



August 2015

# FEDERAL STUDENT LOANS

## Education Could Do More to Help Ensure Borrowers Are Aware of Repayment and Forgiveness Options

## Why GAO Did This Study

As of September 2014, outstanding federal student loan debt exceeded \$1 trillion, and about 14 percent of borrowers had defaulted on their loans within 3 years of entering repayment, according to Education data. GAO was asked to review options intended to help borrowers repay their loans.

For Direct Loan borrowers GAO examined: (1) how participation in Income-Based Repayment and Pay As You Earn compares to eligibility, and to what extent Education has taken steps to increase awareness of these plans, and (2) what is known about Public Service Loan Forgiveness certification and eligibility, and to what extent Education has taken steps to increase awareness of this program. GAO reviewed relevant federal laws, regulations, and guidance; September 2014 data from Education and its loan servicer for Public Service Loan Forgiveness; Treasury's eligibility estimates; and 2012 employment data (most recent available) from the Bureau of Labor Statistics. GAO also interviewed officials from three loan servicers that service about half of Education's loan recipients.

## What GAO Recommends

GAO recommends Education consistently notify borrowers in repayment about income-driven repayment, and examine borrower awareness of Public Service Loan Forgiveness. Education generally agreed with GAO's recommendations, but it believed the report overstated the extent to which borrowers lack awareness of income-driven repayment. GAO modified the report to clarify this issue.

View [GAO-15-663](#). For more information, contact Melissa Emrey-Arras at (617) 788-0534 or [emreyarrasm@gao.gov](mailto:emreyarrasm@gao.gov).

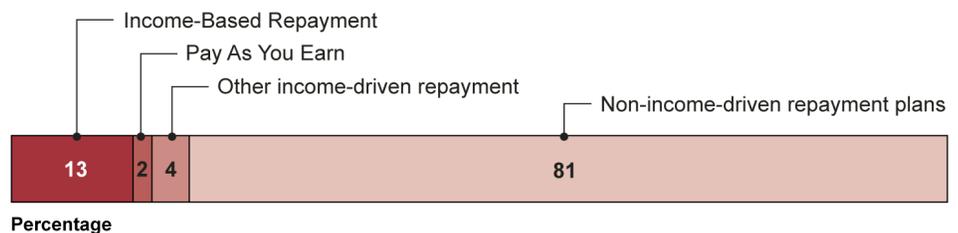
## FEDERAL STUDENT LOANS

### Education Could Do More to Help Ensure Borrowers Are Aware of Repayment and Forgiveness Options

## What GAO Found

Many eligible borrowers do not participate in the Department of Education's (Education) Income-Based Repayment and Pay As You Earn repayment plans for Direct Loans, and Education has not provided information about the plans to all borrowers in repayment. These plans provide eligible borrowers with lower payments based on income and set timelines for forgiveness of any remaining loan balances. While the Department of the Treasury estimated that 51 percent of Direct Loan borrowers were eligible for Income-Based Repayment as of September 2012, the most recent available estimate, Education data show 13 percent were participating as of September 2014. An additional 2 percent were in Pay As You Earn. Moreover, Education has reported ongoing concerns regarding borrowers' awareness of these plans. Although Education has a strategic goal to provide superior information and service to borrowers, the agency has not consistently notified borrowers who have entered repayment about the plans. As a result, borrowers who could benefit from the plans may miss the chance to lower their payments and reduce the risk of defaulting on their loans.

Repayment Plan Participation of Direct Loan Borrowers in Active Repayment, September 2014



Source: GAO review of summary data from the Department of Education's National Student Loan Data System. | GAO-15-663

Few borrowers who may be employed in public service have had their employment and loans certified for the Public Service Loan Forgiveness program, and Education has not assessed its efforts to increase borrower awareness. Beginning in 2017, the program is to forgive remaining Direct Loan balances of eligible borrowers employed in public service for at least 10 years. As of September 2014, Education's loan servicer for the program had certified employment and loans for fewer than 150,000 borrowers; however, borrowers may wait until 2017 to request certification. While the number of borrowers eligible for the program is unknown, if borrowers are employed in public service at a rate comparable to the U.S. workforce, about 4 million may be employed in public service. It is unclear whether borrowers who may be eligible for the program are aware of it. Although Education has a strategic goal to provide superior information and service to borrowers and provides information about Public Service Loan Forgiveness through its website and other means, it has not notified all borrowers in repayment about the program. In addition, Education has not examined borrower awareness of the program to determine how well its efforts are working. Borrowers who have not been notified about Public Service Loan Forgiveness may not benefit from the program when it becomes available in 2017, potentially forgoing thousands of dollars in loan forgiveness.

