U.S. GOVERNMENT ACCOUNTABILITY OFFICE
441 G St. N.W.
Washington, DC 20548

July 29, 2024

The Honorable Bill Cassidy, M.D.
Ranking Member
Committee on Health, Education, Labor and Pensions
United States Senate

The Honorable Virginia Foxx
Chairwoman
Committee on Education and the Workforce
House of Representatives

Federal Student Loans: Preliminary Observations on Borrower Repayment Practices after the Payment Pause

Federal student loans are an important resource to help individuals access higher education. As of January 2024, the Department of Education held $1.5 trillion in outstanding federal student loan debt for nearly 43 million borrowers, according to Education.[1]

Beginning in March 2020, in response to the COVID-19 pandemic, the CARES Act and related administrative actions paused several aspects of student loan repayment, including payments being due and interest accrual.[2] After several extensions, this payment pause ended on August 30, 2023, per the Fiscal Responsibility Act of 2023. Interest began accruing again in September 2023, and monthly payments resumed in October 2023, according to Education.

To assist borrowers who may struggle to make payments, Education introduced a new repayment plan option and flexibilities. For example, it created the Saving on a Valuable Education (SAVE) plan, an income-driven repayment (IDR) plan that bases monthly payments on a borrower's income and family size. Like other IDR plans, the SAVE plan offers forgiveness of the borrower's remaining loan balance at the end of the repayment period, and monthly payments for some borrowers can be as low as $0 and still count toward forgiveness.[3] Education expects the SAVE plan to result in lower monthly payments for most borrowers

[1]This includes outstanding William D. Ford Federal Direct Loans and Federal Family Education Loans held by Education that were in an in-school status, the 6-month grace period before repayment begins, repayment, forbearance, deferment, and default.

[2]The CARES Act was enacted on March 27, 2020. See Pub. L. No. 116-136, § 3513, 134 Stat. 281, 404-05 (2020). Education implemented this COVID-19 emergency relief for federal student loans retroactive to March 13, 2020, the date COVID-19 was declared a national emergency.

[3]Under the SAVE plan, the remaining unpaid loan balance is forgiven after up to 20 years for borrowers with only undergraduate loans and up to 25 years for borrowers with any graduate loans.

compared to other IDR plans.[4] On July 18, 2024, the U.S. Court of Appeals for the Eighth Circuit granted an emergency motion for a stay temporarily prohibiting Education from implementing the SAVE plan.[5] On July 19, 2024, Education announced that borrowers enrolled in the SAVE plan would be placed in an interest-free forbearance while the litigation was ongoing.[6]

Education also established temporary relief options for certain borrowers during the initial period of resuming repayment. Education instituted a 12-month “on-ramp” to repayment, running from October 1, 2023, to September 30, 2024, so that financially vulnerable borrowers who miss monthly payments during this period are not reported as delinquent to credit bureaus, placed in default, or referred to debt collection agencies. These protections are provided automatically to borrowers who miss payments—there is no action needed from borrowers. Education also implemented Fresh Start, a temporary program running through September 2024 that allows borrowers with defaulted loans to restore them to good standing without the typical requirement of loan consolidation or loan rehabilitation.[7] Borrowers who restore their loans to non-defaulted status gain access to IDR plans and postponement options to help them manage repayment.[8]

You asked us to provide information on the resumption of student loan repayment. This report describes the extent to which

(1) borrowers were current on their student loan payments, and

(2) borrowers enrolled in the SAVE repayment plan.

On June 5, 2024, we briefed congressional staff on our preliminary observations. This report transmits a final version of the briefing slides. We have updated the slides to include information about relevant ongoing litigation and the status of the SAVE plan after the briefing (see enclosure I). We have ongoing work examining other related topics, including Education’s

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[4]Lower monthly payments for borrowers enrolled in the SAVE plan are possible because Education set payment by a smaller proportion of their income compared to other IDR plans. Monthly payments are set as a proportion of the borrower’s discretionary income, which Education defines as adjusted gross income that exceeds 225 percent of the applicable poverty guideline for the SAVE plan, 100 percent of the applicable guideline for the Income-Contingent Repayment plan, and 150 percent of the applicable guideline for the Income-Based Repayment and Pay As You Earn plans. Also, under the SAVE plan, if a borrower makes a full monthly payment, the borrower will not be charged any remaining accrued interest that month. However, for some borrowers with higher income, the SAVE plan may result in higher payments compared to repayment plans that cap monthly payment amounts at less than or equal to the fixed monthly payment amount under the Standard 10-year repayment plan.

[5]In addition, as of July 19, 2024, there was other litigation involving SAVE that was ongoing. Specifically, on June 24, 2024, the federal court for the District of Kansas issued a preliminary injunction enjoining Education from implementing parts of the SAVE plan. On June 30, 2024, the U.S. Court of Appeals for the Tenth Circuit granted an emergency motion for a stay of that preliminary injunction pending appeal.

[6]Forbearance allows eligible borrowers to temporarily postpone making payments.

[7]Loan consolidation and loan rehabilitation are two options that allow eligible borrowers to get their loans out of default after they make a series of voluntary on-time monthly payments. For example, borrowers who make at least three on-time monthly payments can pay off defaulted loans by consolidating one or more loans into a single loan with a fixed interest rate. Borrowers who make nine on-time monthly payments within 10 months may be eligible for loan rehabilitation, which entitles them to have the default removed from their credit report. However, borrowers may rehabilitate a loan only once.

[8]As part of the Fresh Start program, Education opted not to resume collections on defaulted loans, such as wage garnishments and offsets on tax refunds or federal benefit payments.

guidance and instructions to loan servicers regarding the resumption of federal student loan payments.

To answer both objectives, we reviewed reports from Education that included summary data on borrowers' payment statuses, including current in repayment, past due, deferment, and forbearance.[9] We focused our analysis on monthly summary data from October 2023 through January 2024. To better understand changes in Education's student loan portfolio since the start of the payment pause, we reviewed selected data from January 2020. We also reviewed summary data from January 2024 related to borrowers' enrollment in IDR plans, including the SAVE plan. We also reviewed relevant federal laws and regulations.

To ensure data reliability, we reviewed available technical documentation, solicited information from Education, and conducted logic checks. We determined the data were sufficiently reliable for our purpose of reporting on borrowers' repayment statuses.

