

How Much Is Too Much?: A Look Into Federal Loans

“There’s no silver bullet. But we’re trying to make sure that across the board, more and more young people can afford to go to college, and then afterwards, aren’t so burdened with debt that you can’t do anything else. We want to make this experience more affordable because you’re not just investing in yourselves, you’re investing in your nation.” President Obama

As the cost of higher education continues to rise, the need for student loan repayment reform remains a pressing issue within the United States. Currently, higher education costs are rising faster than inflation, and that requires a national response to ensure that education remains affordable for all.¹ In 2015, the total student debt was over \$1.2 trillion, making it the second largest source of consumer debt after mortgage debt.² In particular, certain fields that encourage graduate degrees, such as nursing, teaching, and social work, incur larger levels of debt as graduate debt levels can exceed \$100,000.³

Where It Started

The original intent of federally subsidized student loans was to allocate risk between borrowers and lenders, where lenders were to offer borrowers only what was necessary. However, due to the nature of student loan lending, increased levels of debt, and the fear of delinquency, the federal government responded with a series of loan repayment options that utilize individual income to factor loan payments, which are called income-driven loan repayment options. As need-based grants such as Pell grants and Stafford grants, remain on the decline, Income-Driven repayment programs allow students to borrow funds to finance their education and repay their loans relative to their annual income.⁴ Graduates with higher incomes pay back the full cost of their education, whereas those with lower income have the option to pay back a percentage of their loan and have the rest forgiven after a certain period of time. A student loan repaid in this manner is essentially a way to have a share of higher education costs paid for out of a graduate’s future wages.

Repayment Options⁵



There are a variety of repayment options, but there are five programs that enroll the majority of loan borrowers. The standard repayment option was created in 1965 as a means to provide a monthly payment to keep borrowers on track to pay off their loans by a certain year.⁵ In order to support students in lower paying jobs, the income-contingent plan was created in 1993 to link monthly payments to a borrowers income. In 2007, the federal government instituted the first Income-Based Repayment (IBR) program, which allowed students to limit their loan service to 15% of their discretionary income and have any remaining balance forgiven after 25 years.⁵ In 2010, with the passing of the Health Care and Education Reconciliation Act (HCERA Public Law 111-152), the program lowered the payments to 10% of discretionary income with forgiveness after 20 years or repayment, which was later renamed Pay As You Earn (PAYE), effective on all direct loans borrowed after 2007.⁶ The final installation of income-driven payment plans was the Revised Pay As You Earn (REPAYE), which extended the application to any federal direct loan, not just those issued after 2007.

Income-Driven Repayment Options: New Models

All income-driven repayment options are available to borrowers who exhibit a Partial Financial Hardship (PFH). A PFH exists when the amount you owe under a standard repayment plan is more than 10-15 percent of your discretionary income, depending on which repayment plan you are entering.⁷ Table 1 provides a brief overview of the current repayment plans, including traditional and income-driven. To gain a better understanding of individualized loan repayment, the office of Federal Student Aid has set up the [Repayment Estimator](#) to allow borrowers to estimate their monthly payments on each repayment plan. The estimator can also connect to a borrower's student aid portfolio to automatically input data and compute repayment estimates.

