

CALIFORNIA SENATE OFFICE OF RESEARCH

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FEDERAL UPDATE

CHANGES TO THE STUDENT LOAN PROGRAM: LONG-TERM RELIEF FOR BORROWERS

Important changes to the federal student loan program that went into effect on July 1, 2014, could make repayment of future student loan debt more manageable for many borrowers. College graduates or former college students who have chosen lower-paying or public-service careers, or those who have suffered long-term illness or unemployment, are most likely to benefit from the revised program.

Changes to the federal program are designed to ease the burden for future borrowers who do not earn reliable or high postcollege incomes. New elements of the program include the following:

- **10-Percent-of-Income Limit.** Borrowers on the “income-based repayment plan” (IBR) will pay no more than 10 percent of their income above a basic annual living allowance. This is a significant, one-third reduction from the previous limit of 15 percent. The basic living allowance is about \$16,500 for a single person, and \$33,000 for a family of four.¹
- **Debt Forgiveness After 20 Years.** Borrowers who faithfully make monthly loan payments will have any outstanding loan balance forgiven after 20 years—which is less than the previous term of 25 years.
- **10-Year Program for Public Service.** Borrowers who have chosen public-service careers, such as teaching, nursing, or military service, will have their remaining loan balances forgiven after 10 years.

WHO IS AFFECTED?

Only those borrowers who enroll in the direct loan program after July 1, 2014, will be eligible for the revised repayment options described above. The federal government projects the changes will enable more than 1 million borrowers nationwide to reduce their monthly payments, and those payments will be reduced, for example, by more than \$110 per month for a single borrower who earns \$30,000 annually and owes \$20,000 in college loans.²

Borrowers who took out federal student loans before July 1, 2014, will continue to repay their loans under the program's prior terms, which included a 15-percent-of-income limit and debt forgiveness after 25 years.

HOW DID THESE CHANGES COME ABOUT?

Four years ago, Congress passed, and President Barack Obama signed, the Health Care and Reconciliation Act of 2010 (H.R. 4872), which included the Student Aid and Fiscal Responsibility Act (SAFRA). SAFRA includes the new student loan repayment provisions that go into effect this year, as well as a provision that requires direct lending for all federal student loans, thus removing the private brokers.

Since signing H.R. 4872, the president has taken the additional step of directing the federal secretary of education to propose regulations that allow a broader spectrum of borrowers to be eligible for the new 10-percent-of-income limit. Those proposed regulations are expected to be announced by June 2015.³

LEARN MORE

- Congressional Research Service provides more details on the changes to the federal direct loan program in its report, "The SAFRA Act: Education Programs in the FY2010 Budget Reconciliation":
<http://doyle.house.gov/sites/doyle.house.gov/files/documents/Education%20SAFRA%20summary%20CRS%20report%20R41127.pdf>
- The U.S. Department of Education's Federal Student Aid office provides more information about income-based loan-repayment plans:
<https://studentaid.ed.gov/repay-loans/understand/plans/income-driven>

- The U.S. Department of Labor provides an online tool called O*NET OnLine that enables borrowers to project the future earnings potential of desired careers: <http://online.onetcenter.org/>
- The California Student Aid Commission offers extensive online information about state financial aid programs, including Cal Grants: <http://www.csac.ca.gov/>

Written by Susanna Cooper. The California Senate Office of Research is a nonpartisan office charged with serving the research needs of the California State Senate and assisting Senate members and committees with the development of effective public policy. It was established by the Senate Rules Committee in 1969. For more information, please visit www.sen.ca.gov/sor or call (916) 651-1500.

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ENDNOTES

¹ The basic living allowance is set at 150 percent of the federal poverty line and varies based on family size.

² Based on 2009 figures.

³ “Presidential Memorandum—Federal Student Loan Repayments,” The White House, Office of the Press Secretary, June 9, 2014, <http://www.whitehouse.gov/the-press-office/2014/06/09/presidential-memorandum-federal-student-loan-repayments>