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Federal Automatic Income-based Repayment, or "FAIR," Student Loans Act
Senator Bernard Sanders (I-VT)

Why support the FAIR Student Loans Act?

The current student loan system is unnecessarily complex, expensive to administer, and hard for borrowers to navigate. The FAIR Student Loans Act dramatically simplifies the student loan system, reducing the burden on borrowers and saving money for colleges and taxpayers.

- There are currently six student loan programs and seven repayment options.

- 50 million students have outstanding student loans. 31 million of them have multiple loan servicers, and 14 million have three or more loan servicers. 5 million have four or more loan servicers. Confusion over who holds the loans and challenges determine when and where to send payments increases the likelihood of late payments and default.

- According to complaints compiled by the Consumer Financial Protection Bureau, the current student loan system frequently confuses borrowers, who express confusion with the current student loan system and often do not have the information to choose the most affordable loan or repayment option for their financial circumstances.

- The Department of Education spent over $1.3 billion servicing and administering on student loans servicing fees in 2012, including over $276 million to third-party, "not-for-profit" loan servicers.

- The FAIR Student Loans Act replaces the myriad existing loan programs with a single simpler system.

    - Exceptions: The FAIR Student Loans Act would not alter Perkins loans or Parent PLUS loans. It also would not affect educational grants (such as Pell, SEOG, and work study) or private student loans.

Students should not be automatically placed in loan repayment programs they cannot afford. The FAIR Student Loans Act makes IBR opt-out, instead of opt-in. It automatically places borrowers in an income-based repayment program, with the option of paying more each month if they can afford it. We can prevent the majority of student loan defaults, which are costly to the government and devastating to borrowers.

- Current IBR options are underutilized. According to the National College Access Network, only 1 million borrowers are currently enrolled in IBR, and another 474,000 enrolled in a similar income-contingent program. Yet there are 37 million borrowers with outstanding loan balances, including 5.4 million who have at least one past-due student loan account, and 40 percent of student loan accounts are in deferment. Given these numbers, it is also likely that some borrowers who remain current on their payments may be struggling to do so and unaware of their repayment plan options.

- Based on the experiences of other countries with automatic IBR (e.g. UK, New Zealand, Australia), the FAIR Student Loans Act would lower student loan default rates from 13% (2012) to almost zero.

- Close to 6 million, or nearly one in six, borrowers are in default on their student loans, with rates up some 30% in the last 5 years—for a total of $76 billion in unpaid debt. Students in default face ballooning repayments, wage garnishment, ruined credit ratings, seizure of tax refunds, loss of professional licenses, and prohibition from enlisting in the armed forces.

- The government paid over $1.4 billion to debt collectors in 2011 for student loan debt collections.

The FAIR Student Loans Act preserves robust public support for higher education while redirecting federal education loan subsidies to borrowers who need them most.

- The current student loan system offers significant subsidies on student loan interest rates for all borrowers over the life of the loan, regardless of high-earning borrowers' ability to repay. Yet even with low interest rates, low-income borrowers find their debt spiraling out of control over time.

- The FAIR Student Loan Act enables borrowers to become truly student debt-free after ten years of public service or two and a half decades of repayment. It continues Public Service Loan Forgiveness and improves 25-year loan forgiveness by eliminating the tax liability that now threatens to stick borrowers carrying outstanding loan balances with a hefty tax bill when they hit the 25-year mark.

<u>How would FAIR Student Loans work?</u>
Instead of mortgage-like repayment, borrowers pay a percentage of their income - above an allowance for living expenses - until the loan is repaid. Keeps payments affordable, so borrowers pay more when they are doing well, and are protected during periods of unemployment or low earnings. Interest would not compound during repayment and would be capped at 50 percent of the loan's balance upon graduation.

Income-based repayment is currently available to qualifying borrowers. Yet, existing research shows that most eligible borrowers do not know about IBR, nor understand it. The FAIR Act would automatically enroll all borrowers in IBR, without cumbersome paperwork and confusing rules. The FAIR Act simplifies loan servicing with a single repayment process. There is no need for annual renewal, since changes in income would be reflected in IRS data.