We conducted this performance audit from November 2023 to July 2024 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

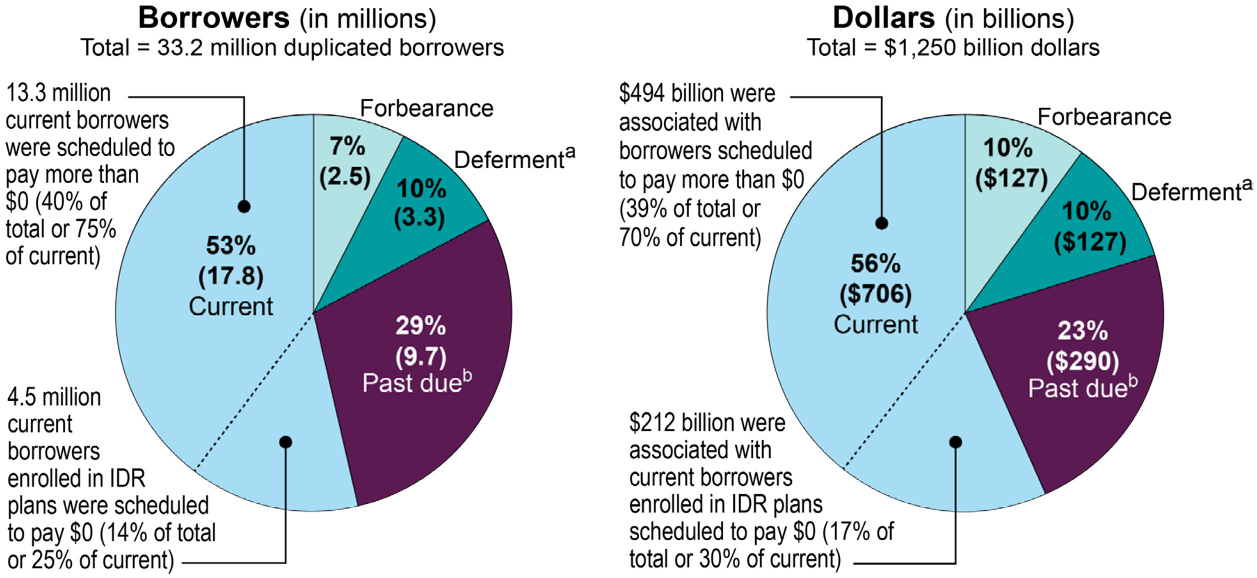
Borrowers' Federal Student Loan Status

In summary, about half of borrowers in repayment (17.8 million) were current on their payments, as of January 2024.[10] Nearly 30 percent of borrowers were past due on their payments, and the remaining borrowers were not expected to make payments because their loans were in deferment (10 percent) or forbearance (7 percent). Additional details on borrowers' loan statuses and values are depicted in figure 1 below. (For additional information, see enclosure 1).

[9]Past due includes any loans borrowers have not paid on time. Past due begins at 1 day past due and includes periods of delinquency, which is typically defined as more than 30 days past due. Deferment and forbearance allow borrowers to temporarily postpone making loan payments. Borrowers are eligible for deferment if they are in active-duty military service; reenrolled in school at least half-time after entering repayment; have income below a certain level; qualify for federal means-tested benefits, such as Temporary Assistance for Needy Families; or are unemployed. Borrowers qualify for mandatory forbearance if they meet certain requirements, such as if the total payment they owe each month for all their federal student loans is 20 percent or more of their total monthly gross income. Other borrowers experiencing financial difficulties may be eligible for general forbearance.

[10]Loans in repayment include those current or past due on their payments as well as those in deferment and in forbearance. They exclude loans with in-school or grace period status and those in default.

Figure 1: Number of Borrowers and Dollar Value of Federal Student Loans in Repayment by Status, as of January 31, 2024



Source: GAO analysis of U.S. Department of Education data. | GAO-24-107150

[a]Three million borrowers with loans totaling $112 billion had in-school deferment.

[b]Past-due borrowers were 1 or more days late.

Note: Borrowers may have loans in more than one status. For example, a borrower may be current on one loan and have another loan that is past due. As a result, the sum of borrowers in the different loan statuses (33.2 million) is slightly higher than the unduplicated number of borrowers (32.2 million). Percentages do not add to 100 due to rounding. IDR plans are income-driven repayment plans.

Current borrowers. About 40 percent of borrowers (13.3 million) were current in repayment with scheduled payments of more than $0 as of January 31, 2024. In addition, about 14 percent of borrowers (4.5 million) were current with scheduled payments of $0 on IDR plans.

Past-due borrowers. Nearly 10 million borrowers were considered past due on their loan payments as of January 31, 2024. Six million, or 60 percent of them, were between 91 and 120 days late on their payments.[11] They account for most of the 6.7 million borrowers shielded from negative credit reporting via Education's "on ramp" program as of January 31, 2024.

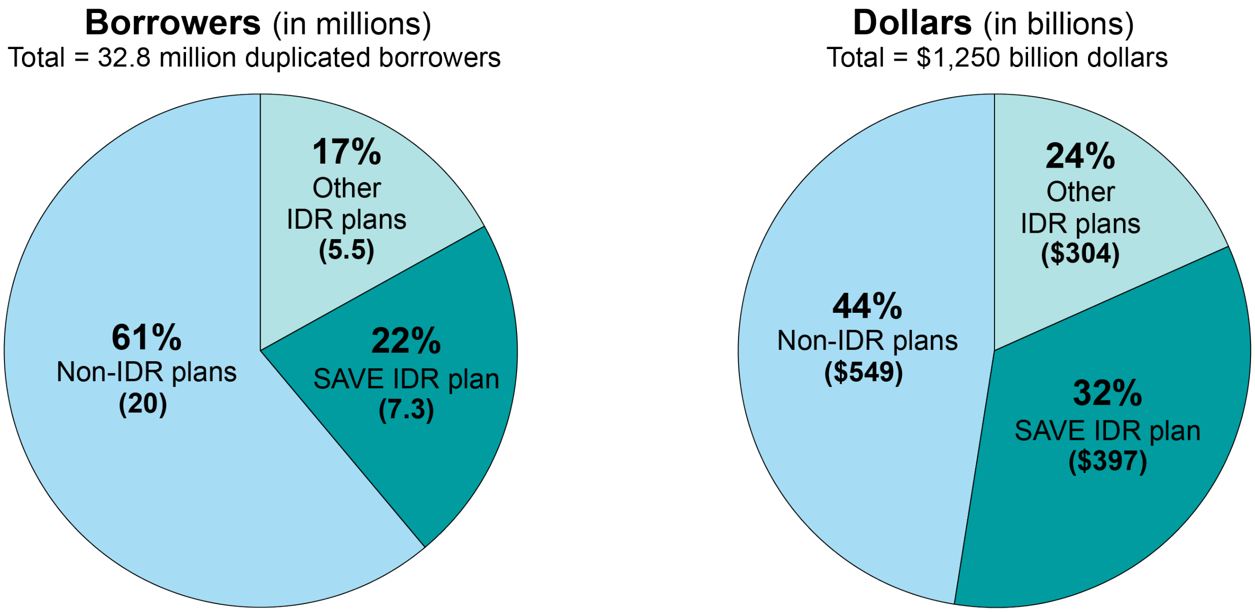
Borrowers Enrolled in the SAVE IDR Plan

Nearly a quarter of borrowers in repayment were enrolled in SAVE as of January 31, 2024 (see fig. 2).[12]

[11]As part of the on-ramp program, Education resets the clock on borrowers who reach 90 days past due, resetting the number of days past due to zero to protect them from negative credit reporting. However, due to report timing, these borrowers' past-due status had not yet been reset to zero as of January 31, 2024, according to Education.

