

# Affordable Loans for Any Student Act of 2018

## Section-by-Section

### TITLE I—SIMPLIFYING REPAYMENT PLANS

**Sec.101. Income-based repayment plan.** Creates a single, streamlined income-based repayment (IBR) plan calculated according to a borrower's income and family size. The plan is similar to the Revised Pay As You Earn (REPAYE) plan with payments corresponding to 10 percent of a borrower's adjusted gross income, with an exemption for basic needs measured by the federal poverty level and the borrower's family size. Payments are capped at 20 years, with outstanding balances forgiven thereafter. All borrowers of Federal Family Education Loan (FFEL) and Direct Loans (DL), including borrowers of a Parent PLUS loan, would be eligible to enroll into the IBR plan beginning on or after July 1, 2019.

Borrowers would not make payments below 250 percent of the federal poverty level—a change from the current 150 percent exclusion under most plans—but this income exclusion would gradually phase out with adjusted gross incomes in excess of \$120,000. The phase-out would occur with each increase of the borrower's income above that amount by increments of \$1,000, which would result in a 5 percentage point reduction in the poverty exclusion. The poverty exclusion would therefore phase out entirely for borrowers making more than \$170,000 per year.

Borrowers in IBR whose monthly payments do not cover their monthly interest charges (and are therefore negatively amortizing) will receive an interest subsidy. For borrowers of subsidized loans, any interest not covered by payments on subsidized loans, or the equivalent subsidized portion of consolidation loans, will be paid by the Department for up to three years, after which the Department will cover 50 percent of such interest. For unsubsidized loans, the interest subsidy is consistently 50 percent through the lifetime of repayment.

This section also provides for a requirement that the Secretary allow borrowers to enroll in IBR verbally, or through other written or electronic means, under certain circumstances, in order to increase the ability of borrowers to obtain a lower payment quickly and to deal with financial distress. Borrowers would verify their income and family size within 90 days of enrollment, otherwise they would see their payment revert to the fixed amount.

**Sec.102. Fixed repayment plan.** Creates a single, fixed repayment plan of 10 years in length in which the borrower's payments are equal for the entire repayment period. This plan is identical to the current "standard" plan, but terminology is changed to enhance borrower understanding. The monthly minimum payment in the fixed plan, currently set at \$50 in regulation by the Secretary, would be lowered by statute to \$25.

**Sec.103. Termination of certain repayment plan options.** Sunsets eligibility for borrowers to enroll into existing repayment plans. Going forward, only the two plans created by the bill—the IBR plan and the fixed repayment plan—will be available for borrowers to select. Borrowers can continue to repay under the plans they have selected prior to enactment, and can repay under those plans until they have paid off their balance.

**Sec.104. Providing incentives to switch into simplified repayment plans.** In order to facilitate the faster consolidation of IBR plans and the transition to a single IBR plan, this section provides for a 100 basis point (or one full percentage point) reduction in the interest rate for borrowers who consolidate their loans into one of the two streamlined plans—the new IBR plan or the fixed repayment plan.

**Sec.105. Automatic recertification of income.** Requires the Secretary to establish procedures for borrowers to seamlessly recertify their income on an annual basis in order maintain enrollment in the IBR plan with the correct monthly payment, and without requiring additional paperwork to obtain such income information.

Borrowers would retain the right to opt-out of such recertification. The recertification procedures would apply to both the new, streamlined IBR plan as well as for borrowers who continue to repay their loans through the existing income-driven repayment plans.

**Sec.106. Disclosure of tax return information to carry out certain higher education loan programs.** Amends Section 6103 of the Internal Revenue Code to ensure that the recertification procedures for IBR described in the aforementioned Section 105 can be operationalized and that all applicable tax-related information will be securely disclosed.

**Sec.107. Study and procedures on determining family size.** Requires the Secretary to conduct a study in collaboration with the U.S. Department of the Treasury to determine if existing federal data could enable borrowers in the IBR plan to automatically recertify both the income information, as well as family size, so that the borrower would not be required to submit any additional information to maintain certification. The study's parameters would be afforded the opportunity for public comment.

## **TITLE II—ENDING INTEREST CAPITALIZATION AND ORIGINATION FEES**

**Sec.201. Ending interest capitalization for Federal Direct Loans.** Beginning on the effective date, ends the capitalization of interest on all federal loans, which typically occurs when the borrower first enters repayment (after graduation or stop-out), after a period of forbearance, and when a loan defaults. Interest capitalization applies outstanding interest to the loan's principal, which can add thousands of dollars to a borrower's total repayment.

This provision also ends the capitalization of interest on Federal Direct Loans for borrowers participating in the IBR plan, which under current law occurs during certain points of entry and exit into such plans—such as when a borrower fails to recertify their income.

**Sec.202. Elimination of Origination Fees for Federal Direct Loans.** Beginning on the effective date of July 1, 2019, this section ends the assessment of origination fees on Federal Direct Loans which are currently 1.066% of the total loan amount for Direct Subsidized Loans and Direct Unsubsidized Loans, and 4.264% of the total loan amount for Direct PLUS loans. Origination fees are also currently subject to sequestration under the Budget Control Act of 2011, and this section would end such sequestration by eliminating the fees entirely.

