Advocates Praise First Steps to Address Longstanding Failures in Income-Driven Loan Program

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The U.S. Department of Education must provide clarity to borrowers and relief for those most harmed by failures

WASHINGTON – Today the Department of Education announced that it will implement reforms to address some of the longstanding problems with the income-driven repayment (IDR) program for federal student loans that have prevented the program from living up to its promise. In response to the announcement, Abby Shafroth, director of the National Consumer Law Center’s Student Loan Borrower Assistance Project, issued the following statement:

"Today’s announcement is an important first step toward remedying the past program failures and putting borrowers back on track for loan forgiveness. Congress created income-driven repayment to ensure that low-income student loan borrowers would have affordable payments and that, through eventual forgiveness, student loans would not be a lifetime burden. But an array of problems with implementing the complex repayment programs have prevented borrowers from making progress toward cancellation. As a result 4.4 million borrowers have been in repayment for over 20 years already and millions more were facing many extra years, or even decades, in repayment due to failures in implementing the program by the Department and its loan servicers. For too many borrowers, student loans have been a life sentence.

“The changes announced today will mean that 3.6 million borrowers will be at least 3 years closer to loan cancellation, and millions more will have some amount of time toward forgiveness restored. These are undeniably steps forward.

“But the Education Department left out the borrowers most harmed by past failures: borrowers who, unable to access an affordable payment option, went into default. Importantly, many borrowers with loans in default are low-income and would qualify for a $0 payment in IDR, but they end up paying significantly more in default, where income protections are largely stripped away. Despite acknowledging that failed servicing and forbearance steering can often lead to default, the Department’s announcement did not mention any remedy for borrowers who lost years toward forgiveness following servicing failures because their loans went into default. This oversight significantly reduces the number of borrowers who will receive immediate loan forgiveness through today’s action, as over 2 million of the 4.4 million borrowers who have been in repayment for over 20 years are in default.

“The Department should quickly fix this oversight, particularly as it works to implement a ‘fresh start’ for borrowers in default by helping them to enroll in IDR - not only is it the right thing to do for these borrowers, but it will also be easier for servicers to enroll borrowers in IDR if borrowers can see that they have already accrued meaningful time toward eventual loan forgiveness.

“The Department’s fix for a complicated student loan program is a solution that is itself too complicated. Few borrowers will be able to understand how they are benefiting from this announcement, and few will know what to do if they’re initially left out. The Department can and
should rectify this by providing a one-time adjustment that counts all time since the borrower entered repayment toward the IDR clock—removing the guesswork and uncertainty for borrowers—and by promptly notifying borrowers of their new count of time toward forgiveness. And it should do so before restarting repayment, not after.”

Background:

At the center of the plan announced today by the Department of Education is an effort to remedy past program failures that have deprived borrowers of progress toward eventual loan forgiveness promised after 20 to 25 years. Well-documented problems include failures by servicers to properly track qualifying time toward forgiveness and forbearance steering by servicers that pushed borrowers who couldn’t afford standard payments into non-qualifying forbearances rather than helping them access affordable payments that would qualify toward forgiveness through IDR. As a remedy, the Department will implement a one-time adjustment of borrowers’ qualifying time toward forgiveness that will include all time in repayment, regardless of loan type or repayment plan, as well as certain time in deferments and forbearances, and will restore credit borrowers previously earned for time in repayment prior to consolidating loans. Yet the Department’s announcement ignores borrowers who lost years toward forgiveness because their loans went into default, even though the Department has acknowledged that inappropriate forbearance steering was common and can lead to delinquency or default.

The Department announced steps to attempt to fix these problems going forward, including reforming tracking of qualifying time toward IDR forgiveness, but noted that borrowers will not be able to see their qualifying time until 2023. Relief should be automatic for most borrowers, but borrowers with commercially-held FFEL loans will have to consolidate their loans to benefit from the program, and borrowers with less time in forbearances will need to file a complaint at StudentAid.gov/feedback to request that their time spent in forbearances be counted toward their forgiveness clock.

Additional background materials:

- NCLC/SBPC/CRL Issue Brief: Restoring the Promise of Income-Dr posses: An IDR Waiver Program Proposal, Jan. 12, 2022
- Group letter calling on U.S. Secretary of Education Miguel Cardona to reform broken, dysfunctional income-driven repayment (IDR) programs and fulfill the promise of IDR, Apr. 7, 2022
- NCLC/SBPC Blog: Explosive New Evidence of Mismanagement of Student Loan Program Shows Need for IDR Waiver, April 2021
- Policy Brief: Education Department’s Decades-Old Debt Trap: How the Mismanagement of Income-Driven Repayment Locked Millions in Debt, March 2021
- Press Release: Advocates Support Extension of Student Loan Payment Pause and Praise Removal of Loans from Punitive Default System, Apr. 6, 2022
- Road to Relief: Supporting Federal Student Loan Borrowers During the COVID-19 Crisis and Beyond