US Department of Education publishes plan to revise income-based student loan payments

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The Biden administration and the Department of Education (DOE) have released a proposal to overhaul student loan payment plans. The Revised Pay As You Earn (REPAYE) program would be extensively restructured to reduce monthly payments for student loan borrowers as well as the time needed to qualify for loan forgiveness for some.

The proposal comes as the Biden administration's much-touted plan to forgive a portion of the massive debt burden on students remains blocked in the courts, a situation accepted by the Democratic Party without any opposition. It also coincides with a mounting crisis in the vast student loan market that is placing severe strains on the financial system.

The current REPAYE plan requires borrowers to pay 10 percent of their discretionary income each month, defined as income minus 150 percent of the poverty line ($20,400 a year), with the possibility of qualifying for forgiveness of the remaining amount after 20 years for undergraduate loans and 25 years for graduate loans.

Under the proposed revisions, the monthly payments would be reduced to 5 percent of discretionary income for undergraduate and 10 percent for graduate loans. Any combination of both would result in a percentage based on a weighted average of the two.

In addition, the discretionary income adjustment would be raised to 225 percent of the federal poverty line ($30,500), and those making less than $30,500 as an individual or $62,400 as a family of four would not have to pay any money towards their loan.

Any borrowers at least 75 days in delinquency on their loans would be automatically enrolled in the program and borrowers who have defaulted on their loans would be eligible for the first time to enroll in REPAYE.

The most significant changes to REPAYE will be in the time it takes to qualify for forgiveness and in regards to interest payments on loans.

Those with $12,000 or less in loans would be granted an expedited path to loan forgiveness after 10 years instead of 20. Every $1,000 dollars above $12,000 would add an extra year to the qualification requirement, capping out at the current maximum of 20 years for undergraduates and 25 years for graduates.

Arguably the most notable change is in interest payment requirements. A common complaint of issuers of income-based payment plans is that the monthly payment often fails to cover the interest on the loan, which typically runs around 5 percent, but can reach as high as 6.54 percent for graduate loans and 7.54 percent for parent PLUS loans.

The impact of interest on loan payments is so onerous that many borrowers, even after years of regular payments, still have tens of thousands of dollars in outstanding loans, or even owe more than when they took out the loan.

Under the proposed changes, if an income-based payment is not sufficient to cover the monthly interest, the federal government will waive the interest payment and take on responsibility for it. If implemented, this policy would prevent interest from accruing and help reduce the burden of loan payments for participants.

In its proposal document, the DOE explains that it hopes the plan will help ease the financial strain that student loan payments place on millions of Americans. Student loan debt in the United States has surpassed $1.7 trillion and continues to grow, as the cost of higher education increases every year.

The proposed changes to the REPAYE program touch on issues that student loan borrowers have raised for years. However, the real impact of the program is far less than it promises.

The DOE claims the $12,000, 10-year plan will benefit low income and minority populations. However, according to the DOE's proposal, only 8 percent of borrowers would become eligible for the 10-year expedited forgiveness. More than 42 percent of borrowers would still not become eligible for forgiveness until after 20 years of payments, and a further 38 percent only after 25 years.

There are doubts about how many people will actually see any forgiveness at all, even under the more relaxed program. An investigative report by National Public Radio last year found that the number of people ever approved for forgiveness totals just 32!

NPR's investigation also found that three companies with contracts to manage federal student loans—PHEAA, CornerStone, and MOHELA—were not keeping track of borrowers' payments. This meant that borrowers would have to request the company in charge of their loan to conduct an intensive review of payment records just to determine how much money was actually still owed.

Roughly 4.4 million people have been paying off Income Driven Repayment plans for over 20 years, and errors in payment accounting mean that many may be making payments on debt that they do not even owe.

The Biden administration has issued plans to reform the amount of paperwork in loan processing, but no real efforts have been made to correct the vast failures in student loan payment tracking.

Without substantial changes to the way student loan payments are accounted for it is impossible to place trust in the proposed changes to REPAYE. Even with payments and interest relaxed, there is little reason to believe that the new rules will lead to greater rates of student loan forgiveness and lower total payments. Amidst the numerous issues with student loan debt and payments, a promise of "eligibility" for debt forgiveness rings hollow.

An additional detail of note that has largely been ignored by news coverage is that the DOE's release of the formal proposal included references to future plans to slash federal funding to education programs with low "financial value."

The DOE statement declared that it is "currently working on a proposed gainful employment regulation that would cut off federal financial aid to career training programs that fail to provide sufficient financial value and require warnings for borrowers who attend any program that leaves graduates with excessive debts."

It added that the department is taking steps to "publish a list of the programs at all types of colleges and universities that provide the least financial value to students," and that it will take public comment how best to determine which programs provide the "least financial value." Once produced, "institutions with programs on this list will be asked to submit improvement plans to the Department to improve their financial value."

This is a thinly veiled attack on higher education in the arts and humanities. "Low financial value" is a dog whistle from the Biden administration and a capitulation to the far right's decades-long attack on education.

Programs that have "low financial value" will be in theater, music, literature, history, philosophy, social work, education, psychology, sociology and other fields in the social sciences and arts. Such fields of work and study do not necessarily offer high "financial value" to students, but are a critical part of any functioning society.

The Biden administration is cynically using the promise of student debt relief as a cover for what may become a mass gutting of arts and humanities programs in the United States. Capitalism has no response to the stunning cost of education and the rapidly rising cost of living as a whole. Regardless of whether the new REPAYE program is implemented, it will not resolve the crisis of American higher education and it appears that big cuts are coming to offset the cost of any reduction in loan payments.