February 10, 2023

James Kvaal
Office of the Under Secretary, US Department of Education
400 Maryland Ave. SW
Washington, DC 20024

Re: Docket No. ED-2023-OPE-0004-0001, Comment in Response to Proposed Regulation "Improving Income-Driven Repayment for the William D. Ford Federal Direct Loan Program"

To Whom It May Concern:

I am an education policy researcher with more than 10 years of experience studying the federal student loan program. I am writing in response to the US Department of Education's proposal to make changes to the income-driven repayment (IDR) plans of the direct loan program. I am employed by the Urban Institute—an independent, nonpartisan research and policy organization based in Washington, DC—but this comment represents only my own views, not those of Urban, its trustees, or its funders.

I am pleased to assist the department in complying with the requirements of Executive Orders 12866 and 13563 by suggesting potential changes to the proposed regulation that will significantly improve the overall balance of costs and benefits while preserving the effective and efficient administration of the program. **In my view, there is a significant imbalance in the ratio of costs to benefits of the proposed regulation because the elements that are likely to produce the greatest benefits are the least costly, and the most costly elements include significant wealth transfers that produce few benefits.**

I analyze benefits primarily through the lens of reducing borrowers' risk of delinquency and default, while noting that the availability of student loans can also increase future students' likelihood of enrolling and completing postsecondary programs of study.[1] I analyze costs primarily as the costs to taxpayers of making loans that are not repaid, as these are the primary costs of the proposed regulation (administrative costs are much smaller).

My primary conclusion is that **adopting a more graduated assessment rate (with higher-income borrowers paying a larger share of their discretionary income toward their loans) would substantially improve the overall balance of costs and benefits of the proposed regulation.**

[1] Benjamin M. Marx and Lesley J. Turner, "Student Loan Nudges: Experimental Evidence on Borrowing and Educational Attainment," *American Economic Journal: Economic Policy* 11, no. 2 (May 2019): 108, https://www.aeaweb.org/articles?id=10.1257/pol.20180279.

The proposed regulation contains several elements that are likely to generate significant benefits by reducing delinquency and default for borrowers and allowing the department to operate the student loan program more efficiently:

- The regulation will simplify an overly complex system of student loan repayment by phasing out existing plans so that most borrowers will have to consider only one income-driven repayment plan, the updated REPAYE plan (alongside the standard plan with fixed monthly payments). This change will make it easier for borrowers to navigate loan repayment, in part because it will be more straightforward for loan servicers to explain repayment options to borrowers.
- The regulation will allow the department to automatically enroll delinquent borrowers in IDR if the borrower has provided permission for the transfer of their income information from the Internal Revenue Service. Under current policy, too many borrowers who would be eligible for IDR default because they are unaware of the option or do not complete all the necessary steps to enroll in IDR. (In 2015–16, only 43 percent of undergraduates were aware that IDR exists.[2]) This change will make IDR a stronger safety net for borrowers who provide permission for the department to access their income data (once the FUTURE Act is implemented).
- The regulation provides earlier forgiveness for borrowers with low original balances. This change will allow low-balance borrowers with relatively low incomes to exit repayment after as few as 10 years, reducing by as much as half the time they spend in repayment (and the associated costs of servicing their loans).
- The regulation appropriately continues to exclude parent loans from REPAYE; making these loans eligible would create strong incentives for parents to borrow as they approach retirement age and entail significant costs to taxpayers.[3]

This subset of proposed changes has a high ratio of benefits to costs because they could produce significant benefits to borrowers at minimal cost to taxpayers. Providing earlier forgiveness composes about 3 percent of the estimated total cost, and the cost of administrative changes such as sunsetting existing plans and implementing automatic enrollment of delinquent borrowers is negligible.

The costliest elements of the proposal are setting the income exemption at 225 percent of the federal poverty guidelines ($74 billion, relative to the full package of proposed changes) and reducing the assessment rate to 5 percent of discretionary income ($59 billion). There is little evidence that these changes will have large enough benefits for borrowers to justify their significant costs, and those costs will be much larger than estimated by the department to the extent the proposed changes lead more

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[2] Matthew Chingos, "Structural Changes to Student Loan Repayment Could Make Forgiveness Work Better for Struggling Borrowers," *Urban Wire* (blog), Urban Institute, February 19, 2021, https://www.urban.org/urban-wire/structural-changes-student-loan-repayment-could-make-forgiveness-work-better-struggling-borrowers.

