



# LOAN REPAYMENT

**WHEN THE BILL  
COMES DUE:  
EVOLUTION OF  
STUDENT LOAN  
REPAYMENT**

**DOCUMENTARY FILM SERIES**

**Looking Back to Move Forward:  
A History of Federal Student Aid**

**VIEWING GUIDE**





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# LET'S LOOK BACK TO MOVE FORWARD

In *A History of Federal Student Aid*, a documentary series produced by Lumina Foundation and the Institute for Higher Education Policy, key policy makers, their staff, and education researchers provide insight into the evolution of federal student aid through their first-hand experiences with the policymaking process. This short film on the history of federal student loan repayment plans administered by the U.S. Department of Education is one in a series of several that illuminates past seminal moments and offers instructive lessons and building blocks to guide newer policy innovations.



*Loan forgiveness and the repayment programs are designed to make sure that the dream doesn't turn into a nightmare—that you're saddled with so much debt that you're unable to pay it and you end up defaulting.*

*Mark Zuckerman*

## FILM SYNOPSIS

The first federal student loan program was designed to increase the number of students pursuing careers in areas considered important to national security. As student loan programs expanded to serve a broader cross-section of students and became the federal government's primary form of student aid, repayment options—including plans based on income—evolved to help students manage loan debt. *When the Bill Comes Due: Evolution of Student Loan Repayment*, a 12-minute documentary, explores these early repayment options and follows the evolution of income-driven repayment plans.

# HISTORICAL INFORMATION

## **1950s–1990s: Shifting From Standard to Income-Driven Repayment**

*Scene: 1:25-4:34 minutes*

The federal government designed the first student loan repayment plan as part of the National Defense Student Loan (NDSL) Program—later renamed the Perkins Loan Program—in 1958.<sup>1</sup> The goal was to regain the United States’ position as a global leader for the development of knowledge and technology over the Soviet Union by attracting more Americans into related fields.<sup>2</sup> The U.S. Treasury distributed NDSL funds to colleges and universities, and the institutions distributed the money to eligible students in science, mathematics, engineering, foreign language, or teaching disciplines.<sup>3</sup> Students could borrow up to \$1,000 annually but no more than \$5,000 over the course of their studies.<sup>4</sup> Starting one year after college graduation, borrowers were required to repay the loan annually, in equal installments, for up

to 11 years.<sup>5</sup> However, at the discretion of the U.S. Department of Health, Education, and Welfare, precursor to the current U.S. Department of Education, borrowers could choose a graduated repayment schedule—meaning they could start with low annual payments and gradually increase the amount.<sup>6</sup>

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**The National Defense Student Loan Program... included a provision that enabled students to have their loans cancelled... That program in the large context is the framework for almost all of the student loan repayment and forgiveness programs that we have today.**

*Tom Butts*

The next federal loan program, the Guaranteed Student Loan (GSL) Program and its accompanying repayment plan, was created through the Higher Education Act (HEA) of 1965. To provide student loans, the federal government used money from banks and guaranteed that if students defaulted on their loans, the government would pay off the amount owed.<sup>7</sup> GSL's repayment term, known as the Standard Repayment Plan, had an initial grace period of nine to 12 months, followed by payments made in fixed installments over a 10-year term.<sup>8,9</sup>

Federal repayment plans were not major topics of debate until the 1980s, when student loan default rates began steadily increasing (see figure 1). As part of the 1986 HEA Reauthorization, the Reagan Administration proposed revising the NDSL Program to include an income-driven repayment plan.<sup>10</sup> The proposal would have required borrowers to follow a repayment schedule based on their income after graduation and loan amount, allowed for the period of repayment to extend beyond the standard 10-year plan, and provided forgiveness of any unpaid loan

