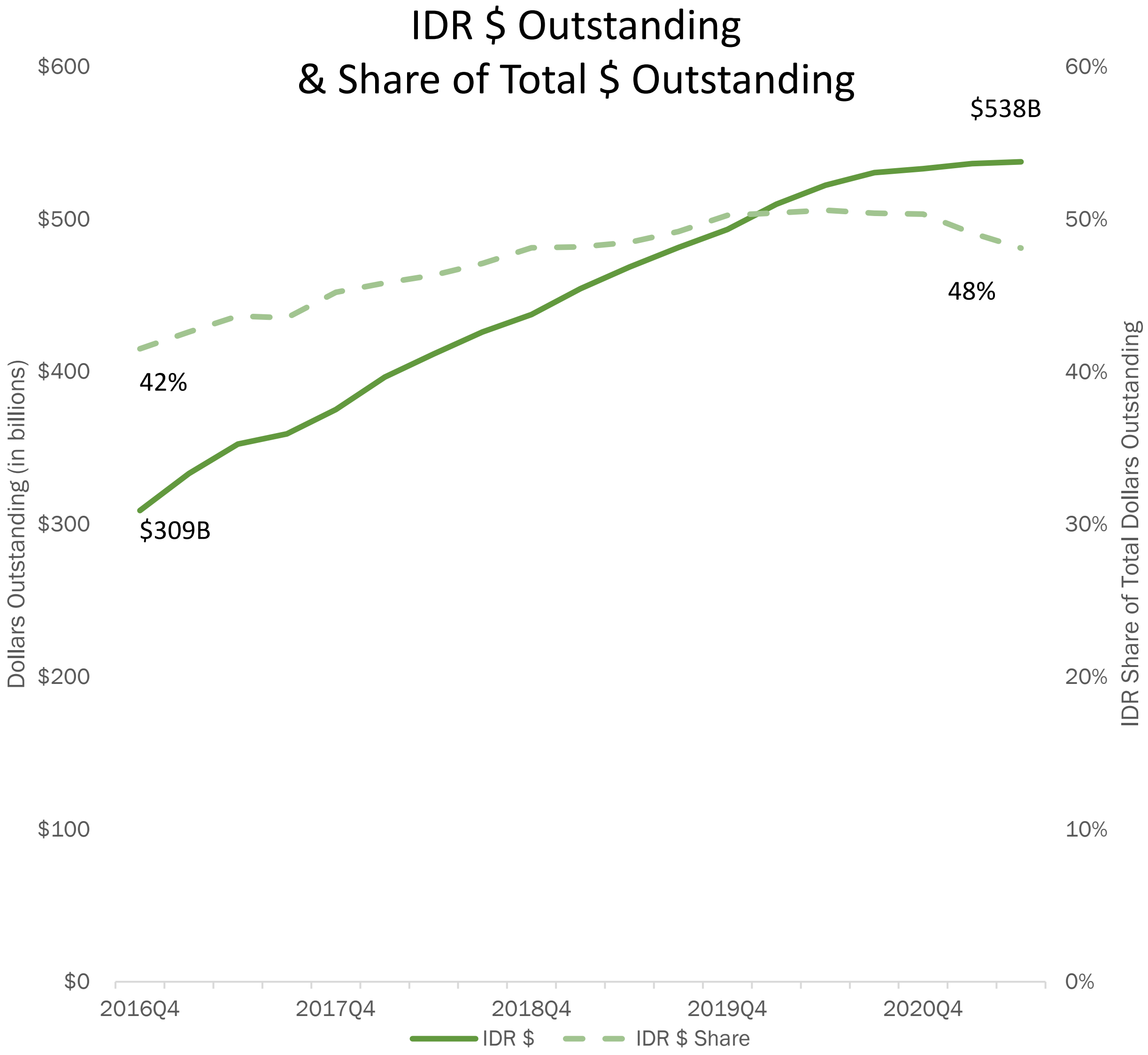
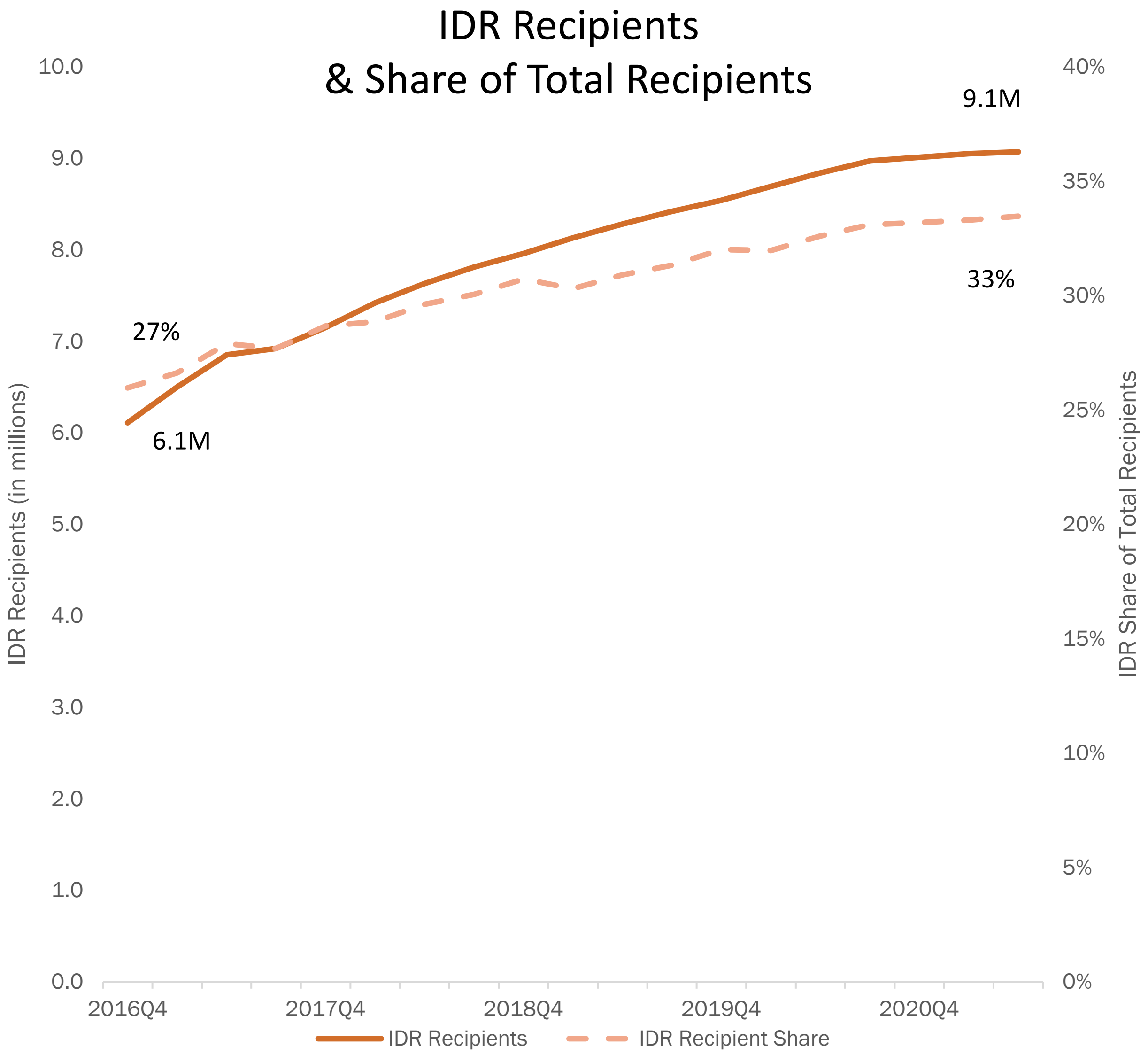
Advisor information presented at October 8, 2021 Negotiated Rulemaking