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### **Abbreviations**

Direct Loan	William D. Ford Federal Direct Loan
Education	U.S. Department of Education
FFEL	Federal Family Education Loan
HEA	Higher Education Act of 1965, as amended
IBR	Income-Based Repayment
ICR	Income-Contingent Repayment
NSLDS	National Student Loan Data System
PAYE	Pay As You Earn
PSLF	Public Service Loan Forgiveness
Treasury	U.S. Department of the Treasury

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August 25, 2015

The Honorable Patty Murray  
Ranking Member  
Committee on Health, Education, Labor, and Pensions  
United States Senate

The Honorable Bernard Sanders  
Ranking Member  
Committee on the Budget  
United States Senate

To help students and their families pay for higher education, the Department of Education (Education) provides billions of dollars in federal student loans each year through programs authorized under Title IV of the Higher Education Act of 1965, as amended (HEA).<sup>1</sup> However, as of September 2014, about one in seven student loan borrowers (14 percent) had defaulted on their loans within 3 years of beginning repayment, and approximately \$103 billion of more than \$1 trillion in student loan debt was in default according to data from Education. In recent years, Education has implemented several programs to help borrowers under the William D. Ford Federal Direct Loan (Direct Loan) program repay federal student loans. The Income-Based Repayment (IBR) and Pay As You Earn (PAYE) repayment plans set borrowers' monthly payments based on income and establish timelines after which remaining loan balances are forgiven. In addition, beginning in 2017, the Public Service Loan Forgiveness (PSLF) program is to forgive remaining student loan balances of certain borrowers employed in public service, and borrowers may request that Education certify their employment and loans in advance for eligibility purposes. Although such options may help borrowers manage their payments and receive loan forgiveness, Education and others have noted that many eligible borrowers have not participated. You asked us to review the IBR, PAYE, and PSLF programs.

<sup>1</sup> Pub. L. No. 89-329, 79 Stat. 1232-1254 (codified at 20 U.S.C. §§ 1070-1099d and 42 U.S.C. §§ 2751-2756b).

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This report examines the following questions for the Direct Loan program: (1) How does borrower participation in Income-Based Repayment and Pay As You Earn compare to available estimates of eligibility, and to what extent has Education taken steps to increase borrower awareness of these plans? (2) What is known about Public Service Loan Forgiveness certification and eligibility, and to what extent has Education taken steps to increase awareness of this program?

We used a variety of approaches and data sources in conducting this work. To examine participation and key characteristics of borrowers in IBR, PAYE, and other repayment plans<sup>2</sup> and to examine PSLF we:

- reviewed summary data from Education's National Student Loan Data System (NSLDS) on 19.3 million Direct Loan<sup>3</sup> borrowers who had entered repayment and had an outstanding loan balance as of September 2014;
- reviewed available estimates of IBR eligibility from a Department of the Treasury (Treasury) analysis of Education and tax return data for a random sample of borrowers;<sup>4</sup>
- analyzed data from the loan servicer that administers PSLF for Education, on borrowers who voluntarily requested and obtained certification of their public service employment and loans as of September 2014;<sup>5</sup>
- used 2012 data, the most recent available, from the Department of Labor's Bureau of Labor Statistics on public service employment to

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<sup>2</sup> While the focus of this review was on IBR and PAYE, we mention other income-driven repayment plans, such as Income-Contingent Repayment (ICR), as they relate to our review.

<sup>3</sup> While loans under the Federal Family Education Loan (FFEL) program are eligible to be repaid under IBR, we excluded them from our review based on data limitations. Education does not have repayment plan information for FFEL loans held by commercial lenders, and repayment plan information for FFEL loans that Education holds is limited. Private student loans are not eligible for IBR, PAYE, or PSLF and were outside the scope of our review.

<sup>4</sup> Treasury estimates of IBR eligibility are based on NSLDS data from September 2012 for borrowers who entered repayment in 2010 or earlier and 2010 and 2011 Internal Revenue Service tax return data, depending on the most recent available for each borrower. These are the most recent IBR eligibility estimates we identified.

<sup>5</sup> Data on PSLF reflect only the borrowers who voluntarily had their public service employment and loans certified by Education. Actual participation numbers will not be available until borrowers apply for and begin receiving loan forgiveness benefits in 2017.