[12]Loans in repayment include those current, past due, in deferment, and in forbearance.

Figure 2: Borrower Enrollment and Outstanding Loan Balances by Repayment Plan, as of January 31, 2024



Source: GAO analysis of U.S. Department of Education data. | GAO-24-107150

Note: These figures include loans that were current, past due, in deferment, and in forbearance. Borrowers may be enrolled in more than one repayment plan. For example, borrowers may be enrolled in one repayment plan for loans they took out as a student and another repayment plan for Parent PLUS loans borrowed for their child's education. As a result, the sum of borrowers in the different plan types (32.8 million) is slightly higher than the unduplicated number of borrowers (32.2 million). The Saving on a Valuable Education (SAVE) plan is a type of income-driven repayment (IDR) plan. IDR plans generally offer lower monthly payment amounts and extend repayment for up to 20 or 25 years of qualifying payments, after which borrowers become eligible for forgiveness of their remaining loan balances without needing to apply. On July 18, 2024, the U.S. Court of Appeals for the Eighth Circuit granted an emergency motion for a stay temporarily prohibiting Education from implementing the SAVE plan.

Among the 6.2 million borrowers who were enrolled in SAVE and had scheduled monthly payments, nearly 60 percent (3.6 million) were scheduled to pay $0 as of January 31, 2024.[13] See enclosure 1 for more information.

Agency Comments

We provided a draft of this report to Education for review and comment. In its written comments, reproduced in enclosure II, Education stated that it had anticipated significant challenges in supporting about 28 million borrowers in returning to repayment—a fivefold increase compared to the number of borrowers who enter repayment in a typical year—given the agency's limited resources and congressional mandates. In addition, Education noted that data typically show higher risks of delinquency and default for borrowers after prolonged periods of forbearance.

Education provided context about efforts to support borrowers described in the report, including implementing the SAVE plan and temporary relief options for borrowers who miss payments (on-ramp) or have defaulted loans (Fresh Start). Education also described additional ongoing efforts to support borrowers, including communicating with borrowers about repayment and forgiveness options, launching a new loan servicing system, and providing eligible borrowers

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[13]Borrowers who have scheduled monthly payments are a subset of borrowers in repayment; they include those current or past due on their loans and exclude borrowers in deferment and forbearance because they do not have scheduled monthly payments.

with loan forgiveness. In addition, Education provided technical comments, which we incorporated as appropriate.

As agreed with your offices, unless you publicly announce the contents of this report earlier, we plan no further distribution until 30 days from the report date. At that time, we will send copies to the appropriate congressional committees, the Secretary of Education, and other interested parties. In addition, the report will be available at no charge on the GAO website at https://www.gao.gov.

If you or your staff have any questions about this report, please contact me at (617) 788-0534 or emreyarrasm@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff members who made key contributions to this report are listed in enclosure III.

Melissa Emrey-Arras

Director, Education, Workforce, and Income Security

Enclosures – 3

Enclosure I: Briefing Slides

GAO

Preliminary Observations on Borrower Repayment Practices after the Federal Student Loan Payment Pause

A Briefing to the House Committee on Education and the Workforce and Senate Committee on Health, Education, Labor and Pensions

June 5, 2024

(updated July 23, 2024)

For more information, contact Melissa Emrey-Arras at emreyarrasm@gao.gov. Page 1

Overview

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- Objectives
- Methodology
- Summary
- Background
- Preliminary Observations

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Introduction

- Federal student loans are an important resource to help individuals access higher education. As of January 2024, the Department of Education held $1.5 trillion in outstanding federal student loan debt for nearly 43 million borrowers, according to Education.[1]
- Beginning in March 2020, in response to COVID-19, the CARES Act and related administrative actions paused several aspects of student loan repayment, including interest accrual and payments being due. After several extensions, this payment pause ended on August 30, 2023, per the Fiscal Responsibility Act of 2023.

[1]This includes outstanding William D. Ford Federal Direct Loans and Federal Family Education Loans held by Education that were in an in-school status, the 6-month grace period before repayment begins, repayment, forbearance, deferment, and default.

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Objectives

- GAO received a request to study the resumption of student loan repayment from the Chairwoman of the House Committee on Education and the Workforce and Ranking Member of the Senate Committee on Health, Education, Labor and Pensions.
- This briefing provides preliminary observations on the extent to which
  (1) borrowers were current on their student loan payments, and
  (2) borrowers have enrolled in the Saving on a Valuable Education (SAVE) repayment plan.

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Methodology

- To answer these questions, we reviewed summary data from Education on borrowers' payment statuses (e.g., current in repayment, past due, deferment, and forbearance) (see glossary of key loan terms on slide 22). We focused our analysis on monthly data from October 2023 through January 2024. For this period, we also examined changes in borrowers' payment statuses.
- To better understand changes in Education's student loan portfolio since the start of the payment pause, we reviewed selected data from January 2020.
- We also reviewed summary data related to borrower participation in income-driven repayment (IDR) plans, including the SAVE plan, as of January 2024.
- To ensure data reliability, we reviewed related documentation, conducted logic checks, and solicited information from Education.
- We also reviewed relevant federal laws and regulations.

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Summary of Preliminary Observations

(1) Following the payment pause, about half of federal student loan borrowers in repayment were current on their payments.[2] Borrowers' loan statuses as of January 31, 2024, were as follows:

- 53 percent (17.8 million) were current on their payments:
  - About 40 percent (13.3 million) were current and had scheduled payments of more than $0.
  - About 14 percent (4.5 million) were current and had scheduled monthly payments of $0.
- 29 percent (9.7 million) were past due on their payments.
- 10 percent (3.3 million) were in deferment.
- 7 percent (2.5 million) were in forbearance.

(2) Nearly a quarter of borrowers in repayment (7.3 million) were enrolled in the SAVE plan as of January 31, 2024. Among the 6.2 million borrowers enrolled in SAVE who had scheduled monthly payments, nearly 60 percent were scheduled to pay $0.[3]

[2]Borrowers may have loans in more than one status. For example, a borrower may be current on one loan and have another loan that is past due. As a result, the sum of borrowers in the different loan statuses (33.2 million) is slightly higher than the unduplicated number of borrowers (32.2 million). Percentages do not add to 100 due to rounding.

[3]Borrowers who have scheduled monthly payments are a subset of borrowers in repayment; they include borrowers who are current or past due on their payments and exclude borrowers in deferment and forbearance because they do not have scheduled monthly payments.

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Background: Student Loan Repayment Options

- A variety of repayment plans are available to eligible borrowers, including Standard, Graduated, Extended, and several IDR plans.
  - Borrowers are automatically enrolled in the Standard plan if they do not choose another repayment option, and they generally owe fixed monthly payments over a period of 10 years.[4] However, borrowers can generally change repayment plans at any time.
  - IDR plans can ease repayment by setting monthly loan payments based on a borrower's income and family size and extending the repayment period up to 20 or 25 years, depending on the plan.[5] Unlike other repayment plans, IDR plans offer forgiveness of the loan's balance at the end of the repayment period, and monthly payments may be as low as $0 for some borrowers.