### **TITLE III—PROVIDING ASSISTANCE IN SITUATIONS OF BORROWER DISTRESS**

**Sec.301. Limits on seizing income for debt relating to Direct Loans.** Limits federal debt collection amounts that are obtained through wage garnishment or tax offset to no more than the amount the borrower would pay under IBR, or approximately 10 percent of the borrower’s adjusted gross income. If the entity engaged in the collection of debt cannot determine the family size of the borrower, it shall presume a family size of 1. Additionally, collectors shall encourage borrowers to exit default and enter current repayment to realize the full benefits of IBR. This section also applies tiered civil penalties for violating this limitation on seizing income.

**Sec.302. Allowing for multiple loan rehabilitations.** Allows for borrowers to rehabilitate their loans twice, instead of only once under current law.

**Sec.303. Pause payment process.** Replaces the current deferment and forbearance options into one, streamlined “pause payment” process that does not capitalize interest. Borrowers who are currently in deferment or forbearance can maintain such enrollment or switch to the new stop payment status. All existing eligibility pathways for deferment or forbearance, including borrowers enrolled in school, in a graduate fellowship program, serving in active duty, performing National Guard service, or experiencing an economic hardship (not to exceed three years) are maintained for pause payment. Additionally, unlike the separate forms used for each eligibility pathway for deferment and forbearance under current law, this section requires the Secretary to establish a “single, streamlined pause payment process” and form.

**Sec.303. Automatic enrollment into income-based repayment for borrowers who are delinquent on loans and for borrowers who rehabilitate defaulted loans.** Provides relief to borrowers at least 60 days delinquent, and those who rehabilitate their loans, by automatically enrolling them into the IBR plan.

**Sec.304. Separating joint consolidation loans.** Allows a previously married couple who received a joint consolidation loan to separate such loans. From 1993 to 2006, the U.S. Department of Education issued joint consolidation loans to married couples. Congress eliminated the program in 2006 but did not provide a means of severing existing loans, even in cases of domestic violence, financial abuse, or an unresponsive partner. This section allows two borrowers to submit a joint application to sever their joint consolidation loan, or for one of the borrowers with the joint consolidation loan to submit a separate application in the event that they are experiencing domestic or economic abuse, or are unable to reasonably reach or access the loan information of the other borrower.

**Sec.305. Removing the collection cost requirement.** Removes the statutory mandate that borrowers pay for their own collection costs.

### **TITLE IV—IMPROVING LOAN INFORMATION AND COUNSELING**

**Sec.401. Student loan contract; simplifying loan disclosures.** Changes the use of the term “master promissory note” regarding new loans taken out by borrowers to “student loan contract” to improve consumer understanding of the purpose of the document. Additionally, this section

requires the disclosures to be streamlined, and for the borrower to complete all applicable loan counseling prior to signing the student loan contract. The contract and the loan counseling process will be linked for the borrower.

**Sec.402. Annual and pre-loan information and counseling requirements.** Changes the structure of student loan counseling to require annual loan counseling for all borrowers conducted in-person or online in an interactive manner. The “pre-loan counseling” also requires specific consumer protection disclosures about the loan products and information to help the borrowers prepare for repayment, such as anticipated loan amounts, repayment plan options, projected monthly payments, forgiveness options, and recommendations for exhausting federal loan eligibility before taking out private loans. Information for a first-time borrower is distinct from borrowers with an existing federal loan (such as percentage of loan limits used). Federal Parent PLUS borrowers would go through a shorter counseling process. Finally, the Secretary shall develop an electronic tool to help provide automated and customizable information for borrowers that will generate relevant repayment estimates.

**Sec.403. Exit counseling.** Enhances the level of information required to be provided through the exit counseling process, either online or in-person. Borrowers would receive information tailored to their individual outstanding loan balance and corresponding repayment estimates.

**Sec.404. Online counseling tools.** Requires the Secretary to maintain the online loan counseling tools (annual and exit) and to consumer test such tools to ensure they are effective. This section also contains a longitudinal study on the effectiveness of student loan counseling to provide continuous updates on the impact of the effectiveness of the counseling tools on student success and borrowing, including disaggregated data on underrepresented populations.

**Sec.405. Private Education loan certification and information.** Requires institutions to certify a student’s eligibility for private student loans and makes changes to the *Truth in Lending Act* to define private educational lender and private education loan. Lenders will be required to make disclosures to borrowers, including co-signers. This section will assist in helping students make informed choices to exhaust their federal student loan eligibility before taking out private student loans, where appropriate and beneficial to the borrower. Finally, the provision will require the inclusion of private student loan information in the National Student Loan Data System, to allow for borrowers and institutions to obtain a full picture of their educational debt.

#### **TITLE V—EFFECTIVE DATE; TRANSITION**

**Sec.501. Effective date; rulemaking regarding termination of certain repayment plans.**

Clarifies the effective date of all the provisions to be July 1, 2019 and the ability of borrowers to maintain current benefits and enrollment plan options if they so choose.