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approximate the percentage of Direct Loan borrowers who may be eligible for PSLF; and

- reviewed and applied assumptions from a repayment calculator on Education's website to examine the potential effects of IBR, PAYE, and PSLF for borrowers with various characteristics.

We determined that data from each of these sources were sufficiently reliable for the purposes of this report by reviewing existing information about the data and the systems that produced them, and by interviewing knowledgeable agency officials.

To understand program terms and eligibility requirements, we reviewed relevant federal laws and regulations, and documentation from Education, such as program fact sheets. To determine the extent to which Education has taken steps to raise awareness of the programs, we interviewed Education officials and reviewed documentation of its efforts, including information Education makes available to borrowers. We compared information on Education's efforts to criteria outlined in contract requirements applicable to Education's 11 Direct Loan servicers related to communication with borrowers and the goals and objectives in the Office of Federal Student Aid's Fiscal Year 2012-2016 Strategic Plan. We interviewed representatives of higher education associations, borrower advocacy groups, and researchers about student loan repayment and forgiveness, including factors that may affect borrowers' decisions about repayment. We also interviewed representatives of, and reviewed documentation for, 3 of Education's 11 loan servicers, which serviced about half of all recipients of loans owned by Education.<sup>6</sup> In addition, during April and May 2015, we interviewed a nongeneralizable sample of 14 randomly selected borrowers about their awareness of income-driven repayment plans. We did not review costs to the government or proposals to revise existing repayment and forgiveness plans, as these topics were beyond the scope of our review. See appendix I for more detail on our scope and methodology.

We conducted this performance audit from November 2013 to August 2015 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

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<sup>6</sup> This includes borrowers with Direct Loans and FFEL loans whose loans were in active repayment, deferment, or forbearance as of September 2014.

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.

## Background

### Federal Student Loans

Under the Direct Loan program, Education issues several types of student loans. They are Subsidized and Unsubsidized Stafford Loans, PLUS Loans, and Consolidation Loans.<sup>7</sup> The federal government sets limits on the maximum interest rate,<sup>8</sup> loan origination fee and other charges, and annual and aggregate amounts that can be borrowed (see table 1).

**Table 1: Selected Eligibility Requirements, Loan Limits, and Interest Rates for Direct Loans**

Type of Direct Loan	Eligibility	Aggregate loan limits <sup>a</sup>	Interest rates <sup>b</sup>
Direct Stafford Loans	<p>Subsidized: Undergraduate students enrolled at least half-time who can demonstrate financial need.<sup>c</sup> The government subsidizes these loans by paying the interest that accrues while borrowers are in school, during a 6-month grace period after leaving school, and during certain periods of deferment.<sup>d</sup></p> <p>Unsubsidized: Undergraduate and graduate and professional students enrolled at least half-time. Financial need is not required. Borrowers are responsible for paying all interest from disbursement to final payoff of the loan.</p>	<p>Subsidized:</p> <ul style="list-style-type: none"> <li>\$23,000 for undergraduate students</li> <li>\$65,500 for graduate and professional students<sup>e</sup></li> </ul> <p>Total (subsidized and unsubsidized):</p> <ul style="list-style-type: none"> <li>\$31,000 for dependent undergraduates</li> <li>\$57,500 for independent undergraduates and dependent students whose parents cannot obtain PLUS loans</li> <li>\$138,500 for graduate and professional students</li> </ul>	<p>4.29% for undergraduates (subsidized and unsubsidized)</p> <p>5.84% for graduate and professional students (unsubsidized)</p>

<sup>7</sup>The Student Loan Reform Act of 1993, Pub. L. No. 103-66, tit. IV, subtit. A, 107 Stat. 312, 341, established the Direct Loan program, as Part D of Title IV of the HEA.

<sup>8</sup> Federal student loan interest rates for new loans are set annually using a statutory formula based on the 10-year Treasury note rate plus a mark-up that depends on the borrower and loan type, with specified maximum rates. Loans have a fixed interest rate for the life of the loan.