[4]Terms for other repayment plans vary, depending on the type of loan and when the loan entered repayment. For Direct Consolidation loans entering repayment on or after July 1, 2006, the repayment period for the Standard Plan may be up to 30 years. Under the Graduated plan, for loans entering repayment on or after July 1, 2006, borrowers have a fixed repayment term of up to 10 years (or 10 to 30 years for Consolidation loans) and monthly payments gradually increase over time. Under the Extended plan, for loans entering repayment on or after July 1, 2006, borrowers' terms are fixed at 25 years or less. Monthly payments under this plan may be fixed or graduated, and borrowers must have more than $30,000 in loans to qualify. Monthly payment amounts under the Standard, Graduated, and Extended repayment plans are not based on income.

[5]IDR includes the following plans: Income-Contingent Repayment, Income-Based Repayment, Pay As You Earn, and SAVE, formerly known as the Revised Pay As You Earn plan.

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Background: The SAVE Plan

- In July 2023, Education established the SAVE plan by modifying an existing IDR plan, the Revised Pay As You Earn plan.
- The SAVE plan, like other IDR plans, bases monthly payments on a borrower's income and family size and offers forgiveness of any remaining loan balance at the end of the repayment period.[6] Monthly payments on SAVE and other IDR plans can be as low as $0 and still count toward forgiveness.
- The SAVE plan generally offers borrowers lower payments and potential interest savings.[7]
- GAO has previously found that IDR plans may be more costly to the government.[8] According to Education's Fiscal Year 2023 Agency Financial Report, the introduction of the SAVE plan has made IDR benefits more generous to borrowers and more costly to the government.[9]

[6]Under the SAVE plan, the remaining unpaid balance of loans is forgiven after up to 20 years for borrowers with only undergraduate loans and up to 25 years for borrowers with any graduate loans.

[7]Lower monthly payments for borrowers enrolled in the SAVE plan are possible because Education sets payments based on a smaller proportion of the borrower's income as compared to other IDR plans. Monthly payments are set as a proportion of the borrower's discretionary income, which Education defines as adjusted gross income that exceeds 225 percent of the applicable poverty guideline for the SAVE plan, 100 percent of the applicable guideline for the Income-Contingent Repayment plan, and 150 percent of the applicable guideline for the Income-Based Repayment and Pay As You Earn plans. Also, under the SAVE plan, if a borrower makes a full monthly payment, the borrower will not be charged any remaining accrued interest that month. However, for some borrowers with higher income the SAVE plan may result in higher payments compared to repayment plans that cap monthly payment amounts at less than or equal to the fixed monthly payment amount under the Standard 10-year repayment plan. On July 18, 2024, the U.S. Court of Appeals for the Eighth Circuit granted an emergency motion for a stay temporarily prohibiting Education from implementing the SAVE plan.

[8]GAO, *Federal Student Loans: Education Needs to Improve Its Income-Driven Repayment Plan Budget Estimates*, GAO-17-22 (Washington, D.C.: November 15, 2016).

[9]Department of Education, *Fiscal Year 2023 Agency Financial Report* (Washington, D.C.: Nov. 16, 2023).

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Background: Loan Payment Postponement Options

- Borrowers may temporarily postpone making loan payments during certain periods.[10]
  - **In-school and grace periods.** Borrowers are not required to make loan payments when they are enrolled in school at least half-time or during the "grace period"—usually 6 months after leaving school or dropping below half-time enrollment.
  - **Deferment.** Borrowers qualify for deferment if they meet certain eligibility requirements, such as active-duty military service; reenrolling in school at least half-time after entering repayment; having income below a certain level; qualifying for federal means-tested benefits, such as Temporary Assistance for Needy Families; or being unemployed.
  - **Forbearance.** Borrowers qualify for a mandatory forbearance if they meet certain eligibility requirements, such as if the total payment they owe each month for all their federal student loans is 20 percent or more of their total monthly gross income.[11] Other borrowers experiencing financial difficulties may be eligible for general forbearance, which can be issued over the phone with no supporting documentation.

[10]While borrowers are not expected to make payments while in school, during the grace period, or during periods of deferment or forbearance, interest may still accrue. Generally, interest accrues on unsubsidized loans during all of these periods. For subsidized loans, which are available only to undergraduate students, borrowers are generally not responsible for paying interest on the loans while in school, during the grace period, and during authorized periods of deferment. However, interest generally accrues during forbearance.

[11]Borrowers participating in certain teaching services or serving in certain medical or dental residency programs, AmeriCorps, or the National Guard are also eligible for mandatory forbearance.

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Background: Temporary Borrower Relief Programs

- When federal student loan payments resumed, Education offered temporary protections to borrowers who were past due on their payments.
    - Education instituted a 12-month "on-ramp" to repayment, running from October 1, 2023, to September 30, 2024, so that financially vulnerable borrowers who miss monthly payments during this period are not reported to credit bureaus, placed in default, or referred to debt collection agencies. These protections are provided to all borrowers who miss payments—there is no action needed from the borrower.
- During the payment pause, Education implemented Fresh Start, a temporary program running through September 2024 that allows borrowers with defaulted loans to restore them to good standing. Borrowers who participate gain access to IDR plans and postponement options (e.g., deferment and forbearance) to help them manage repayment, as well as the ability to apply for additional federal student aid.

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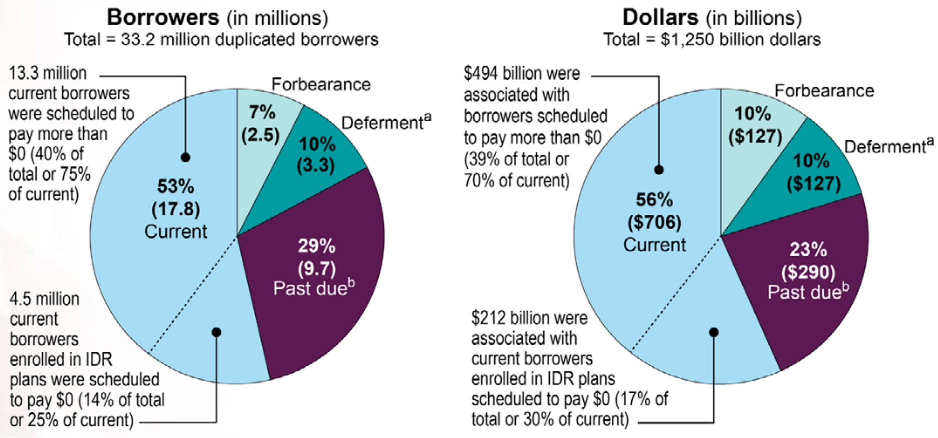
About Half of Borrowers Were Current in Paying their Loans and More than a Quarter Were Past Due as of January 31, 2024

Figure 1: Number of Borrowers and Dollar Value of Federal Student Loans in Repayment by Status, as of January 31, 2024



Source: GAO analysis of U.S. Department of Education data. | GAO-24-107150

[a]Three million borrowers had an in-school deferment, which allows eligible borrowers to postpone making loan payments while they are pursuing additional higher education. These loans had outstanding balances of $112 billion.
[b]Past-due borrowers were one or more days late.