Table 1: Federal Loan Repayment Options⁷

<p>Standard Repayment Options</p> 	<p>Standard</p> <ul style="list-style-type: none"> •Default loan repayment plan for all borrowers •Payments are a fixed amount based on a borrower's income •All borrowers are eligible •10 year repayment •Total loan payoff option 	<p>Graduated</p> <ul style="list-style-type: none"> •Payments begin lower and increase every two years •All borrowers are eligible •10 year repayment 	<p>Extended</p> <ul style="list-style-type: none"> •Payments are either fixed or graduated •Varies upon income •Eligibility depends on outstanding loan amount •25 year repayment •Lower monthly payments, but larger overall repayment total due to increased accrued interest 	<p>Income-Driven Repayment Options</p> 
	<p>Income-Contingent</p> <ul style="list-style-type: none"> •Monthly payments are 20 percent of discretionary income and recalculated every year based on income, family size, and total loan amount. •All Direct Loans are eligible. •Payments may be higher than the 10-year standard plan. •Any outstanding balance will be forgiven after 25 years. •Eligible for Public Service Loan Forgiveness 	<p>Income-Based</p> <ul style="list-style-type: none"> •Monthly payments are 10 or 15 percent of discretionary income and recalculated annually based on income and family size. •All Direct Loans are eligible including Federal Stafford Loans. •Any outstanding balance will be forgiven after 20 or 25 years. •Eligible for Public Service Loan Forgiveness 	<p>Pay As You Earn</p> <ul style="list-style-type: none"> •Monthly payments are 10 percent of discretionary income and recalculated annually based on income and family size. •All Direct Loans made on or after October 1, 2007 are eligible. •Any outstanding balance will be forgiven after 20 years. •Monthly payments will never exceed those under a Standard Plan. •Eligible for Public Service Loan Forgiveness 	

Current Actions

In April 2013, the US Senate Committee on Health, Education, Labor, and Pensions requested a Government Accountability Office (GAO) study on the use of income-driven repayment and Public Service Loan Forgiveness, as data suggested the programs were not being utilized to their full potential. GAO recommended that the Department of Education should increase outreach to borrowers regarding their repayment options, and also establish requirements for loan servicers to communicate with borrowers about income-driven plans.⁸ The data from the [GAO report](#) is vital to understanding the success of income-driven repayment programs, as they saw a 110 percent increase in program enrollment from June 2014.⁸

As of June 2016, the Department of Education reported that nearly 5.3 million borrowers were enrolled in one of the various income-driven repayment plans.⁹ The increase in program enrollment is critical as income-driven plans primarily serve low-income students struggling with their monthly loan payments and make it less likely that borrowers will default on their loan payments. 2016 data also suggests that defaults have decreased, from 2.1 percent in 2015 to 1.7 percent in 2016 showing that progress is being made with enrollment increases.⁹ The increased attention on income-driven has proven to be successful as many more borrowers are finding they qualify for adjusted monthly loan payments in accordance with their monthly salary.

Public Service Loan Forgiveness: Nursing and Student Loan Forgiveness

In 2007, the Public Service Loan Forgiveness Program (PSLF) was established by Congress with the passage of the College Cost Reduction and Access Act.¹⁰ PSLF is an important loan repayment program that allows borrowers to have a portion of their debt forgiven, making repayment less burdensome. The program was created to encourage individuals to enter lower paying but critically needed public service jobs so that borrowers can more effectively manage their debt.¹¹ Under this program, individuals with federal student loans are eligible for loan forgiveness after 10 years of repayment if they work in jobs that contribute to the public good such as nurses, teachers, firefighters, and police; employed by state, local, federal, and tribal government; or work for nonprofit organizations.¹¹

According to employment data from the Bureau of Labor Statistics, approximately one out of every four U.S. workers were employed in public service in 2012.¹² While the exact scope of PSLF enrollment will not be available until the first forgiveness cohort completes 10 years of payments in October 2017, the Department of Education released data from June 2016, showing that over 430,000 Employment Certification Forms have been submitted and approved, keeping borrowers on track for loan forgiveness.¹³

Many nurses are eligible and interested in receiving loan forgiveness through PSLF. According to a recent survey of graduate nursing students, 22 percent indicated that they intend to utilize PSLF in order to repay the debt they accumulated through federal loans.¹⁴ To become eligible for loan forgiveness under PSLF, borrowers must enroll in a [qualifying loan repayment plan](#) and submit an [Employment Certification Form](#).

The Work Ahead

In June 2016, The House Education and Workforce Committee approved five higher education measures to improve the financial aid process, enhance consumer information, and strengthen federal program that support the work of minority-serving institutions.¹⁵ This is one of the many steps Congress can continue to take in increasing college accessibility for all students and move towards reauthorizing the Higher Education Act. The Department of Education also has played a large role in increasing accessibility, by modifying the way in which the Free Application for Federal Student Aid is released to allow students and families to apply for federal aid beginning in October 2016 with their 2015 tax and income information.