Type of Direct Loan	Eligibility	Aggregate loan limits <sup>a</sup>	Interest rates <sup>b</sup>
Direct PLUS Loans	Graduate and professional students and parents of dependent undergraduate students. Borrowers must pay all interest on these loans.  Students must be enrolled at least half-time, and applicant must have no adverse credit history. Financial need is not required.	Cost of attendance for the entire period of enrollment	6.84%
Direct Consolidation Loans	Student and parent borrowers wanting to combine multiple federal loans into one loan. Consolidation loans may have both subsidized and unsubsidized components.	Not applicable	Weighted average of interest rates of loans being consolidated, rounded up to nearest 1/8 of 1 percent

Source: U.S. Department of Education and GAO analysis of laws and regulations. GAO-15-663

<sup>a</sup>Subsidized and unsubsidized borrowers are also subject to annual loan limits based on grade level, dependency status, and type of loan (subsidized or unsubsidized). For PLUS loans, annual borrowing is limited to the cost of attendance.

<sup>b</sup>Federal student loan interest rates are set annually for new loans using a statutory formula based on the 10-year Treasury note rate plus a mark-up that depends on the borrower and loan type, with specified maximum rates. Loans have a fixed interest rate for the life of the loan. The rates in this column apply to loans made on or after July 1, 2015 and before July 1, 2016.

<sup>c</sup>Financial need for federal student aid purposes is generally the difference between a student's cost of attendance and an estimate of the student's (and his or her family's, in the case of a dependent student) ability to pay these costs—this is called the expected family contribution.

<sup>d</sup>Borrowers are not expected to make loan payments when they are enrolled in school at least half time or during the grace period, usually 6 months for Direct Loans, that occurs after a borrower leaves school or drops below half-time enrollment. The Consolidated Appropriations Act, 2012 eliminated the grace period interest subsidy for Direct Subsidized Stafford Loans disbursed on or after July 1, 2012, and before July 1, 2014. Pub. L. No. 112-74, div. F, tit. III, § 309(d), 125 Stat. 786, 1101. The government does not charge borrowers for interest costs on Direct Subsidized Stafford Loans during periods of authorized deferment, during which borrowers can temporarily suspend repayment if, for example, they pursue additional higher education, provide military service, or experience economic hardships. New borrowers on or after July 1, 2013, may not receive Direct Subsidized Stafford Loans for a period that exceeds 150 percent of the published length of the academic program in which they are currently enrolled.

<sup>e</sup>The aggregate loan limit for Direct Subsidized Stafford Loans to graduate and professional students applies to loans borrowed for programs of instruction beginning before July 1, 2012. Graduate and professional students are generally not eligible for Direct Subsidized Stafford Loans for periods of instruction beginning on or after July 1, 2012.

Education contracts with 11 loan servicers to manage Direct Loan accounts. Loan servicing includes activities such as communicating with borrowers, counseling borrowers on selecting repayment plans, and processing payments.

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## Loan Repayment Plans

Education offers a variety of repayment plans for Direct Loan borrowers.<sup>9</sup>

- Standard: Borrowers have fixed monthly payments with a fixed term of 10 years or less (or 10 to 30 years for Consolidation Loans, depending on the amount of the loan). Borrowers are automatically enrolled in 10-year Standard repayment if they do not choose another option.
- Graduated: Borrowers have a fixed term of up to 10 years (or 10 to 30 years for Consolidation Loans, depending on the amount of the loan). Monthly payments gradually increase.
- Extended: Borrowers have a fixed term of 25 years or less. Monthly payments may be fixed or graduated, and borrowers must have more than \$30,000 in loans.<sup>10</sup>

Education also offers repayment plans that base monthly payments on income and family size for Direct Loan borrowers who meet certain eligibility requirements. They are: Income-Contingent Repayment (ICR); Income-Based Repayment (IBR); and Pay As You Earn (PAYE). Key features of these income-driven repayment plans include lower monthly payments, repayment periods of up to 25 years, and forgiveness of any remaining loan balances at the end of the repayment period. (See table 2.) The plans have provided progressively more generous repayment and forgiveness terms to help borrowers manage their federal student loan debt, and additional changes are expected. Specifically, Education issued proposed regulations on July 9, 2015, that would expand PAYE to Direct Loan borrowers regardless of when the borrower took out the loans.<sup>11</sup> Education officials said they intend to complete rulemaking on the

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<sup>9</sup>The terms of repayment plans presented apply to borrowers who entered repayment on or after July 1, 2006, and borrowers who entered repayment earlier may be subject to different terms. In addition, Direct Loan borrowers in exceptional circumstances may be allowed to use alternative repayment plans under the authority of Education.

<sup>10</sup>Qualification for Extended repayment requires that borrowers have no outstanding balance on a FFEL or Direct Loan as of October 7, 1998, or on the date they obtained the loan after October 7, 1998.