Note: Borrowers may have loans in more than one status. For example, a borrower may be current on one loan and have another loan that is past due. As a result, the sum of borrowers in the different loan statuses (33.2 million) is slightly higher than the unduplicated number of borrowers (32.2 million). Percentages may not add to 100 due to rounding. IDR plans are income-driven repayment plans.

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Nearly 6.7 Million Past-Due Borrowers Temporarily Protected from Negative Credit Reporting

- Education typically reports borrowers as delinquent to credit reporting agencies when borrowers become 90 days past due on their loan payments. Education is forgoing this practice for the first 12 months of repayment resumption as part of its “on-ramp” initiative.
  - As part of this process, Education resets the clock on borrowers who reach 90 days past due, resetting the number of days past due to 0. The number of days past due will begin to increase if borrowers continue to miss payments until they reach 90 days past due and are reset again.
  - In addition to shielding past-due borrowers from being reported to credit reporting agencies, those who continue to miss monthly payments will be prevented from defaulting on their loans, which generally occurs when borrowers reach 270 days past due on their loan payments.
- Since monthly payments resumed in October 2023, nearly 6.7 million borrowers had reached 90 days past due on their loans as of January 31, 2024.[12] These borrowers, whose loans totaled about $186.3 billion, were shielded from being reported to credit reporting agencies.

[12]The earliest possible date when borrowers returning to repayment could reach 90 days past due was December 30, 2023, since monthly payments resumed no earlier than October 1, 2023.

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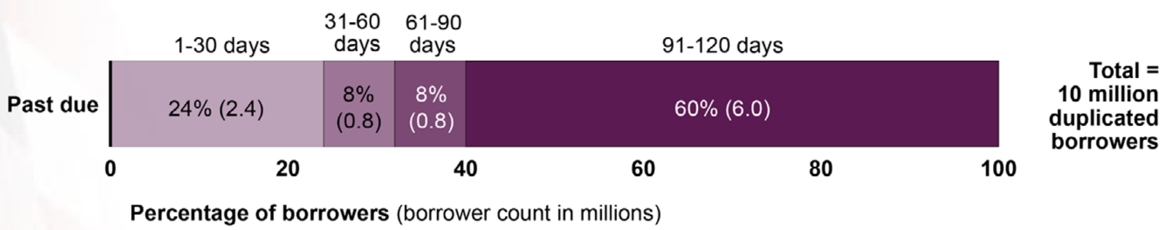
More than Half of Past-Due Borrowers Were More than 90 Days Late

Figure 2: Number and Percentage of Borrowers with Past-Due Loans by Time Period, as of January 31, 2024



Source: GAO analysis of U.S. Department of Education data. | GAO-24-107150

Notes: Borrowers may be in more than one past-due status. For example, a borrower could be 30 days past due on one loan and 45 days past due on a different loan. As a result, the sum of borrowers in the different past-due stages in this figure (10 million) is slightly higher than the unduplicated number of past-due borrowers (9.7 million).

To protect borrowers from negative credit reporting that typically occurs when borrowers reach 90 days past due, Education resets the clock on borrowers who reach 90 days past due, resetting the number of days past due to 0. Among the 538,000 borrowers who received this protection in December 2023, Education reported that 502,000 borrowers continued to miss payments in January 2024. These borrowers appear in the 1-30 days past-due category. An additional 6.2 million borrowers received this protection in January 2024. However, due to report timing, these borrowers' past-due status had not yet been reset to 0 as of January 31, 2024, according to Education. They appear in the 61-90 days or 91-120 days past-due categories.

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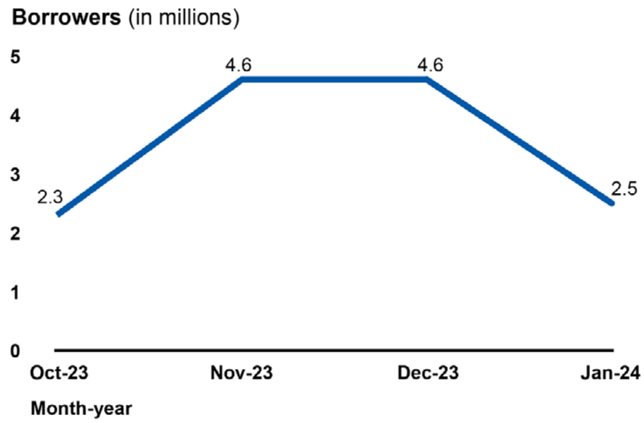
Borrowers in Forbearance Rose Briefly After Payments Resumed

- Education attributed the large increase in borrowers in forbearance during November and December 2023 to temporary administrative forbearances that were implemented to hold borrowers harmless for billing errors until corrections could be made.

Figure 3: Number of Federal Student Loan Borrowers in Forbearance, October 31, 2023 – January 31, 2024



Source: GAO analysis of U.S. Department of Education data. | GAO-24-107150

Note: All data are as of the end of the month.

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The Federal Student Loan Portfolio Has Grown Since 2020

- We examined how the overall composition of the student loan portfolio has changed since the payment pause.
- Between January 2020 and January 2024, the overall number of borrowers in servicing[13] increased by more than 4 million (32.8 to 37.1 million) and the number of borrowers in default declined by nearly 2 million (7.8 to 6.0 million).[14] Education reported that when loan payments resumed, its portfolio of loans in servicing likely had higher risk levels than it did before the payment pause. According to Education, some reasons for this include:
    - A significant number of borrowers entered repayment for the first time and were just beginning to establish their payment history after a payment pause of potentially more than 3 years.
    - Borrowers who had loans moved out of default during or since the payment pause were able to enter repayment without demonstrating a consistent payment record. Education reported that many borrowers who transitioned to repayment from default without selecting a repayment plan have continued to struggle making payments.[15]

[13]Borrowers in servicing include those current and past due in repayment, in forbearance or deferment, or in school or grace periods. It excludes those in default.

[14]Education introduced new options during the payment pause that allowed borrowers to more easily move loans out of default.

[15]Borrowers who do not select a repayment plan are automatically enrolled in the Standard plan and are generally required to make fixed monthly payments over a period of 10 years. Borrowers who participated in Fresh Start had lower past due rates than other borrowers who had loans moved out of default, which Education attributed to many Fresh Start participants being enrolled in an IDR plan with a $0 payment.