1. IDR program trends
2. Preliminary IDR Simulations: Changes to payment percentage and income protection

Note: This document was prepared by Dr. Rajeev Darolia, Advisor for economic and higher education policy analysis and data, for the 2021 Affordability and Student Loans Committee Meetings as part of the 2021-22 US Department of Education Negotiated Rulemaking for Higher Education. Please forgive any errors in analyses produced in an expeditious manner.

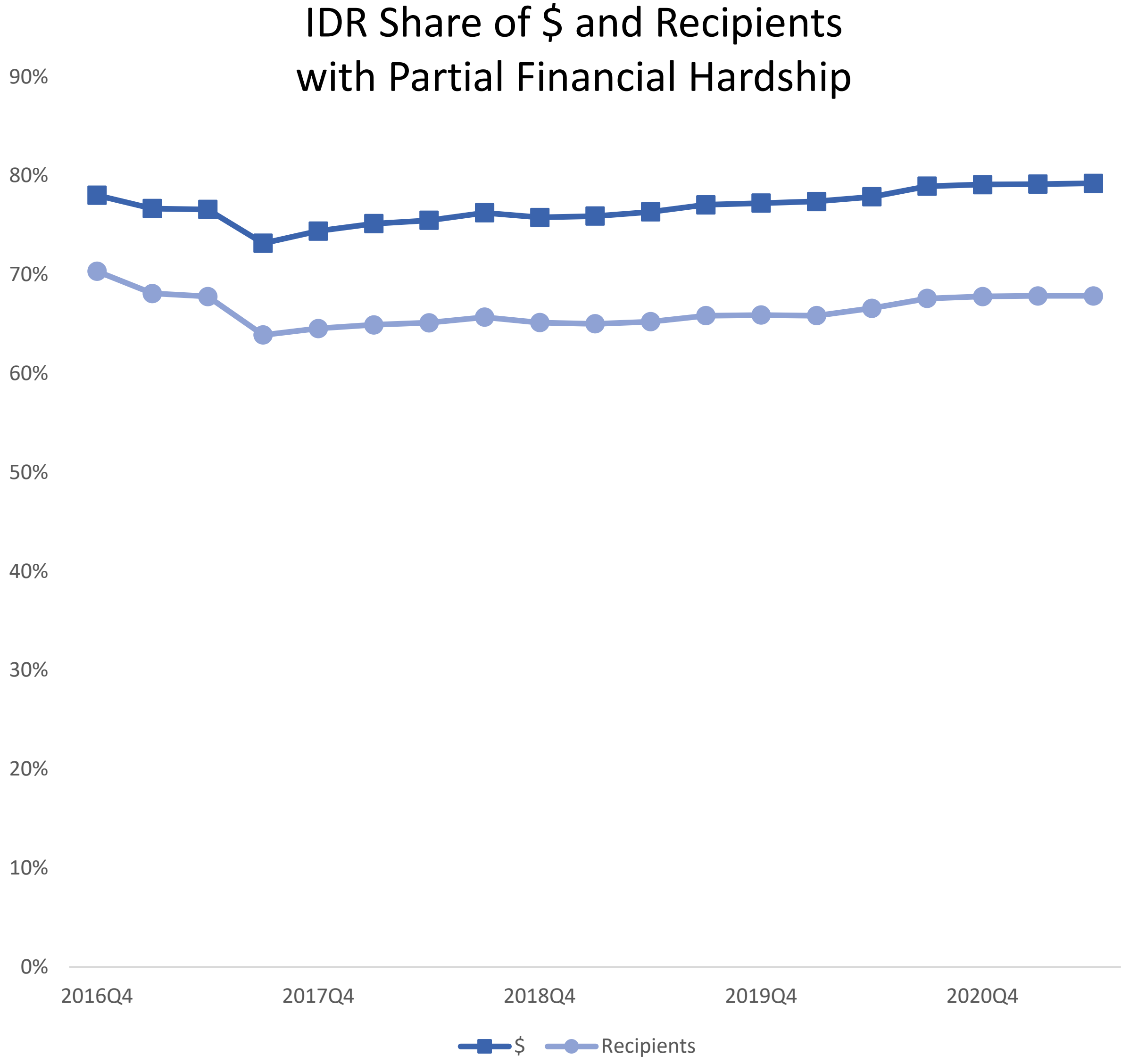
Income-driven repayment plan trends, Q4 2016-Q2 2021

