PRESIDENT BIDEN’S NEW STUDENT LOAN SCHEME:
Income Driven Repayment

On June 30, the Supreme Court blocked President Biden’s illegal student debt cancelation scheme that attempted to transfer hundreds of billions of dollars in student loan debt onto taxpayers who decided to not go to college or already paid off their loans. In response, the President announced three new student loan schemes including his finalized Income Driven Repayment (IDR) rule, which would allow a majority of bachelor’s degree student loan borrowers to not pay back even the principal on their loans.

Instead of addressing the underlying issues that have led to the skyrocketing cost of college and the increasing amount of debt students take on, this rule incentivizes borrowers who can afford repayment to have their student debt reduced at the expense of Americans who did not go to college or worked to pay

THE IDR RULE

- Reduces payments to 5%, from 10%, of borrowers’ discretionary income monthly on undergraduate loans [(Total Income)-(Expenses)=(Discretionary Income)].
- Raises the assumed amount of expenses to 225% of the Federal Poverty Line from 150%, increasing the likelihood that a borrower would have no discretionary income and an expected loan payment of zero.
    - An individual would need an income above $32,805 before being expected to pay anything.
    - A family of four would need to have total income excess $67,500 (roughly equal to the median income of all households in the US) before being expected to pay anything.
- Covers unpaid monthly interest for loan payments less than the full amount, including zero payments, preventing the loan balance from growing.
- Forgives loan balances after 10 years of payments, instead of 20 years, for borrowers with loan balances of $12k or less. Adds one year for every additional $1k, capping at 20 years for undergrad, 25 years for graduate loans.
- Lacks any guardrails to prevent households making over $250,000 a year from collecting taxpayer-funded assistance if they file taxes separately.

IMPACTS: INCENTIVIZING DEBT

- Under this change to an originally targeted program, **91%** of new student debt would be eligible for reduced payments and eventual transfer to taxpayers.
- On average, **only $0.50** on every **$1** borrowed will be repaid to taxpayers.
- This rule will turn the federal student loan financing system into a **poorly targeted, taxpayer funded** grant program.
- Even those who can fully afford their education would be leaving money on the table by not taking out loans they could expect to eventually be paid off by taxpayers.
- According to the Penn Wharton Budget Model, the IDR rule will cost taxpayers up to **$559 billion** over the next 10 years.
- The Penn Wharton Budget Model found that the IDR rule will incentivize community college students to begin borrowing billions of dollars per year due to the expectation that they will not have to pay back their debt.