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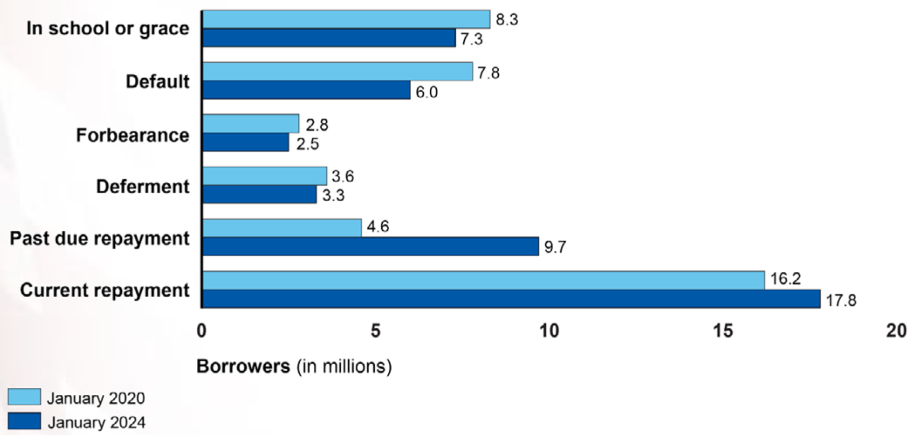
Changes in Education’s Federal Student Loan Portfolio: 2020 and 2024

Figure 4: Number of Borrowers with Federal Student Loans by Loan Status, in January 2020 and January 2024



Source: GAO analysis of U.S. Department of Education data. | GAO-24-107150

Note: Borrowers may have loans in more than one status. For example, borrowers with undergraduate loans who are currently attending graduate school may be in a deferment for their undergraduate loans and have in-school status for their graduate loans.

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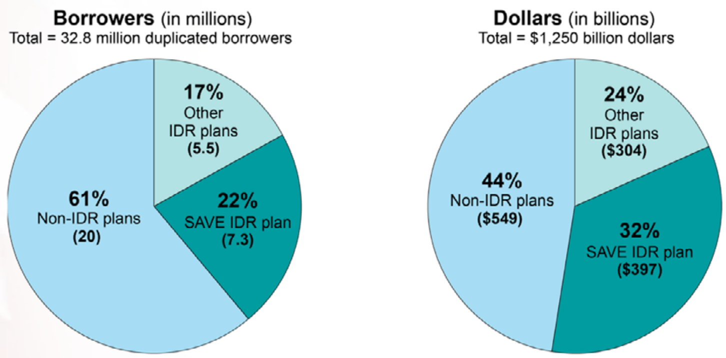
SAVE Enrollment Accounted for Nearly a Quarter of Borrowers and a Third of Loan Balances

Figure 5: Borrower Enrollment and Outstanding Loan Balances by Repayment Plan, as of January 31, 2024



Source: GAO analysis of U.S. Department of Education data. | GAO-24-107150

Note: These figures include loans that were current, past due, in deferment, and in forbearance. Borrowers may be enrolled in more than one repayment plan. For example, borrowers may be enrolled in one repayment plan for loans they took out as a student and another repayment plan for Parent PLUS loans borrowed for their child's education. As a result, the sum of borrowers in the different plan types (32.8 million) is slightly higher than the unduplicated number of borrowers (32.2 million). The Saving on a Valuable Education (SAVE) plan is a type of income-driven repayment (IDR) plan. IDR plans generally offer lower monthly payment amounts and extend repayment for up to 20 or 25 years of qualifying payments, after which borrowers become eligible for forgiveness of their remaining loan balances without needing to apply. On July 18, 2024, the U.S. Court of Appeals for the Eighth Circuit granted an emergency motion for a stay temporarily prohibiting Education from implementing the SAVE plan.

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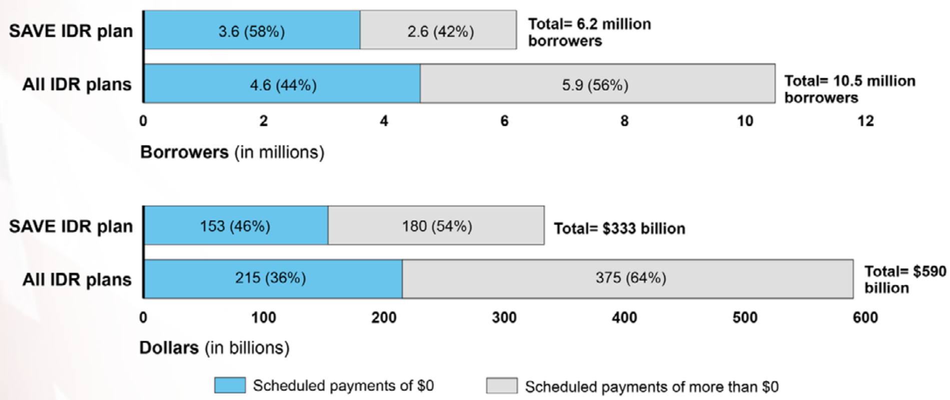
More Than Half of Borrowers Enrolled in SAVE Had a Scheduled Payment of $0

Figure 6: Scheduled Payments of IDR and SAVE Enrollees, as of January 31, 2024



Source: GAO analysis of U.S. Department of Education data. | GAO-24-107150

Note: Figure includes borrowers with scheduled monthly payments (i.e., those current or past due) and excludes borrowers in deferment and forbearance. For example, among the 4.6 million borrowers who were enrolled in income-driven repayment (IDR) plans and scheduled to pay $0, 4.5 million borrowers with $212 billion in outstanding loans were current and 90,000 borrowers with $2.8 billion in outstanding loans were past due. According to Education, these 90,000 borrowers would be considered current going forward now that they are scheduled to pay $0 on IDR plans. Due to report timing, the past-due status for these borrowers had not been changed to current as of January 31, 2024, according to Education. The category All IDR plans includes data for borrowers enrolled in the Saving on a Valuable Education (SAVE) plan. On July 18, 2024, the U.S. Court of Appeals for the Eighth Circuit granted an emergency motion for a stay temporarily prohibiting Education from implementing the SAVE plan.

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GAO

Use of Federal Tax Information to Determine Monthly Payments for IDR Plans

- Education rolled out a new IDR application in July 2023 that allows borrowers to consent to have their income and family size information pulled directly from their most recent federal tax return.
- Borrowers who provide this consent can have their IDR enrollment automatically recertified each year rather than having to fill out an application to recertify.
- Education reported that 3.7 million (over 70 percent) of the 5.2 million borrowers who submitted an IDR application between July 2023 and December 31, 2023, consented to use their federal tax information for the purpose of determining their monthly payment.