[3] Sandy Baum, Kristin Blagg, and Rachel Fishman, *Reshaping Parent PLUS Loans: Recommendations for Reforming the Parent PLUS Program* (Washington, DC: Urban Institute, 2019).

borrowers to enroll in IDR and more students to take on debt (which were not factors in the department's cost estimates).[4]

These two elements of making the program more generous are largely a transfer from taxpayers to current and future borrowers, who will pay substantially less under revised IDR than under current IDR. My Urban Institute colleagues and I found that few undergraduate borrowers with typical debt levels will fully repay their loans under the department's proposal (modeling the proposed changes in the income exemption, assessment rate, time to forgiveness, and interest accrual).[5] Specifically, we found that 69 percent of borrowers with certificates and associate's degrees at a typical debt level of $13,000 will repay less than half of their loan before reaching forgiveness, compared with 20 percent under current IDR. For bachelor's degree recipients (typical debt level of $31,000), the share paying less than half will increase from 22 percent to 49 percent. These forgiven debts are the primary driver of the program's costs to taxpayers.

Whether these costly changes also reduce delinquency and default depends on whether borrowers who experience these negative outcomes under current policy are less likely to do so under the more generous terms. This will likely depend on whether the proposed plan encourages more borrowers to participate in IDR (since participation has been shown to reduce delinquency rates) and whether current (and future inframarginal) participants in IDR default at lower rates (because they are better able to afford the lower monthly payment).[6]

It seems likely that overall IDR participation will increase as newly eligible, higher-income borrowers enroll. It is less clear whether changes in required monthly payments and expected total payments will affect participation or repayment outcomes for lower-income borrowers who would already benefit from IDR but are not enrolled. Evidence on participation in IDR by income level suggests that the greatest opportunities for improving both participation and repayment outcomes are concentrated among lower-income borrowers.

Evidence shows that lower-income borrowers are less likely to participate in IDR than higher-income borrowers. An analysis by the JPMorgan Chase Institute found that 31 percent of borrowers were eligible for IDR, but only 9 percent enrolled, with eligible nonparticipants missing out on significant reductions in monthly payments. Eligible borrowers who participated in IDR had a much higher median income than those who were eligible but did not participate ($39,400 versus $20,300).[7] And an Urban Institute analysis found that the lowest-income borrowers were more likely to make no

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[4] Junlei Chen, "Budgetary Cost of Newly Proposed Income-Driven Repayment Plan" (Philadelphia: Wharton School of the University of Pennsylvania, 2023).

[5] Matthew Chingos, Jason D. Delisle, and Jason Cohn, "Few College Students Will Repay Student Loans under the Biden Administration's Proposal" (Washington, DC: Urban Institute, 2023).

[6] Daniel Herbst, "The Impact of Income-Driven Repayment on Student Borrower Outcomes," *American Economic Journal: Applied Economics* 15, no. 1 (January 2023): 1, https://www.aeaweb.org/articles?id=10.1257/app.20200362.

[7] Fiona Greg, Daniel M. Sullivan, and Bernard Ho, "Income Driven Repayment: Who Needs Student Loan Payment Relief?" JPMorgan Chase & Co., accessed February 7, 2023, https://www.jpmorganchase.com/institute/research/household-debt/student-loan-income-driven-repayment.

payments at all than to participate in IDR, with the highest IDR participation rates among middle-income borrowers (those making between $20,000 and $60,000 per year).[8]

Lower-income borrowers also have the highest delinquency and default rates, likely in part because of their low IDR participation rates. A study of borrowers who entered repayment in 2010 found that more than 40 percent of borrowers with incomes between $10,000 and $20,000 defaulted within four years of entering repayment, compared with less than 20 percent of borrowers with incomes above $40,000.[9] Nationally representative data on 12-year default rates yield a similar pattern: 39 percent of borrowers with incomes below $20,000 in 2009 defaulted at some point, compared with 16 percent of borrowers with incomes between $40,000 and $50,000.[10]

