The Repay Act of 2014

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General: Today, graduates have many federal student loan repayment programs from which to choose that each vary in eligibility requirements, benefits, and terms. This confusing array of options may lead students to choose loan repayment and/or forgiveness programs that aren't best suited to their needs, causing them to leave money on the table and heightening the chance to fall behind on payments or default. As a result, few eligible students avail themselves of these opportunities, limiting the benefit these programs provide in creating affordable monthly payments and preventing the likelihood of default.

The Repay Act consolidates many of the benefits of current maze of repayment programs into a single, simplified income-based repayment option, enabling prospective borrowers to have the choice of either a ten-year fixed payment plan or a single, income-driven plan. This legislation draws from President Obama's Fiscal Year 2015 Budget and proposals from the Gates Foundation's Reimagining Aid Design and Delivery (RADD) Project.

Summary:
Section 1 – The Repay Act
Section 2 – Creates a Simplified Income-Driven Repayment (SIDR) plan for new borrowers that—

- Streamlines loan term and forgiveness schedule:
    - For borrowers with loan balances up to the maximum undergraduate borrowing limit prior to repayment, currently $57,500, 20 years of repayment before loan forgiveness;
    - For borrowers with loan balances over the $57,500 undergraduate borrowing limit prior to repayment, 25 years of repayment prior to loan forgiveness.
- Creates a simple monthly calculation rate that ensures borrowers never pay more than 15% of their monthly discretionary income throughout the life of repayment;
- Requires borrowers to make SIDR payments in order to be eligible for forgiveness; and
- Calculates loan payments for married couples based upon household income.

Section 3 – Provides for a new set of simplified repayment options, as created by The Repay Act, that take effect July 1, 2015. This provision requires the Secretary of Education to make clear to borrowers that they have the option of a ten-year fixed repayment option that fully amortizes their loan balances (as provided under current law) or a SIDR option that caps payments at a percentage of their income and provides the option of loan balance forgiveness after 20 or 25 years (or 10 years, if eligible for Public Service Loan Forgiveness).
Section 4 – Renames the existing ten-year "standard repayment plan" the "fixed repayment plan"

- Retains all other applicable terms and conditions of the existing ten-year repayment plan.

Section 5 – Tax Provision

- Under section 437(a) of the Higher Education Act, individuals exhibiting total and permanent disabilities, defined as likely leading to death and/or complete unemployment, are eligible for student loan forgiveness. With that, however, comes the expectation of tax liability for the amount forgiven, leading to large tax bills for these disadvantaged individuals. <u>The Repay Act would provide complete tax forgiveness for individuals exercising the Total Permanent Disability (TPD) discharge of their student loans.</u>

Section 6– Instructs the Secretary of Education to direct federal student loan servicers to notify borrowers about the repayment plans available to them, outline the financial impact of switching to alternative repayment plans, and offer to enroll individuals in such plans, if eligible.