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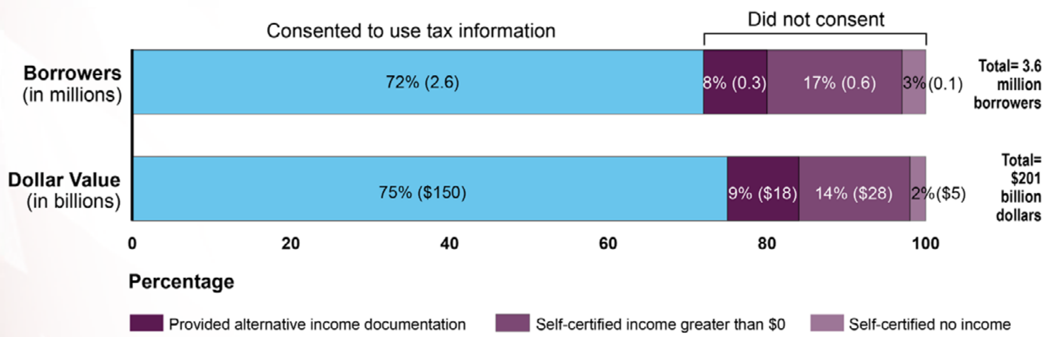
Nearly Three-quarters of Borrowers that Enrolled in SAVE Using the New IDR Application Consented to Use Federal Tax Information

Figure 7: Borrowers Who Submitted an IDR Application and Enrolled in SAVE and their Loan Values by Status, as of January 31, 2024



Source: GAO analysis of U.S. Department of Education data. | GAO-24-107150

Note: Figure includes borrowers who submitted an income-driven repayment (IDR) application using the new form rolled out in July 2023. Data on IDR applications were current as of December 31, 2023, and the Saving on a Valuable Education (SAVE) enrollment numbers were current as of January 31, 2024, to allow time for enrollment processing after submission of the IDR application. On July 18, 2024, the U.S. Court of Appeals for the Eighth Circuit granted an emergency motion for a stay temporarily prohibiting Education from implementing the SAVE plan.

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Many Borrowers Have Not Yet Had the Opportunity to Consent to Use Their Federal Tax Information

- About 8 million (about two-thirds) of the borrowers enrolled in IDR plans had not yet submitted an IDR application using the new form as of December 31, 2023.[16] These borrowers had loan balances of approximately $489 billion.
  - About 3.4 million of these borrowers were enrolled in the SAVE plan. These borrowers had loan balances of approximately $203 billion.
- Normally, to remain enrolled in an IDR plan, borrowers must update their income and family size information annually.
  - Education put this recertification requirement on hold during the payment pause and announced that borrowers would not be expected to recertify their income and family size until September 2024 at the earliest.
  - Borrowers requesting to switch from one IDR plan to another or to have their monthly payment recalculated may submit an IDR application using the new form before the recertification deadline.

[16]This includes borrowers enrolled in IDR plans that are current, past due, and in forbearance or deferment. As of December 31, 2023, 11.9 million borrowers were enrolled in IDR plans.

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Glossary of Key Federal Student Loan Terms

Loan Status	Description
Current in repayment	Loans for which borrowers are up-to-date on required payments.
Past due	Loans that borrowers have not paid on time. Past due begins at 1-day past due and includes periods of delinquency, which is typically defined as more than 30 days past due.
Deferment	An option that allows borrowers to temporarily postpone making payments due to certain circumstances, such as returning to school, serving in the military, or experiencing economic hardship.
Forbearance	An option that allows borrowers to temporarily postpone or reduce payments due to certain types of financial hardships.
Default	In general, default occurs when a borrower reaches 270 days of delinquency (failure to make a payment when due). However, for reporting purposes, Education generally identifies defaulted loans as those that are more than 360 days past due.
In-school	Loans that have not yet entered repayment because the borrower is still enrolled in school.
Grace period	A six-month period after no longer being enrolled in school at least half-time when borrowers are not expected to make payments.

Source: U.S. Department of Education

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Enclosure II: Agency Comments

June 27, 2024

Melissa Emrey-Arras
Director, Education, Workforce, and Income Security
Government Accountability Office
441 G Street, N.W.
Washington, D.C. 20548

Dear Ms. Emrey-Arras:

I write on behalf of the U.S. Department of Education (Department), office of Federal Student Aid (FSA) in response to the Government Accountability Office (GAO) draft report, *Federal Student Loans: Preliminary Observations on Borrower Repayment Practices after the Payment Pause* (GAO-24-107150). We appreciate the opportunity to review this draft report, which contains no recommendations.

A record 16.04 million borrowers made payments on their student loans in January 2024, more than in any previous month since these data began to be collected in 2018. To date, the share of the federal portfolio that is making payments has returned to approximately the same level as in January 2020 (prior to the pandemic and the payment pause).

For context, on March 20, 2020, due to the historic pandemic, for the first time ever, student loan repayments were placed in a national pause, and interest rates were set at zero percent for eligible federal student loans. This pause was critical for borrowers as the country reeled under the financial upheaval and other circumstances due to the pandemic. This unprecedented payment pause ended in August 2023 because of the Fiscal Responsibility Act of 2023. Interest resumed accruing in September 2023, and payments were due in October 2023.

The Department anticipated significant challenges in supporting around 28 million borrowers in returning to repayment, especially given limited resources and other congressional mandates; this number was five times greater than the typical number of borrowers who had previously entered repayment in any given year. Data typically show higher risks of delinquency and default after borrowers experience prolonged forbearances as payment habits change and become entrenched, while new borrowers develop no payment habits at all.

FSA supported borrowers during this time by processing targeted debt relief for as many as possible; implementing the Saving on a Valuable Education (SAVE) Plan, which is the most affordable repayment plan ever created; and creating a temporary on-ramp to protect borrowers from the worst consequences of missed, late, or partial payments. FSA also executed a communications plan to reach borrowers directly and hold loan servicers accountable for informing borrowers of all available options and resources.

Restarting repayment is an unprecedented challenge that still requires the concerted efforts of the Department, its contractors, its partners, and Congress. While most borrowers have already begun making payments, others may need additional time to explore their options and determine how best to resume payments. To this end, the Department continues to help borrowers manage their student loans and to prevent defaults and delinquencies for millions of Americans.

We are pleased that the GAO draft report highlights the Department's efforts to support borrowers as they returned to repayment, including important programs like the new SAVE plan and temporary on-ramp program. A more detailed list of our efforts to support financially vulnerable borrowers includes:

- **Communicating directly to borrowers and ensuring loan servicers inform borrowers of all available options and resources.** Clear and actionable communication to borrowers is a key factor in successfully resuming payments and keeping borrowers out of default. We regularly communicate with borrowers, with a particular focus on their unique situations, to help them smoothly return to repayment and access resources, programs, and options that are best for them. FSA will continue to work with its contractors and external partners to give borrowers clear information as they navigate their repayment options, including considering applying for loan forgiveness if they are eligible, enrolling in affordable repayment plans, and enrolling in auto-debit payments if they are able to make regular payments without experiencing financial difficulties. FSA continues to communicate with borrowers through email, mail, text message, and over the phone.