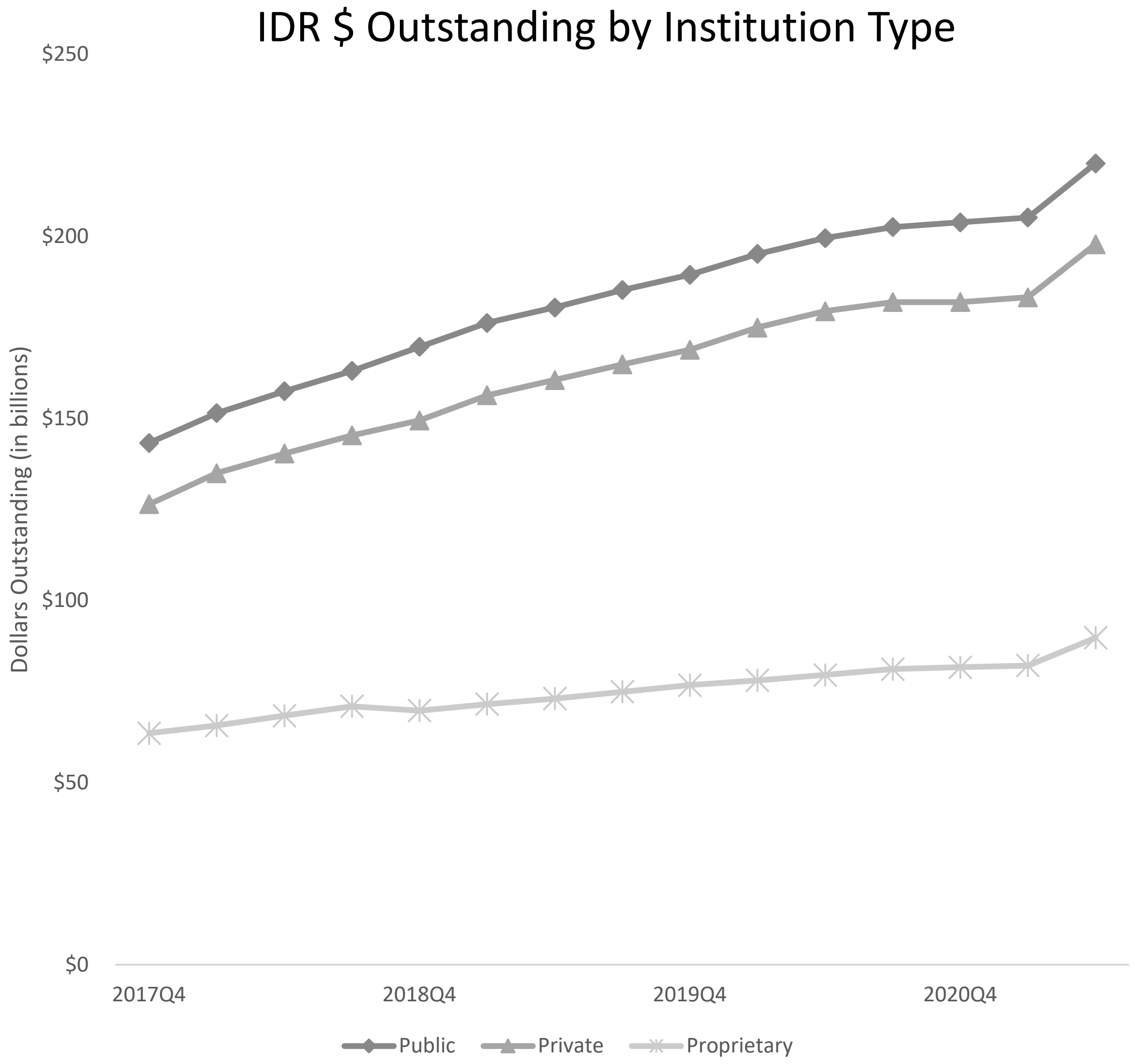




Sources: Federally Managed Portfolio by Repayment Plan. Available at: https://studentaid.gov/data-center/student/portfolio.