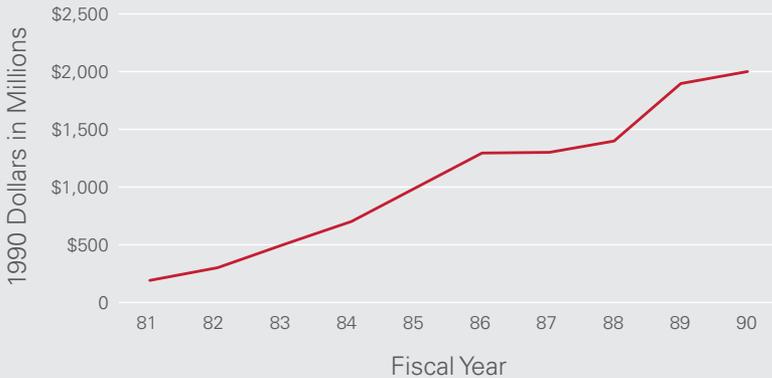
principal at the end of the repayment period.<sup>11</sup> Loan forgiveness ensured that borrowers were not making payments indefinitely due to the accrued interest.<sup>12</sup>

Congress did not accept the Reagan Administration's proposal and instead established a pilot program called the Income-Contingent Direct Loan Demonstration Project, separate from the existing NDSL Program, as part of the 1986 Reauthorization. The demonstration project provided loans with unsubsidized interest rates and a repayment plan based on income for low-income students at 10 institutions.<sup>13</sup> In 1987, the Reagan Administration proposed expanding the pilot in order to reduce the cost of the GSL program to the government, which was largely driven by interest subsidies for borrowers and defaulted loans.<sup>14</sup> However, Congress did not agree to the expansion and later terminated the Income-Contingent Direct Loan Demonstration Project through the 1992 HEA Reauthorization.<sup>15</sup>

At the same time, the 1992 HEA Reauthorization legislation created a new pilot program: the Federal Direct Loan Demonstra-

**FIGURE 1:**

Federal Costs of Student Loan Defaults in the 1980s (1990 Dollars)



Source: U.S. Department of Education, Office of Planning, Budget, and Evaluation, 1990, adapted from chart 1 found in "Reducing Student Loan Defaults: A Plan For Action," <http://files.eric.ed.gov/fulltext/ED323879.pdf>

tion Project. This pilot provided loans financed by the government directly to students through their institutions, and included a requirement that 35 percent of institutions in the program have an income-driven repayment plan.<sup>16</sup> This demonstration project resulted in the underpinning of what we now know as the Federal Direct Loan Program, which gave the federal government direct control over loans distributed through the program and facilitated the government's ability to create income-driven repayment plans.

### **1990s: Creation of Extended, Graduated, Income-Contingent, and Income-Sensitive Repayment Plans**

*Scene: 4:34-8:14 minutes*

In 1993, the Omnibus Budget Reconciliation Act legislated that the Federal Direct Loan Demonstration Project expand from constituting five to 60 percent of all new federal loans by 1999.<sup>17</sup> To provide Direct Loan borrowers with various options, the legislation introduced three repayment plans: Extended, Graduated, and Income-Contingent Repayment



(ICR) Plans.<sup>18</sup> The Extended Repayment Plan allowed students to repay their loans with either fixed or graduated payments over 25 years.<sup>19</sup> The Graduated Repayment Plan enabled borrowers to make small monthly payments, which increased by a fixed amount every two years for up to 10 years.<sup>20</sup> The ICR Plan offered reduced monthly payments based on adjusted gross income with the option of debt forgiveness after 25 years of payments.<sup>21</sup> These flexible repayment plans

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**Well, we really emphasized that borrowers would have a choice about how to repay, and they could change that choice over time.**

***Maureen McLaughlin***

were not made available to Federal Family Education Loan (FFEL) Program borrowers, an overarching program comprised of bank-based loans, including the GSL Program, because it would be politically and logistically complicated.<sup>22</sup> Additional details about currently available income-drive repayment plans are included in the Loan Repayment Key Facts chart (see pages 12-15).

Wanting to ensure that FFEL borrowers also had access to flexible options, Congress created the Income-Sensitive Repayment (ISR) Plan for FFEL borrowers in 1998 through the HEA Reauthorization. This legislation also made FFEL borrowers eligible for the Extended and Graduated Repayment Plans.<sup>23</sup> The terms of the Extended, Graduated, and ISR repayment plans were left to the discretion of participating lenders.

