

Get the Politics Newsletter

Free daily updates delivered just for you.



Get There

A lot of people have figured out the easiest way to lower their student loan payments

By [Danielle Douglas-Gabriel](#) August 20

People saddled with student debt are warming up to the government's generous offer to cap their monthly loan payments to a percentage of their earnings. Use of so-called income-driven plans has gone up 56 percent since last year, with 3.9 million borrowers enrolled, the Education Department said Thursday.

The White House has enacted broad initiatives to give students more options for repaying their loans so they don't default, but people have been slow to sign up, mainly because so few have known of their existence. Over the past year, the administration has advertised the plans through tax preparation providers like Turbo Tax and direct outreach to struggling borrowers.

Even though the effort is paying off, the government still has another pressing problem on its hand: making sure people aren't kicked out of the program for missing deadlines.

Hundreds of thousands of borrowers are falling out of income-driven plans for failing to verify their income every year, undermining the effectiveness of the program. At least [57 percent of people](#) enrolled in the program as of October 2014 did not re-certify on time, according to the department.

While people might simply be forgetting the deadline, the Consumer Financial Protection Bureau is concerned that student loan servicers, the middlemen that collect and apply payments, are not doing their part to keep them on track. The bureau is [asking servicers to explain](#) how they make sure borrowers have the information needed to stay in the program.

The Education Department is running a pilot program to figure out the most effective ways to get people to verify their income every year. It is also working on a system to let servicers access tax information to automatically re-certify borrowers.

“We’ve made it a priority to give Americans better options to manage their student loans and make sure they know about those options,” Education Secretary Arne Duncan said, in a statement. “There’s more work to do, we won’t stop fighting to help people who are struggling to pay back their student loan debt, but the fact that more and more borrowers are taking advantage of the opportunity to cap their monthly payments is a good sign.”

SPONSOR-GENERATED CONTENT

From socialite to saint: The story of the first U.S.-born saint

By Visit Frederick

America’s first saint transformed Catholic education and philanthropy

READ MORE

The government’s flexible repayment plans are critical as student debt tops \$1.3 trillion and people struggle to find jobs that pay enough to cover their monthly loan payments.

Plans vary based on the type of federal loan, and only loans provided by the government are eligible.

[\[There’s a way to dramatically lower student debt payments, but hardly anyone uses it\]](#)

One of the most widely available plans is what’s known as the income-based repayment (IBR) program, which covers new and older loans. It caps payments to about 15 percent of your income and forgives any balance that exists after 25 years. The calculation is based on your discretionary income, or whatever you earn above 150 percent of the federal poverty line (\$17,505 for a single person).

If you make \$30,000, for instance, your discretionary income would be \$12,495. That means your monthly loan payments would initially be capped at \$156.18. And since you have to update your financial information every year, the more you make the more you will pay.

In July, the Obama administration announced plans to expand the most generous repayment plan, known as Pay as You Earn or PAYE, to anyone with an existing federal loan, regardless of their income. Right now, it’s only people with especially low income relative to their debt and who took out their loans after 2007. PAYE caps borrowers’ monthly bill to 10 percent of their income and forgives the debt after 20 years of payment. The Education Department expects to finalize the rule in late October.

The expansion will cost \$15.3 billion and increase the entire program's current cost by 8 percent, creating further alarm for congressional Republicans who are critical of the rising price tag of the loan repayment plans.

[\[The Obama administration's plan to lower the student debt payments of millions more Americans\]](#)

Still, the cost is liable to change if borrowers repay faster. And since there is no escaping repaying federal loans, there is limited risk of the government losing money. In fact, the government is projected to yield \$51 billion as graduates repay their loans over the next decade, according to the most recent analysis from the Congressional Budget Office.

Income-driven plans are designed to prevent borrowers from defaulting on their loans, a problem faced by about 20 percent of people repaying college debt. Defaulting on student debt can severely damage a person's credit rating, making it much harder to buy a car or a house.

According to the department, fewer borrowers with federal loans are falling behind on their payments. Delinquency rates for federal loans slipped from 23 percent in June 2014 to 21 percent a year later.

There are also fewer people putting off their payments, with deferments now accounting for less than 12 percent of outstanding direct loans, and 8 percent of outstanding bank-based loans. The portion of direct loans in forbearance has also come down and now represents 10.5 percent of the portfolio.

Want to read more about the student loans? Check out these stories:

[A guide to paying off your student loans](#)

[Is graduate school worth the cost? Here's how to know.](#)

[Wells Fargo and Discover to offer student loan modifications](#)

Danielle Douglas-Gabriel covers the economics of education, writing about the financial lives of students from when they take out student debt through their experiences in the job market. Before that, she wrote about the banking industry.



11 MLB Salaries That Are Totally Undeserved

Forbes



Mold Is Costly to Remove and Potentially Harmful: 5 Ways to Prevent It

Liberty Mutual



The Most Dangerous Phrase, According To Grace Hopper

iQ by Intel



Here Are the 15 Least Intelligent Presidents

InsideGov



10 Innovative Companies are Improving Lives

Forbes



Having Any 1 Of These 7 Credit Cards Means You Have Excellent Credit

NextAdvisor