The Repay Act of 2015

Senator Angus King (I-ME) and Senator Richard Burr (R-NC)

General: Today, graduates have many federal student loan repayment programs from which to choose that each vary in eligibility requirements, benefits, and terms. This confusing array of options may lead students to choose loan repayment and/or forgiveness programs that aren't best suited to their needs, causing them to leave money on the table and heightening the chance to fall behind on payments or default. As a result, few eligible students avail themselves of these opportunities, limiting the benefit these programs provide in creating affordable monthly payments and preventing the likelihood of default.

The Repay Act consolidates many of the benefits of the current maze of repayment programs into a single, simplified income-based repayment option, enabling prospective borrowers to have the choice of either a 10-year fixed repayment plan or a single, income-driven plan. This discussion draft draws from President Obama's Fiscal Year 2015 Budget and proposals from the Gates Foundation's Reimagining Aid Design and Delivery (RADD) Project.

Summary:

Section 1 – The Repay Act of 2015

Section 2 – Creates a new Simplified Income-Driven Repayment (SIDR) plan that—

- Streamlines loan term and forgiveness schedule:
  - For borrowers with loan balances of up to the maximum undergraduate borrowing limit prior to repayment, currently $57,500, 20 years of repayment before loan forgiveness;
  - For borrowers with loan balances over the $57,500 undergraduate borrowing limit prior to repayment, 25 years of repayment prior to loan forgiveness.
- Creates a simple monthly calculation rate that ensures borrowers never pay more than 15% of their monthly discretionary income throughout the life of repayment;
- Requires borrowers to make SIDR payments in order to be eligible for forgiveness; and
- Calculates loan payments for households based upon household income.

Section 3 – Provides for a new set of simplified repayment options, as created by the Repay Act, that takes effect July 1, 2015. This provision requires the Secretary of Education to make clear to graduates they have the option of a 10-year standard repayment option that fully amortizes their loan balances (as provided under current law) or a SIDR option that caps payments at a percentage of their income and provides the option of loan balance forgiveness after 20 or 25 years (or 10 years if eligible for Public Service Loan Forgiveness).

Section 4 – Renames the existing Standard Repayment plan the "Fixed Repayment" plan.

Section 5– Tax Provision

- Under section 437(a) of the Higher Education Act, individuals exhibiting total and permanent disabilities, defined as likely leading to death and/or complete unemployment, are eligible for student loan forgiveness. With that, however, comes the expectation of tax liability for the amount forgiven, leading to large tax bills for these disadvantaged individuals. <u>The Repay Act would provide complete tax forgiveness for individuals exercising the Total Permanent Disability (TPD) discharge of their student loans.</u>

Section 6 – Instructs the Secretary of Education to direct federal student loan servicers to notify borrowers about the repayment plans available to them, outline the financial impact of switching to alternative repayment plans, and offer to enroll individuals in such plans, if eligible.

Section 7 – GAO Study

- Directs the Comptroller General and the Secretary of Treasury to complete a study examining the feasibility of simplifying the process for enrolling in and verifying eligibility for all income-based repayment programs;
- Instructs the GAO to include recommendations on how to streamline income and employment verification as well as to simplify the borrower's method of repayment; and
- Requires that the agency submit the results of its findings to the Senate Health, Education, Labor, and Pensions Committee as well as the House Education and Workforce Committee in order to inform future reauthorizations of the Higher Education Act.