Data on other measures of financial health yield similar findings. In the Federal Reserve Board's 2019 Survey of Household Economics and Decisionmaking, 11 percent of borrowers with incomes below $50,000 reported being unable to make their full student loan payment, compared with 5 percent of borrowers with higher incomes.[11] And a 2014 study found that borrowers with the smallest student debts (who tend to have lower incomes) were the most likely to report paying their bills late.[12]

This evidence suggests that the borrowers most likely to benefit from participating in IDR are lower-income borrowers. Some components of the proposed regulation are aligned with this goal, including the shorter time to forgiveness for low-balance borrowers and the automatic enrollment of delinquent borrowers in IDR. But the costliest components of the proposed regulation are not targeted to low-income borrowers.

The lowest-income borrowers (up to about $20,000 for single borrowers) would see no change in their payments under the proposed regulation because they are already eligible for $0 payments (table 1). Borrowers with starting incomes of $30,000 to $40,000 would see their payments fall by about $100 a month. Borrowers with higher incomes would see the largest savings in absolute terms but smaller savings as a percentage of their payment under current IDR.

[8] Kristin Blagg, "Who Uses Income-Driven Student Loan Repayment?" *Urban Wire* (blog), Urban Institute, February 20, 2018, https://www.urban.org/urban-wire/who-uses-income-driven-student-loan-repayment.

[9] Constantine Yannelis, *Strategic Default on Student Loans* (Chicago: University of Chicago Booth School of Business, 2020), figure 6.

[10] National Center for Education Statistics, PowerStats table pgvsuy.

[11] Author's calculations from the 2019 Survey of Household Economics and Decisionmaking.

[12] Beth Akers, "How Much Is Too Much? Evidence on Financial Well-Being and Student Loan Debt" (Washington, DC: American Enterprise Institute, 2014).

TABLE 1

Monthly Payments under Income-Driven Repayment

Income	Current	Proposed	Change ($)	Change (%)
$20,000	$0	$0	$0	N/A
$30,000	$80	$0	$80	100%
$40,000	$163	$39	$124	76%
$50,000	$247	$81	$166	67%
$60,000	$330	$123	$208	63%
$70,000	$413	$164	$249	60%
$80,000	$497	$206	$291	59%
$90,000	$580	$248	$333	57%
$100,000	$663	$289	$374	56%

Source: Author's calculations.

Notes: N/A = not applicable. Payments are calculated for single borrowers using the 2022 federal poverty guidelines (payments for borrowers with a spouse or dependents would generally be lower because of the higher income exemption).

Higher-income borrowers will still fully repay their loans in many cases because the repayment term is up to 20 years (depending on the loan amount). Still, the proposed regulation would significantly increase the range of starting incomes that are expected to lead to at least some loan forgiveness (table 2). For example, under current IDR, a borrower with $31,000 of debt (the typical amount for a bachelor's degree) would need to earn a starting income less than $32,000 to expect to have some of the loan forgiven. Under the proposed regulation, borrowers with starting incomes of up to $55,000 could expect to receive some forgiveness.[13]

TABLE 2

Minimum Starting Income to Fully Repay Loan under Income-Driven Repayment

	Current	Proposed
$13,000 borrowed	$24,000	$52,000
$31,000 borrowed	$32,000	$55,000

Source: Urban Institute analysis.

Notes: These are the starting income levels above which a borrower could expect to pay more in total payments in income-driven repayment than in the standard 10-year plan.[14]

The proposed regulation could be modified to reduce overall costs and focus a larger share of the new subsidies on the set of borrowers most likely to benefit. For example, the assessment rate could be set at 5 percent of discretionary income between 150 and 225 percent of the federal poverty guidelines (rather than 10 percent, as under current policy, or 0 percent, as in the proposed regulation) and at 10

[13] The estimated minimum starting incomes to fully repay loans are significantly higher for borrowers eligible for Public Service Loan Forgiveness. For $13,000 borrowed, the minimum starting income to fully repay would increase from $37,000 under current policy to $55,000 under the proposed regulation. For $31,000 borrowed, it would increase from $59,000 to $91,000.

