Senator Lamar Alexander
Student Loan Repayment and FAFSA Simplification Act
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In March, Congress and the President said to 43 million student loan borrowers, "Because of COVID-19, your student loan payments are deferred until October 1." No monthly payments for six months.

Well, October 1 is just around the corner. What do we say to those 43 million student loan borrowers today?

I propose that we say this:

Number One: No Income: No monthly payment. In other words, if you have a student loan, your monthly payment is ZERO if you do not have any income, for whatever reason.

Number Two: When you do begin earning income, your monthly payment will never be more than 10 percent of your income AFTER you deduct the necessities of life, such as the cost of housing—such as rent or mortgage—and food.

Number Three: The same generous loan forgiveness that exists today for student loan borrowers will still exists. After 20 years of payments for undergraduate loans and 25 years of payments for graduate loans, if you still have an outstanding loan balance, your loan will be forgiven – and that includes all the months your payment was ZERO because you didn't have any income. These same policies—no income: no monthly payment—will be offered to students who take out new loans in addition to existing student loan borrowers.

New and existing student loan borrowers will be offered one other option for paying backing their loans. This option would be like a 10-year mortgage: make equal principal and interest monthly payments over ten years until the loan is paid off. Some borrowers may prefer this option because it could mean paying less interest. Every borrower would be eligible to switch from one option to the other.

The remaining good news in this proposal is that the current bewildering system of nine different ways of paying off your student loan would be thrown in the trash heap and replaced by these two straightforward options:

- One, the income-based repayment option; and
- Two, the ten year mortgage-like option

These changes will give some peace of mind to the 43 million current borrowers and the tens of millions of Americans who are expected to sign up for new student loans over the next ten years.

These ideas are not new, nor are they my ideas. They have been recommended by higher education experts numerous times testifying before the Senate education committee during the past six years while we considered reauthorizing the Higher Education Act. The concepts have also been suggested by many senators, both Democrat and Republican, including King, Burr, Rubio, Merkley, Portman, Warner, Wicker, Manchin, Shaheen and Collins.

While we are simplifying the student loan repayment system, I propose that we also finish the job of reducing the federal loan application of grants and loans, which every calls FAFSA, from about 108 questions to 20 to 33 questions. This is an enterprise that a number of us, both Democrats and Republicans, have been working on for years, including Senators Murray, Bennet, Jones, King, Collins Whitehouse, Gardner, Cornyn, Stabenow, Tillis, and Hassan.

Experts before the senate education committee have testified that simplifying the FAFSA in this way would remove obstacles that will make it easier for more low income Americans to attend colleges and would increase the number of Pell grants each year. Last Fall, Congress and the President, took the first step in simplifying the FAFSA by allowing the Internal Revenue Service to answer 22 questions for which applicants for grants and loans had already answered on their tax returns.

Twenty million American families who struggle to fill out this essential but unnecessarily complex form each year will be grateful to Congress if we complete the job of simplifying the federal aid application system at the same time we make it simpler for 43 million Americans to pay back their student loans.

Now there is one more piece of good news in this proposal, and this news is for the American taxpayer: Simplifying the student loan repayment system as well as the system for applying for student grants and loans will save taxpayers about $10 billion over ten years, according to the Congressional Budget Office. That is because the simpler system of loan repayment which benefits students will also provide more certainty in the repayment of loans.

On October 1, 43 million Americans with student loans are going to have to restart making their student loan payments.

Congress deferred student loan payments in March when the CARES Act COVID-19 relief bill was signed into law, but that deferment expires on September 30.

There has never been a more important time to end the maddening complexity of student loan repayment and make it simpler for Americans to pay off their student loans.

Let me review briefly how the Student Loan Repayment and FAFSA Simplification Act will work. It offers student loan borrowers just two options: a standard 10 year repayment plan, just like a mortgage, or an income-based repayment plan.

So for borrowers with no income, if they choose an income-based repayment plan their monthly payment would be $0.

If a borrower in an income-based repayment plan earns income, the borrower's monthly payment would be based on the amount of that income.

The average student loan for a four-year college graduate today is about $30,000.

So, someone with $30,000 in student loan debt making $52,000 each year would be expected to pay 10% of that borrower's discretionary income, which is about $274 per month income. Borrowers under this plan would never have to pay more than 10 percent of their income that is not needed for necessities.