<sup>11</sup>Student Assistance General Provisions, Federal Family Education Loan Program, and William D. Ford Federal Direct Loan Program, 80 Fed. Reg. 39,608 (proposed July 9, 2015).

Revised Pay As You Earn plan by the end of 2015. The President and congressional leaders have also proposed streamlining these plans.<sup>12</sup>

**Table 2: Summary of Income-Driven Repayment Plans for Education’s Direct Loan Borrowers**

	<b>Income-Contingent Repayment (ICR)</b>	<b>Income-Based Repayment (IBR)</b>		<b>Pay As You Earn (PAYE)</b>
		(for those who were not new borrowers on or after July 1, 2014)	(for new borrowers on or after July 1, 2014)	
Implementation date	October 19, 1994	July 1, 2009	July 1, 2014	December 21, 2012
Authority	Established by statute (Student Loan Reform Act of 1993 <sup>a</sup> )	Established by statute (College Cost Reduction and Access Act <sup>b</sup> )	Established by statute (SAFRA Act, enacted as part of the Health Care and Education Reconciliation Act of 2010 <sup>c</sup> )	Established by regulation, under Education’s ICR authority <sup>d</sup>
Borrower eligibility	Borrowers with eligible loans from any period	Borrowers with a partial financial hardship <sup>e</sup> and eligible loans from any period	Must have a partial financial hardship <sup>e</sup> and be a new borrower on or after July 1, 2014	Must have a partial financial hardship <sup>e</sup> and be a new borrower on or after October 1, 2007, with a Direct Loan disbursed on or after October 1, 2011 (or Consolidation loan application received on or after October 1, 2011) <sup>f</sup>
Eligible loans	Direct Loans: <ul style="list-style-type: none"> <li>Subsidized Stafford</li> <li>Unsubsidized Stafford</li> <li>Graduate PLUS</li> <li>Consolidation (including parent PLUS, if consolidated on or after July 1, 2006)</li> </ul>	Direct Loans: <ul style="list-style-type: none"> <li>Subsidized Stafford</li> <li>Unsubsidized Stafford</li> <li>Graduate PLUS</li> <li>Consolidation (excludes loans that include a parent PLUS loan)</li> </ul> FFEL Loans (excludes parent PLUS)	Direct Loans: <ul style="list-style-type: none"> <li>Subsidized Stafford</li> <li>Unsubsidized Stafford</li> <li>Graduate PLUS</li> <li>Consolidation (excludes loans that include a parent PLUS loan)</li> </ul>	Direct Loans: <ul style="list-style-type: none"> <li>Subsidized Stafford</li> <li>Unsubsidized Stafford</li> <li>Graduate PLUS</li> <li>Consolidation (excludes loans that include a parent PLUS loan)</li> </ul>

<sup>12</sup>The President’s fiscal year 2016 budget proposed making PAYE the only income-driven repayment plan for new borrowers, a change that would require legislation. Under the proposal, those who borrowed prior to July 1, 2016, would retain multiple income-driven repayment options until all of their loans were paid or discharged, but eventually options other than PAYE would disappear. In addition, in the 113th Congress, the Senate Health, Education, Labor and Pensions Committee and the House Committee on Education and the Workforce each announced HEA reauthorization proposals that would streamline borrowers’ income-driven repayment options.

	Income-Contingent Repayment (ICR)	Income-Based Repayment (IBR)		Pay As You Earn (PAYE)
		(for those who were not new borrowers on or after July 1, 2014)	(for new borrowers on or after July 1, 2014)	
Payment amount	Lesser of 20 percent of monthly discretionary income or payment based on a 12-year repayment plan, adjusted for income <sup>g</sup>	15 percent of monthly discretionary income and never exceeds the 10-year Standard repayment plan <sup>g</sup>	10 percent of monthly discretionary income and never exceeds the 10-year Standard repayment plan <sup>g</sup>	10 percent of monthly discretionary income and never exceeds the 10-year Standard repayment plan <sup>g</sup>
Maximum repayment period <sup>h</sup>	25 years	25 years	20 years	20 years

Source: GAO analysis of laws and regulations. GAO-15-663

Note: The terms of repayment plans presented apply to borrowers who entered repayment on or after July 1, 2006. Under IBR and PAYE, a new borrower is defined as having no outstanding balance on a Direct or FFEL loan as of the date identified. Defaulted loans are ineligible for each repayment plan presented. In general, default occurs when a borrower reaches 270 days of delinquency (accounts are past due). Borrowers may consolidate FFEL (excluding parent PLUS) and Perkins loans into a single Direct Consolidation Loan to qualify for ICR and PAYE and may consolidate Perkins loans into a single Direct Consolidation Loan to qualify for IBR.

