STUDENT LOAN REPAYMENT FREEDOM ACT

BACKGROUND:

Federal law allows student loan borrowers to make payments under either a Standard repayment plan, or one of a number of income-based repayment plans that are designed to make monthly payments more affordable and reduce delinquency and default.

The U.S. Department of Education, however, cites 20 U.S.C. 1098e(b)(8) in prohibiting borrowers from moving directly from one income-based repayment (IBR) plan to another IBR plan that meets their needs better. Borrowers must first make at least one payment under Standard repayment—an amount that may be far too much for them to afford—or to choose to make a payment under a reduced-payment forbearance agreement that limits the payment to the IBR amount or $5, whichever is greater. Any payments made under reduced-payment forbearance, however, do not count toward the number of payments required for Public Service Loan Forgiveness. In addition, interest continues to capitalize under forbearance. As a result, many borrowers are caught between a rock and hard place.

The situation is compounded when the borrower's loan servicer does not promptly or correctly process the paperwork for the switch. For too many borrowers, it has taken several months before the loan servicer can generate a correct bill under the new IBR plan.

BILL DETAILS:

Section 493C(b)(8) of the Higher Education Act of 1965 (20 U.S.C. 1098e(b)(8)) is amended to read as follows:

> "(8) a borrower who is repaying a loan made under part B or D pursuant to income-based repayment may elect, at any time, to terminate repayment pursuant to income-based repayment and repay such loan under any other repayment plan for which the borrower is otherwise eligible under this title; and".

For the full text of the bill, click here.