### **2007–Present: Income-Based Repayment, Pay As You Earn, and Revised Pay As You Earn Plans**

*Scene: 8:14-13:21 minutes*

With continued growth in college costs and student loan debt, Congress passed the College

Cost Reduction and Access Act (CCRAA) of 2007 to help more students and families manage these expenses. CCRAA created the Income-Based Repayment (IBR) Program to enable most federal loan borrowers experiencing financial hardship to reduce their monthly loan payments.<sup>24</sup> The only loan programs ineligible for IBR are Parent PLUS Loans and Consolidated Loans that include a Parent PLUS Loan. Payments under IBR are capped at 15 percent of discretionary income, but not greater than the monthly payment that would have been required under standard 10 year repayment, and any loan balance remaining after 25 years of qualifying payments is forgiven. Borrowers were eligible for IBR beginning July 1, 2009.

On March 30, 2010, Obama signed into law the Health Care and Education Reconciliation Act, which eliminated the ability to issue new loans under the FFEL Program.<sup>25</sup> The projected \$67 billion in cost savings were used to increase Pell Grant aid and support other college access and career readiness programs. Savings were also used to enhance the IBR Program.<sup>26</sup> Under the

revised IBR Program, payments for new borrowers were capped at 10 percent of discretionary income, compared with 15 percent previously, and loans were forgiven after 20 years, instead of 25 years.<sup>27</sup> However, to limit costs, only borrowers taking out their first loans after July 1, 2014 were eligible.<sup>28, 29</sup>

Since 2011, the Obama Administration has taken administrative action to allow more student loan borrowers the opportunity to qualify for the more generous forms of income-driven repayment.<sup>30</sup> In October 2011, the Obama Administration announced an income-driven plan, Pay As You Earn (PAYE), with the same terms as the IBR Program authorized in 2010 but would allow borrowers to be eligible earlier than the original 2014 start date.<sup>31</sup> However, this new plan was still not universal. To be eligible for PAYE, borrowers must have taken out their first loan on October 2007 or later and must still have been borrowing after September 30, 2011.<sup>32</sup>

In June 2014, President Obama proposed another income-driven repayment plan to make the remaining Federal Direct Loan

borrowers eligible for repayment terms akin to the IBR program authorized in the 2010 law.<sup>33</sup> However, by this time, criticism had begun to mount that the 2010 repayment terms were too generous and program costs would be too high if extended to more students. Thus, the U.S. Department of Education established Revised Pay As You Earn (REPAYE), which set the same monthly payment cap as the IBR program (i.e., 10 percent of discretionary income) but extended the repayment period for graduate students from 20 to 25 years. Undergraduate students would still have their debt forgiven after 20 years of payments. The final REPAYE regulations were released October 2015 and the program went into effect on July 1, 2016.<sup>34</sup>

With the introduction of PAYE and REPAYE, concerns have been raised that there are too many options for loan repayment, making it confusing for borrowers.<sup>35</sup> Per an estimate generated by the U.S. Department of Treasury, more than half (51 percent) of Direct Loan borrowers were eligible for IBR, only 13 percent participated in IBR and two percent repaid through PAYE in



2014.<sup>36</sup> The U.S. Government Accountability Office has encouraged the U.S. Department of Education to better inform borrowers about their repayment and loan forgiveness options.<sup>37</sup> By the first quarter of 2016, the number of borrowers participating in an income-driven repayment plan had increased to 20 percent of all federal loan borrowers. In 2016, the Obama Administration also announced more efforts to further increase awareness of repayment options and help borrowers enroll in income-driven repayment plans.

Additionally, in order to simplify repayment options, the Obama Administration's 2016 budget proposed that REPAYE would become the only income-driven repayment plan for new borrowers; however, this can only occur with support from Congress.<sup>38</sup> Although the terms of repayment plans are often debated, higher education stakeholders agree income-driven repayment is important because it provides flexibility to help borrowers manage their debt.