<sup>a</sup>Pub. L. No. 103-66, tit. IV, subtit. A, § 4021, 107 Stat. 312, 341 (codified at 20 U.S.C. § 1087e(d)(1)(D) and (e)). Implementing regulations: 34 C.F.R. § 685.209(b).

<sup>b</sup>Pub. L. No. 110-84, tit. II § 203(a), 121 Stat. 784, 792 (2007) (codified at 20 U.S.C. § 1098e). Implementing regulations: 34 C.F.R. § 685.221.

<sup>c</sup>Pub. L. No. 111-152, tit. II, subtit. A § 2213, 124 Stat. 1029, 1081 (2010) (codified at 20 U.S.C. § 1098e(e)). Implementing regulations: 34 C.F.R. § 685.221.

<sup>d</sup>77 Fed. Reg. 66,088 (Nov. 1, 2012) (codified at 34 C.F.R. § 685.209(a)). HEA, Section 455(d)(1)(D) and (e) (codified at 20 U.S.C. § 1087e(d)(1)(D) and (e)).

<sup>e</sup>A borrower has a partial financial hardship if the annual amount due under 10-year Standard repayment would exceed 15 percent (under the original IBR plan) or 10 percent (under new IBR for new borrowers or PAYE) of discretionary income. ICR does not have an income eligibility requirement.

<sup>f</sup>On July 9, 2015, Education issued proposed regulations that would expand PAYE to Direct Loan borrowers regardless of when the borrower took out the loans. 80 Fed. Reg. 39,608. Education officials said they intend to complete rulemaking on the Revised Pay As You Earn plan by the end of 2015.

<sup>g</sup>Discretionary income is the difference between the borrower's adjusted gross income and the poverty guideline (100 percent of the guideline for ICR and 150 percent for other income-driven repayment plans) for the borrower's state of residence and family size. Some borrowers pay \$0.

<sup>h</sup>Under each of the plans, any remaining loan balance is forgiven if the borrower's federal student loans are not fully repaid at the end of the repayment period. Payments that count toward the repayment period under each of the plans include: payments made under all of the income-driven repayment plans and the 10-year Standard repayment plan generally count. Payments made under any other repayment plan count if they are at least equal to the 10-year Standard amount. For the ICR Plan, payments made under certain other repayment plans (in addition to those listed above) may also count toward the repayment period, depending on when the borrower first entered repayment.

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As part of the application<sup>13</sup> to participate in one of the income-driven repayment plans, borrowers must provide documentation of their adjusted gross income and certify their family size to their loan servicer, which determines eligibility on behalf of Education.<sup>14</sup> Income-driven repayment plan participants must re-certify their adjusted gross income and family size annually, which may increase or decrease their monthly payments. In order to initially qualify for IBR and PAYE, borrowers must have income and student loan debt such that their monthly payment would be less under one of these plans than under the 10-year Standard repayment plan. These borrowers are described as having a “partial financial hardship.”<sup>15</sup> Once enrolled, borrowers can remain on the plans and be eligible for loan forgiveness regardless of whether they have a partial financial hardship. However, the monthly payment for borrowers found to no longer have a partial financial hardship is based on (and never exceeds) the payment they would have owed under 10-year Standard repayment.<sup>16</sup> Because of the number of payments required before loan forgiveness can be considered, Education officials said the earliest possible date that any borrower may receive loan forgiveness under ICR

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<sup>13</sup> If applying online, borrowers can use Treasury’s Internal Revenue Service data retrieval tool to automatically complete their adjusted gross income from their most recently filed federal income tax return. Borrowers using the paper application must provide a paper copy of their most recently-filed federal income tax return or tax return transcript, or include alternative income documentation, such as a recent pay stub. If borrowers receive no income, or only tax-free income, no income documentation is required. According to Education, loan servicers are expected to follow up with borrowers if they suspect fraud or receive conflicting information. In June 2015, Education officials indicated the department is in the process of establishing procedures to mitigate the risk of accepting repeated self-certifications from borrowers who report no income. Officials also indicated they are exploring a data match with the Internal Revenue Service to determine the extent to which borrowers and their spouses had adjusted gross income in a year in which they certified to Education they had no income.