If we don't pass this legislation now, before October 1, here's what will happen: Because of the confusing repayment system we have today, too many borrowers will have ended up in an unaffordable standard 10-year repayment plan with payments so high they will find themselves in default.

When we are through this pandemic—the economy improves and these borrowers are ready to tackle their debts—they'll find that their student loan debt may have soared out of control.

Senator Murray and I have been working on reauthorizing the Higher Education Act for nearly 6 years now. Held 19 hearings over that time. Senator Murray and I were making good progress. In fact I was hopeful the Senate Health, Education, Labor and Pensions Committee would mark up a higher education reauthorization bill this past Spring. But between impeachment and COVID that just didn't work out.

In January 2018 at a Senate Health, Education, Labor and Pensions Committee hearing, I said that the consensus I saw emerging was simpler, more effective regulations to make it easier for students to pay for college and to pay back their loans.

We discussed the complexity of the federal financial aid system, which is so complex that even those in the higher education system can have trouble navigating it. At a roundtable at the University of Tennessee – Martin, a Tennessee college president told me it took him months to figure out how to help his daughter pay off her federal student loans in full, even with the money in hand.

So this is not a new problem, and the solution I am proposing has been discussed by our committee and many senators outside the committee for nearly 6 years.

Simplifying student loan repayment will help both those facing student loan payments starting again on October 1, but also the millions of students graduating with student debt.

When it comes time to start repaying on these loans, students have to navigate through a complicated number of options – nine in total.

- 10-year standard repayment, which is like a mortgage
- Graduated standard repayment –payments start small and then grow until you pay off your loan in 10 years
- Two Extended repayment options
    - Pay off your loan in 25 years
    - Standard format or graduated format
- 5 different programs based on your income
    - Income Contingent Repayment
        - Pay 20% of your discretionary income
        - Forgiveness of any remaining loan balance after 25 years
    - Original Income Based Repayment
        - Loans issued between July 1, 2009 and July 1, 2014
        - Pay 15% of your discretionary income
        - Monthly amount capped to no more than amount of 10-year standard
        - Forgiveness of any remaining loan balance after 25 years
    - Revised Income Based Repayment
        - Loans issued after October 1, 2011

        - Pay 10% of your discretionary income
        - Monthly amount capped to no more than amount of 10-year standard
        - Forgiveness of any remaining loan balance after 20 years
    - Pay as You Earn
        - Pay 10% of your discretionary income
        - Monthly amount capped to no more than amount of 10-year standard
        - Forgiveness of any remaining loan balance after 20 years
    - Revised Pay as You Earn Repayment
        - Pay 10% of your discretionary income
        - Monthly amount is not capped
        - If all debt is from undergraduate debt, then any remaining balance forgiven after 20 years.
        - If any debt from graduate debt, then any remaining balance forgiven after 25 years.

Now if I lost you wandering through these nine confusing options, you can get a sense of how 43 million student loan borrowers must feel.

The Student Loan Repayment and FAFSA Simplification Act ends that confusion.

The Student Loan Repayment and FAFSA Simplification Act will reduce those 9 repayment plans down to 2:

- One standard 10-year payment, like a mortgage; and
- One payment based on income.

In addition, the bill reduces the complexity for borrowers who wish to participate in the Public Service Loan Forgiveness program which creates an incentive for borrowers to pursue jobs in public service.

The Public Service Loan Forgiveness program requires a borrower to: Serve in an eligible public service job, like a teacher, firefighter, or local or state government; and Make 120 on-time payments in an eligible repayment program.

Today not all of the nine current repayment plans are eligible for public service loan forgiveness and borrowers can have a hard time figuring out which plans to choose.

Under the legislation I'm introducing today, a borrower who wants loan forgiveness can't choose the wrong plan – whether a borrower chooses the standard 10-year repayment plan or the income-based repayment plan, a borrower is able to participate in public service loan forgiveness.

By the end of September, in less than three months, 43 million student loan borrowers will be required by law to begin monthly payments again on their loans. Many of those borrowers won't be able to afford those payments.

I propose that we say to those borrowers. We have a better option for you. No Income: No monthly payment, whether because of COVID-19 or for any other reason. In other words, if you have a student loan, you may defer your monthly payment if you do not have any income.

And, When you do begin earning income, your monthly payment will never be more than 10 percent of your income AFTER you deduct the necessities of life, such as the cost of housing—such as rent or mortgage—and food.

Now is the time to reduce the complexity of student loan debt and finish the job of simplifying the FAFSA and at the same time we save taxpayers money.