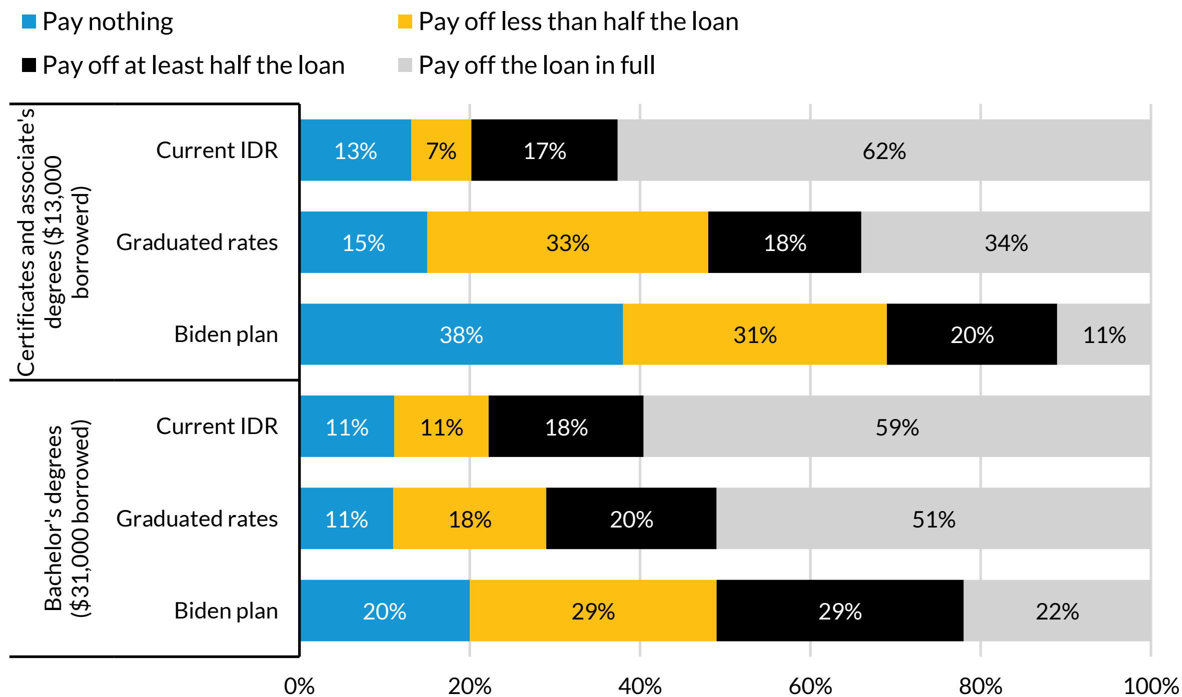
[14] Same assumptions as in Chingos, Delisle, and Cohn, "Few College Students Will Repay Student Loans."

percent of discretionary income above 225 percent of the federal poverty guidelines (using a marginal rate structure, akin to the progressive income tax).

The graduated rates approach would require more borrowers who can afford to repay their loans to do so (relative to the proposed regulation), while decreasing payments for middle-income borrowers who may find IDR payments unaffordable under current policy. Figure 1 shows that this approach reduces total loan payments (relative to the amount borrowed) to a greater degree for certificate and associate's degree recipients, who tend to have lower incomes and debt levels than bachelor's degree recipients.

FIGURE 1

Comparing Loan Repayment under IDR under a Graduated Approach to Current IDR and the Proposed Regulation



Source: Urban Institute analysis.[15]

Note: IDR = income-driven repayment.

This approach could be modified to include a greater number of assessment rate brackets, further differentiating between the ability of lower- and higher-income borrowers to pay a given percentage of their income toward their student loans. In my view, the closer alignment of benefits and costs that would result from such an approach would more than justify the small increase in program complexity.

[15] Same assumptions as in Chingos, Delisle, and Cohn, "Few College Students Will Repay Student Loans."

Under current policy, many borrowers who could benefit from IDR do not enroll. Focusing on improving repayment outcomes for these borrowers, who are disproportionately lower-income borrowers, would produce greater benefits at a lower cost than the proposed regulation, which directs substantial transfers to middle- and upper-middle-income borrowers. **A graduated rate approach would produce greater benefits relative to costs by directing a larger share of transfers to borrowers with the lowest IDR participation rates and highest delinquency and default rates under current policy.**

Thank you for the opportunity to comment on the proposed changes to IDR.

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