<sup>14</sup> Borrowers may be eligible for multiple income-driven repayment plans and can ask their loan servicers to select the best option.

<sup>15</sup> Specifically, a borrower has a partial financial hardship if the annual amount due under 10-year Standard repayment would exceed 15 percent (under the original IBR plan) or 10 percent (under new IBR or PAYE) of discretionary income. ICR does not have an income eligibility requirement.

<sup>16</sup> The payment owed under Standard repayment is based on the payments at the time when the borrower entered income-driven repayment. Borrowers are deemed to no longer have a partial financial hardship if they no longer qualify for payments lower than the 10-year Standard repayment amount based on income and family size. In addition, if borrowers do not complete their annual income certifications on time, they would owe the 10-year Standard repayment amount.

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and the original IBR plan is July 1, 2019; PAYE is October 1, 2027; and IBR for new borrowers is July 1, 2034.<sup>17</sup>

Although loan forgiveness is a key feature of income-driven repayment plans, under current tax law any amount forgiven under these plans is subject to federal income tax. In addition, some borrowers will fully repay their loans before qualifying for forgiveness. Extending the repayment period may also result in some borrowers paying more interest over the life of the loan than they would under 10-year Standard repayment.

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## Public Service Loan Forgiveness

Beginning in 2017, the Public Service Loan Forgiveness (PSLF) program is to offer loan forgiveness on the remaining Direct Loan balances of borrowers who complete at least 10 years of qualifying public service employment and meet other requirements. The program was established in 2007.<sup>18</sup> To receive forgiveness, borrowers must make 120 on-time, scheduled, monthly payments while employed full-time by a qualified public service organization, such as a government or nonprofit organization.<sup>19</sup> Borrowers must also be working for a public service organization at the time they apply for forgiveness and when the remaining balance on their loan is forgiven. Because only payments made after October 1, 2007 qualify, no borrowers are eligible to receive

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<sup>17</sup> The earliest dates of forgiveness vary due to differences in how long borrowers eligible for each plan may have been making payments under ICR. IBR and ICR participants can count ICR payments beginning in 1994 toward loan forgiveness. PAYE participants must be new borrowers as of October 1, 2007, and can count ICR payments beginning on that date. New IBR participants must be new borrowers as of July 1, 2014, and can count ICR payments beginning on that date.

<sup>18</sup> College Cost Reduction and Access Act, Pub. L. No. 110-84, § 401, 121 Stat. 784, 800 (codified at 20 U.S.C. § 1087e(m)). According to Education, PSLF loan forgiveness is not subject to federal income tax.

<sup>19</sup> The regulations governing Public Service Loan Forgiveness are found at 34 C.F.R. § 685.219. The 120 qualifying payments do not need to be consecutive. Qualifying payments are separate, on-time payments made after October 1, 2007, under a qualifying repayment plan, while the borrower is employed full-time by a public service organization or serving in a full-time Americorps or Peace Corps position. Qualified public service organizations include those in federal, state, local government; 501(c)(3) nonprofits; and other nonprofit organizations providing a variety of public services. Borrowers may consolidate loans that are not eligible for PSLF, such as FFEL and Perkins loans, into a single Direct Consolidation Loan to qualify for PSLF. However, only the post-consolidation payments count toward the 120 payments required for PSLF. Borrowers with Direct parent PLUS loans who are employed in public service are also eligible for loan forgiveness.