- **Ensuring that loan forgiveness programs provide borrowers the benefits to which they are entitled.** These efforts have already resulted in approving debt relief for more than 4.75 million people, totaling more than $167 billion in loan discharges to date. These loan discharges are part of the Department's overall statutory obligations to provide discharges to various groups, including borrowers with disabilities and those who worked in public service, as well as discharges based on institutional closure or misconduct that harmed borrowers.

- **Implementing the SAVE Plan, the most affordable repayment plan yet.** Most borrowers are saving money under the new plan, which cuts monthly payments to $0 for millions of borrowers making $32,800 or less individually using 2023 Federal Poverty Guidelines (the cutoff is $67,500 for a borrower with a family of four) and saves other borrowers an average of $1,000 per year compared to other income-driven repayment (IDR) plans. Additionally, borrowers on SAVE will not see their balances grow from unpaid interest. We are encouraged by the rapid growth in sign-up rates of borrowers into SAVE which, as of the end of May 2024, stands at 7.9 million borrowers, up from the 6.2 million borrowers in January 2024 (the number reflected in the draft report).

- **Developing a faster, more accurate IDR application that borrowers only need to complete once.** The new application is easier than ever, taking less than 10 minutes for borrowers with an FSA ID to complete. The application benefits from consumer research and testing to ensure it delivers the clearest, high-quality communications to borrowers. Borrowers can also now provide approval for the Department to automatically transfer their tax information from the Internal Revenue Service (IRS) and consent to allow the Department to automatically recertify their IDR plan every year using their tax information from the IRS. More than 70 percent of borrowers applying for an IDR plan are using this data exchange, as reflected in your report. The benefits to borrowers and taxpayers of accurate income information will increase as more borrowers apply or recertify their plans for the first time since the application launched.

- **Launching the SAVE on Student Debt campaign.** This campaign, launched in fall 2023, aimed to help borrowers reduce their student loan payments by encouraging them to enroll in the SAVE Plan. This campaign leverages the efforts of a diverse coalition of hundreds of corporate, government, community-based, and national organizations to reach millions of borrowers, particularly in communities where there is a deficit of trust and populations that are historically harder to reach.

- **Creating a temporary on-ramp to protect borrowers from the worst consequences of missed, late, or partial payments.** This 12-month on-ramp is not a payment pause; payments are due, interest will accrue, and months without payments will not count toward Public Service Loan Forgiveness (PSLF) or IDR forgiveness. However, borrowers who miss monthly payments during this period are protected from the worst consequences of missed, late, or partial payments, including negative credit reporting for delinquent payments. FSA is using this time to provide targeted help to these borrowers and for servicers to normalize operations. As GAO notes, as of January, on-ramp has protected nearly 6.7 million past-due borrowers from the level of delinquency that leads to negative credit reporting.

- **Providing a Fresh Start opportunity to about 7.5 million borrowers with defaulted federal student loans** to return to repayment, just like other borrowers, so they can benefit from the new SAVE repayment plan and achieve repayment success.

- **Proactively engaging borrowers most at risk of delinquency and default with high-quality communications** from FSA and servicers explaining the steps for returning to repayment and resources available to borrowers to ease the transition back into repayment. FSA's Targeted Early Delinquency Intervention (TEDI) initiative provides additional direct outreach with enhanced communications specifically to help borrowers who become delinquent after their payments resumed so they can more easily find the most appropriate repayment plan for them and successfully stay out of default. FSA will use evidence collected from A/B message testing (i.e., sending different versions of communications to similar borrowers) generated by this initiative to learn what messages and supports are most effective in reaching these borrowers and improve its messaging throughout this transition period.

- **Modernizing the loan servicing experience to improve borrower outcomes and increase servicer accountability.** The Unified Servicing and Data Solution (USDS) launched early this year has already begun to provide borrowers with a high-quality experience and deliver support for at-risk borrowers so that all borrowers can find the most affordable ways to repay their loans, avoid default, and obtain loan forgiveness if they are eligible for it. Servicer accountability is a central goal of the new servicing contracts, which provide financial incentives for better borrower outcomes and impose consequences for failing to meet expectations.

- **Strengthening servicer oversight.** Before launching USDS, FSA leveraged new accountability measures included in recent servicing contract extensions, including overall borrower satisfaction with servicer interactions, quality of interaction during borrower calls, ability to answer borrower calls, and accuracy of processing IDR applications and other loan-related tasks.

- **Working with federal and state law enforcement to combat scams and fraud.** The Department regularly works with law enforcement partners and other federal agencies to detect, investigate, and prosecute fraudsters, using advanced analytics and fraud-prevention techniques. The Department has warned hundreds of thousands of at-risk borrowers about fraudulent companies, thus saving them from fraud. Additionally, the Department shares borrower complaints and other analyses about suspected scams with federal and state regulators. The Department's work has also resulted in additional training for contractor staff and borrower-focused fraud awareness campaigns.

Collectively, the Department's actions, tools, and resources are supporting borrowers in making the best repayment decisions for their financial situation and will ultimately increase the number of borrowers who are able to make their required monthly payments for years to come. And these efforts are working. Analysis by the Department shows in the first months of the return to repayment: [1]

- A record 16.04 million borrowers made payments on their student loans in January 2024, more than in any previous month since these data started being collected in 2018.
- The share of the federal portfolio making payments returned to approximately the same level as in January prior to the pandemic.
- The average payment by borrowers making non-zero payments has nearly returned to its pre-pandemic level.

FSA continues to adapt its communications and operations to respond to changes in borrower repayment data, including when supports such as on-ramp and Fresh Start end later this year. The Department continues to analyze its communications plan to inform borrowers of both their financial responsibility and all available options. The Department will use this analysis to refine and finalize its communications plan to help support the most vulnerable borrowers. Finally, the Department continues to assess borrower behavior and the performance of repayment programs to identify ways to evaluate overall repayment success.

[1] Dr. Jordan Matsudaira and U.S. Undersecretary of Education James Kvaal, *An Update on the First Months of the Return to Repayment*, U.S. Department of Education (Apr. 12, 2024), https://blog.ed.gov/2024/04/an-update-on-the-first-months-of-the-return-to-repayment/.

Page 5 – Melissa Emrey-Arras

Thank you again for the opportunity to review the draft report. Please find enclosed technical comments.

We appreciate GAO's examination of the student loan repayment process as we continue to work to support borrowers and ensure and improve access to education for all.

Sincerely,

Richard Cordray
Chief Operating Officer
Federal Student Aid

Enclosure

Enclosure III: GAO Contact and Staff Acknowledgments

GAO Contact

Melissa Emrey-Arras, 617-788-0534 or emreyarrasm@gao.gov

Staff Acknowledgments

In addition to the contact named above, Debra Prescott (Assistant Director), Kathryn O’Dea Lamas (Analyst in Charge), and Abby Marcus made key contributions to this report. Other contributors to this report were Elizabeth Calderon, Marcia Carlsen, Linda A. Collins, Kirsten Lauber, Mimi Nguyen, Jessica Orr, Almeta Spencer, and Adam Wendel.