As the demand for the nursing profession grows parallel to the interest of future students, academic nursing must remain a key stakeholder in higher education policy. AACN is invested in supporting all efforts Congress and the Department of Education make to improve affordability, increase diversity, enhance transparency, and reduce regulatory burden for students and institution. To that end, AACN will continue to work with policy makers to ensure that academic nursing is represented as a voice in the future of higher education, specifically in regards to the Higher Education Act Reauthorization.

October 2016

¹The College Board. (2016). *Tuition and Fees and Room and Board Over Time, 1975-76 to 2015-16, Selected Years*. Trends in Higher Education. Retrieved from: <https://trends.collegeboard.org/college-pricing/figures-tables/tuition-and-fees-and-room-and-board-over-time-1975-76-2015-16-selected-years>

²Federal Reserve Bank of New York. (2013). *Student Loan Debt by Age Group*. Retrieved from <https://www.newyorkfed.org/studentloandebt/index.html>

³Baum, S., & Johnson, M.. (2015). *Student Debt: Who Borrows Most? What Lies Ahead?*. Urban Institute. Retrieved from: <http://www.urban.org/sites/default/files/alfresco/publication-pdfs/2000191-Student-Debt-Who-Borrows-Most-What-Lies-Ahead.pdf>

⁴Kelchen, R. (2015). *Analyzing the Trends in Pell Grant Recipients and Expenditures*. The Brookings Institution. Retrieved from: <https://www.brookings.edu/blog/brown-center-chalkboard/2015/07/28/analyzing-trends-in-pell-grant-recipients-and-expenditures/>

⁵Brooks, J.R. (2016). *Income-Driven Repayment and the Public Financing of Higher Education*. Georgetown University Law Center. Retrieved from: <http://scholarship.law.georgetown.edu/cgi/viewcontent.cgi?article=2397&context=facpub>

⁶“Health Care and Education Reconciliation Act of 2010.” (PL 111-152, 2010). United States Statute at Large, 124 (2010) pp. 1029-1084.

⁷United States Department of Education. (2016). *Repayment Plans*. Federal Student Aid. Retrieved from: <https://studentaid.ed.gov/sa/repay-loans/understand/plans>

⁸United States Government Accountability Office. (2015). *Federal Student Loans: Education Could Do More to Help Ensure Borrowers Are Aware of Repayment and Forgiveness Options*. Retrieved from: <http://www.gao.gov/assets/680/672136.pdf>

⁹The United States Department of Education. (2016). *Department of Education Releases New Public Service Loan Forgiveness Application Data*. Federal Student Aid. Retrieved from: <http://www.ed.gov/news/press-releases/department-education-releases-new-public-service-loan-forgiveness-application-data>

¹⁰“The College Cost Reduction and Access Act”. (2007). United States Public Law, 110-84 (2007) pp. 784-822.

¹¹U.S Department of Education. (2016). *Public Service Loan Forgiveness*. Federal Student Aid. Retrieved on April 27, 2016 from <https://studentaid.ed.gov/sa/repay-loans/forgiveness-cancellation/public-service>

¹²U.S Department of Labor. (2012). *Current Employment Statistics Survey*. Bureau of Labor Statistics, Established Data.

¹³U.S Department of Education. (2016). *Public Service Loan Forgiveness Employment Certification Forms Report*. Federal Student Aid. Retrieved on August 23, 2016 from <https://studentaid.ed.gov/sa/about/data-center/student/portfolio>

¹⁴American Association of Colleges of Nursing. (2016). *Graduate Nursing Student Loan Survey Analysis*.

¹⁵Education and the Workforce Committee. (2016). *Higher Education Reforms Will Open More Doors to Opportunity*. Retrieved from: <http://edworkforce.house.gov/news/documentsingle.aspx?DocumentID=400935>