# LOAN REPAYMENT KEY FACTS

	Standard Repayment Plan	Extended Repayment Plan
<b>Common Name</b>	Standard	Extended
<b>Created</b>	1965	1993
<b>Payment<sup>39</sup></b>	Monthly payments are fixed.	Monthly payments are fixed or graduated.
<b>Term</b>	Up to 10 years or up to 30 years for Consolidation Loans	Up to 25 years
<b>Loan Forgiveness</b>	None	None

Graduated Repayment Plan	Income-Contingent Repayment Plan
Graduated	ICR
1993	1993
Starts with low monthly payments then gradually increases, typically every two years.	<p>Based on adjusted gross income, family size, and the total loan balance. Monthly payment is the lesser of:</p> <ul style="list-style-type: none"> <li>• 20 percent of discretionary income, or</li> <li>• what a borrower would pay on a repayment plan with a fixed payment over the course of 12 years, adjusted according to income</li> </ul>
Up to 10 years or up to 30 years for Consolidation Loans	Up to 25 years
None	Any remaining balance is forgiven after 25 years.

# LOAN REPAYMENT (CONTINUED)

## KEY FACTS

	Income-Sensitive Repayment Plan	Income-Based Repayment Program
<b>Common Name</b>	ISR	IBR
<b>Created</b>	1998	2007
<b>Payment<sup>39</sup></b>	Payments are based on yearly income and can vary depending on lender's repayment calculation.	For borrowers taking out loans prior to July 1, 2014: Monthly payments are capped at 15 percent of discretionary income.  For borrowers after July 1, 2014: Monthly payments are capped at 10 percent of discretionary income.
<b>Term</b>	Up to 15 years	Up to 25 years
<b>Loan Forgiveness</b>	None	For borrowers taking out loans prior to July 1, 2014: Any remaining balance is forgiven after 25 years.  For borrowers after July 1, 2014: Any remaining balance is forgiven after 20 years.

**NOTE:** Students are eligible for different repayment plans based on the type of loan they borrowed and the origination date. Refer to the source for more details.

**SOURCE:** U.S. Department of Education, Federal Student Aid, Repayment Plans, <https://studentaid.ed.gov/sa/repay-loans/understand/plans>

**Pay As You Earn Plan**

**Revised Pay As You Earn Plan**

PAYE

REPAYE

2011

2015

Monthly payments are generally 10 percent of discretionary income.

Monthly payments are generally 10 percent of discretionary income.

Up to 20 years

Up to 20 years for undergraduate loans and 25 years for graduate loans

Any remaining balance is forgiven after 20 years.

Any remaining balance is forgiven after 20 years for undergraduate loans and 25 for graduate loans.

# TIMELINE

1958

## **National Defense Education Act**

- » Created the nation's first federal student loan program, the National Defense Student Loan,<sup>40</sup> later known as the Perkins Loan.<sup>41</sup> Under its repayment term, students had up to 11 years to pay off their loan through equal or graduated payments.<sup>42</sup>

1965

## **Higher Education Act (HEA)**

- » Created the Guaranteed Student Loan (GSL) Program to make subsidized loans to low- and middle-income students<sup>43</sup> and its accompanying 10-year repayment term, later known as the Standard Repayment Plan.<sup>44</sup>

1986

## **HEA Reauthorization**

- » Created the Income-Contingent Direct Loan Demonstration Project and an income-contingent repayment plan for participating institutions.<sup>45</sup>

1992

## **HEA Reauthorization**

- » Combined Subsidized Stafford Loans (formerly known as the GSL Program),<sup>46</sup> Unsubsidized Stafford Loans,<sup>47</sup> Federal Consolidated Loans,<sup>48</sup> and Federal PLUS Loans<sup>49</sup> into one overarching program called the Federal Family Education Loan (FFEL) Program.
- » Terminated the Income-Contingent Direct Loan Demonstration Project.<sup>50</sup>
- » Created the Federal Direct Loan Demonstration Project to provide government-financed loans to students through their institutions.<sup>51</sup>