Income-driven repayment plan trends, continued





Note: Chart for partial financial hardship includes only IBR and PAYE plans only. Sources: Federally Managed Income-Driven Repayment Plans by Partial Financial Hardship and Income-Driven Portfolio by School Type. Available at: https://studentaid.gov/data-center/student/portfolio.

Preliminary IDR Simulations: Caveats

- Estimates are for illustrative purposes about individual repayment scenarios

- Does not incorporate common repayment events that can affect borrower outcomes, such as periods of unemployment, nonpayment, forbearance, deferment, etc.

- Interest capitalization assumptions are critical to loan forgiveness estimates

Fictional borrower example (Iris)

- Income = $33,000 annually, $2,750 monthly
  - 2.5% increase each year
- Student loan debt = $28,000
- Household size = 1
- Interest rate = 3.73%
- Inflation assumption 2.4% annually

	Standard Repayment	IBR (2014)
Monthly payment	$273	$114-$187
Total paid	$32,707	$35,439
Total forgiven	$0	$8,086
Payments	120	240

IBR payment calculation, period 1

Monthly income	$2,750
Protected income (150% poverty line)	-$1,610

Discretionary income	$1,140
Income Share	x10%

Period 1 payment	$114

- Monthly payment increases as income increases
- Both income protection and income share reduce the monthly payment, but are affected by different inputs

Results differ slightly from the FSA loan simulator because of simplified assumptions regarding inflation. Inflation is based on the average estimate for the next 10 years from the Congressional Budget Office (https://www.cbo.gov/publication/56982). Interest rate is the current interest rate on Direct Subsidized Loans and Direct Unsubsidized Loans: https://studentaid.gov/understand-aid/types/loans/interest-rates. No assumed grace period or temporary repayment flexibilities due to the COVID-19 Emergency.

Fictional borrower example (Iris), Under other assumptions

Base case	
Monthly income	$2,750
(150% poverty line)	-$1,610

Discretionary income	$1,140
Income Share	x10%

Period 1 payment	$114

5% Income Share	
Monthly income	$2,750
(150% poverty line)	-$1,610

Discretionary income	$1,140
Income Share	x5%

Period 1 payment	$57

200% PL Income Protection	
Monthly income	$2,750
(200% poverty line)	-$2,147

Discretionary income	$603
Income Share	x10%

Period 1 payment	$60

Fictional borrower example (Iris), Under other assumptions, Summary

	IBR (2014) Current Case	1	2	3
Poverty Line Income Protection	150%	150%	150%	200%
Income Share	10%	7.5%	5%	10%
Monthly payment	$114-$187	$86-$140	$57-$93	$60-$103
Total paid	~$35,000	~$27,000	~$18,000	~$19,000
Total forgiven	~$8,000	~$21,000	~$28,000	~$27,000
Payments	240	240	240	240
Interest-only payments	0	~12	~200	~170

Estimates only. Assumed inputs: income = $33,000 annually, $2,750 monthly; 2.5% increase each year; Student loan debt = $28,000; Household size = 1; Interest rate = 3.73%; Inflation assumption 2.4% annually. Assumes unpaid interest is added to principal.

As income share gets lower than 5%, or income protection gets higher than 200%, this fictional borrower would have an increasing number of interest-only payments, and loan forgiveness would increase, depending on assumptions related to interest accrual.

I am thankful for input from Lexi West and staff at The Pew Charitable Trusts for contributions on the construction of these scenarios.