The SIMPLE Act

Streamlining Income-driven, Manageable Payments on Loans for Education

Protecting struggling student loan borrowers by making loan payments affordable and preventing loan defaults

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Overview:

More than eight million people are in default on their student loans. This population continues to grow in overall number and as a share of all borrowers. In 2016 alone, more than one million people defaulted on their student loans[1]. And in only the first half of fiscal year 2017, about 45,000 borrowers defaulted on a federal Direct Loan for at least the second time.[2]

For the thousands of people every day who default on their student loans, the consequences are severe. They include loss of access to federal student aid, withholding of tax refunds and Social Security benefits, and wage garnishment. Loan defaults are also registered with credit reporting agencies, so defaulters may have trouble borrowing for a home or a car or renting an apartment. It can take years to rebuild credit after a default.

Student loan defaults and the long-term financial damage they cause are growing problems despite existing programs to help struggling borrowers avoid default. For example, many borrowers who are behind on their payments are eligible for income-driven repayment plans, which set payments at an amount that borrowers can afford. **Borrowers in income-driven repayment plans are much less likely than other borrowers to be behind on their payments or enter default.**

Unfortunately, the process of enrolling in income-driven repayment plans and accessing other protections for struggling borrowers can be burdensome, and these complicated processes prevent too many borrowers from getting the help they need. The bipartisan SIMPLE Act takes a commonsense approach to addressing this problem. **The bill eliminates unnecessary paperwork requirements for borrowers and automatically connects struggling borrowers to the relief that is already available to them under the law.** The result will be fewer people weighed down by unaffordable student loan payments and fewer people defaulting on their loans.

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[1] http://consumerfed.org/press_release/new-data-1-1-million-federal-student-loan-defaults-2016/
[2] https://studentaid.ed.gov/sa/about/data-center/student/default

Summary:

The SIMPLE Act protects some of the most vulnerable student loan borrowers—those who can't afford full loan payments, those who have previously defaulted on their debt, and those who are totally and permanently disabled—from the severe consequences of default. The bill uses information borrowers already have on file at the U.S. Treasury to connect borrowers automatically with existing protections, including affordable monthly loan payments.

Problem:
Each year, roughly 100,000 borrowers have their student loans discharged after demonstrating that they are totally and permanently disabled. These borrowers must submit paperwork annually during a three-year period to certify that their income in the previous year has not exceeded the federal poverty guideline for a family of two ($16,240 in most states). If a borrower's income exceeds the threshold, or the borrower does not submit updated paperwork, the Department of Education will reinstate the borrower's loans. Unfortunately, many totally and permanently disabled borrowers have their loans reinstated. But for most, their loans are reinstated only because they did not submit their annual paperwork with updated income information—information the government already collects. In fact, according to the Government Accountability Office, of the approximately 61,000 totally and permanently disabled borrowers whose loans were reinstated in fiscal year 2015, 98 percent had their loans reinstated because they did not turn in their paperwork.[3]

Solution:
The SIMPLE Act establishes an information-sharing system between the Department of Education and the U.S. Treasury to automatically verify totally and permanently disabled borrowers' continued eligibility for a loan discharge during the three-year monitoring period. This will reduce paperwork for vulnerable borrowers and prevent their loans from being reinstated needlessly, thereby protecting disabled borrowers from delinquency and default.

Problem:
Millions of borrowers are more than 30 days delinquent on their student loans and are on the road to default.[4] Many of these borrowers may not be aware of affordable repayment plans or find it difficult to access these plans. Yet enrolling in an income-driven repayment plan can significantly reduce the likelihood of default. The Government Accountability Office's analysis of borrowers who began repaying their loans between fiscal years 2010 and 2014 found that the default rate in two prominent income-driven repayment plans was less than one percent, while the default rate for this group of borrowers in the standard repayment plan was 14 percent.[5]

Solution:
The SIMPLE Act requires the Department of Education to use the income information borrowers have on file at the U.S. Treasury to send personalized notices to severely delinquent borrowers that show the lower monthly payments available to them under income-driven repayment plans. If the borrowers do not act on this information and continue to progress toward default, the Department of Education will automatically enroll these borrowers in an income-driven repayment plan. Payments would be based on borrowers' income information and could be a little as $0 each month. Catching severely delinquent borrowers before default and enrolling them in plans with much lower rates of default will help many people avoid financial turmoil.

[3] https://www.gao.gov/assets/690/681722.pdf
[4] https://studentaid.ed.gov/sa/about/data-center/student/portfolio
[5] http://www.gao.gov/assets/680/672136.pdf

Problem:
Borrowers who previously defaulted on their loans are at a high risk of defaulting again and confront obstacles to accessing affordable repayment options. The vast majority of borrowers who cure their default do so through loan rehabilitation, a program that asks defaulted borrowers to demonstrate their ability to repay by making a series of on-time payments that can be as low as $5. But when borrowers complete loan rehabilitation, they re-enter repayment in the standard repayment plan, which often requires dramatically higher payments. Borrowers who had just emerged from default may find themselves behind on payments almost immediately. The jarring transition from rehabilitation to repayment takes its toll: approximately one-third of borrowers who complete loan rehabilitation default again within two years, often because they do not enroll in an income-driven repayment plan.[6] Those who enroll in an income-driven repayment plan are estimated to be five times less likely to default again.[7]

Solution:
The SIMPLE Act uses defaulted borrowers' income information to enroll them automatically in an income-driven repayment plan upon completion of loan rehabilitation. This will smooth the transition out of default and into repayment for millions of vulnerable borrowers and reduce the rate of re-default.

Problem:
Many borrowers who successfully enroll in income-driven repayment plans still struggle to qualify for affordable payments each year. After enrolling in a plan, borrowers must meet strict deadlines to keep their income information current. If they miss the deadline, their payments can increase suddenly. Many borrowers who are caught off guard by the spike in payments are placed in forbearance temporarily while they submit paperwork with updated income information, but interest on their loans may capitalize in forbearance, adding to the principal balance they owe. In a sample of borrowers, the Department of Education found that 57 percent did not recertify their income information on time, triggering, in many cases, higher payments.[8]

Solution:
The SIMPLE Act eliminates the annual paperwork requirement for borrowers who are enrolled in income-driven repayment plans. By automating the annual process of recertifying borrowers' income, borrowers will continue to pay based on what they afford and be protected from sudden increases in payments that can cause financial stress and precipitate default.

Supporters:

The Institute for College Access and Success (TICAS); Student Veterans of America (SVA); National Consumer Law Center (NCLC), on behalf of its low-income clients; Third Way; Student Debt Crisis; American Federation of Teachers (AFT); Center for Law and Social Policy (CLASP); National Education Association (NEA); United Negro College Fund (UNCF); Pennsylvania Higher Education Assistance Agency (PHEAA); AccessLex Institute; Consumers Union; Young Invincibles; Center for Responsible Lending (CRL); Center for American Progress (CAP); American Association of University Women (AAUW); Association of Community College Trustees (ACCT); Pennsylvania Association of Student Financial Aid Administrators (PASFAA); National Association for College Admission Counseling (NACAC); The Education Trust; Higher Education Loan Coalition (HELC); Veterans Education Success (VES); Consumer Action; American Association of Community Colleges (AACC); American Legion; Service Employees International Union (SEIU); National Association of Student Financial Aid Administrators (NASFAA)

[6] http://files.consumerfinance.gov/f/documents/201705_cfpb_Update-from-Student-Loan-Ombudsman-on-Redefaults.pdf
[7] Ibid.
[8] https://www2.ed.gov/policy/highered/reg/hearulemaking/2015/paye2-recertification.pdf