1993

## **Omnibus Budget Reconciliation Act**

- » Expanded the Federal Direct Loan Demonstration Project and established that it account for 60 percent of all new loans by 1999.<sup>52</sup> Qualified Federal Direct Loan borrowers would be able to repay using three new repayment options: Extended, Graduated, and Income-Contingent Repayment.<sup>53</sup>

1998

### **HEA Reauthorization**

- » Created the Income-Sensitive Repayment Plan for FFEL borrowers.<sup>54</sup>
- » Authorized Extended and Graduated Plans to be available for FFEL borrowers.<sup>55</sup>

2007

### **College Cost Reduction and Access Act**

- » Created the Income-Based Repayment (IBR) Program for FFEL and Direct Loan borrowers with economic hardship starting July 1, 2008.

2010

### **Health Care and Education Reconciliation Act (HCERA)**

- » Eliminated the FFEL Program.<sup>56</sup>
- » Revised the IBR Program to lower new borrowers' loan payments to 10 percent (from 15 percent) of their discretionary income and forgave borrowers' debt after 20 years of payments (instead of 25 years). New borrowers would be those who took out their first loan after July 1, 2014.<sup>57</sup>

2011

### **Presidential Memorandum from President Obama**

- » Launched the Pay As You Earn (PAYE) Plan, starting December 21, 2012. The PAYE Plan has the same terms as the modified IBR Program under HCERA of 2010, but is available to additional borrowers. PAYE extends IBR to borrowers who received loans after September 30, 2007, and continued to borrow beyond September 30, 2011.<sup>58</sup>

2015

### **Presidential Memorandum from President Obama**

- » Announced the Revised PAYE Plan for borrowers who received federal loans before October 2007 but who had not received loans since October 2011.<sup>59</sup> Monthly payments remained as 10 percent of discretionary income. Borrowers' debt would be forgiven after 20 years of repayment for students with loans for undergraduate education and 25 years for graduate education.<sup>60</sup>

# FEATURED EXPERTS<sup>61</sup>

## **Pauline Abernathy**

Policy Advisor, White House and U.S. Department of Education, 1995–1999

## **Melody Barnes**

Domestic Policy Council Director, White House, 2009–2012

## **Tom Butts**

Financial Aid Director, University of Michigan, 1971–1977; Senior Staff, U.S. Department of Education, 1977–1981

## **Jason Delisle**

Legislative Assistant, Office of Congressman Thomas E. Petri (R-WI), 2000–2006; Professional Staff, U.S. Senate Budget Committee, 2006–2007

## **Joyce DeMoss**

Ombudsman, U.S. Department of Education, 2011–Present

## **Joe Flader**

Legislative Director and Chief of Staff, Office of Congressman Tom Petri (R-WI), 1979–2001

## **Gaby Gomez**

Professional Staff, U.S. House Education and Labor Committee, 2006–2009; Assistant Secretary for Legislation and Congressional Affairs, U.S. Department of Education, 2009–2014

## **Frank Holleman**

Chief of Staff, Secretary Richard W. Riley, U.S. Department of Education, 1994–1997; Deputy Secretary of Education, U.S. Department of Education, 1999–2000

## **Kevin James**

Legislative Assistant, Office of Congressman Tom Petri (R-WI), 2009–2014

## **Richard Jerue**

Professional Staff, U.S. Senate Health, Education, Labor, and Pensions Committee, 1976–1981; U.S. House Education and Labor Committee, 1988–1995

**Maureen McLaughlin**

Acting Assistant Secretary  
and Deputy Assistant  
Secretary, Office of  
Postsecondary Education,  
U.S. Department of Education,  
1993–2002

**Kenneth Redd**

Former Analyst,  
Congressional Research  
Service, 1989–1991

**Robert Shireman**

Senior Policy Advisor, White  
House National Economic  
Council, 1996–1998; Deputy  
Undersecretary, U.S.  
Department of Education,  
2009–2010

**Mark Zuckerman**

Staff Director, U.S. House  
Education and Labor  
Committee, 2005–2011;  
Deputy Director, White House  
Domestic Policy Council,  
2011–2013

# FOOTNOTES

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