: **Reform the parent Direct PLUS program by using a debt-to-income ratio to meaningfully assess how much a parent can responsibly borrow and provide forgiveness of loan debt for parent borrowers who received PLUS when their incomes were at or near the poverty level.**

Recommendation 7: **Reform the Public Service Loan Forgiveness Program.**

Sub-recommendation 7A: Update the timeline for the Public Service Loan Forgiveness Program to provide rolling forgiveness opportunities, forgiving $5,000 in debt after each two years of time in public service.

Sub-recommendation 7B: Ensure all borrowers who are eligible to benefit from the current Public Service Loan Forgiveness waiver can do so before the flexibilities are ended.

Sub-recommendation 7C: Allow all Federal Family Education Loan borrowers who consolidate into the Direct Loan Program to count previous payments toward forgiveness under the Public Service Loan Forgiveness Program.

Sub-recommendation 7D: Take steps to minimize borrower confusion and bolster public confidence in the Public Service Loan Program.