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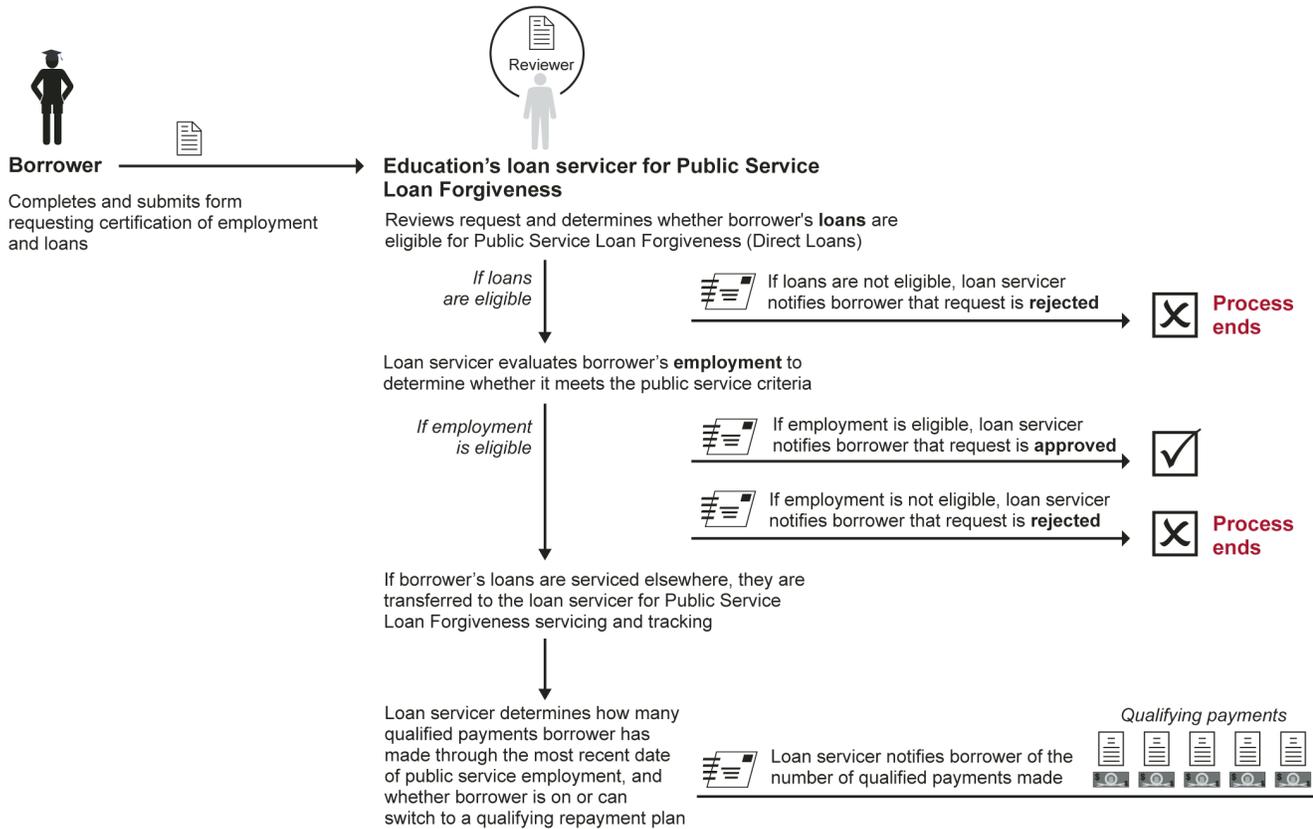
loan forgiveness before October 2017. Qualifying repayment plans include IBR, PAYE, ICR, 10-year Standard repayment, or another plan if the payments equal or exceed the 10-year Standard payment amount. However, borrowers enrolled in IBR, PAYE, and ICR are more likely to have balances remaining to be forgiven after 120 payments, because the 10-year Standard repayment plan is set to fully pay all loan principal and interest in 10 years or less. The amount of loans that may be forgiven is not capped.<sup>20</sup>

In January 2012, Education established a process to certify borrowers' public service employment and loans for PSLF (see fig. 1). Education's loan servicer responsible for PSLF communicates with borrowers who request certification about their employment, repayment plan, and qualifying payments, including counseling borrowers about any changes needed in order to qualify for the program. Borrowers may submit information about their employment at any time or wait until they apply for loan forgiveness beginning in October 2017.

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<sup>20</sup> However, the President's fiscal year 2016 budget proposed capping forgiveness under PSLF at \$57,500, the aggregate Direct Loan limit for independent undergraduate students.

**Figure 1: Education's Voluntary Process for Certifying Employment and Loans for Public Service Loan Forgiveness**



Source: GAO analysis of Education's process for certification of employment and loans for Public Service Loan Forgiveness. | GAO-15-663

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## Many Eligible Borrowers Do Not Participate in IBR and PAYE, and Education Is Missing Opportunities to Increase Awareness of These Plans

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### Many Eligible Borrowers Do Not Participate in IBR and PAYE

#### Eligibility and Participation

Many eligible borrowers do not participate in income-driven repayment plans. Using its income tax data and Education's student loan data, Treasury estimated that about half (51 percent) of Direct Loan borrowers were eligible for IBR as of September 2012.<sup>21</sup> Of these eligible borrowers, an estimated 20 percent participated in IBR or ICR, the only income-driven repayment plans available at the time of Treasury's analysis.

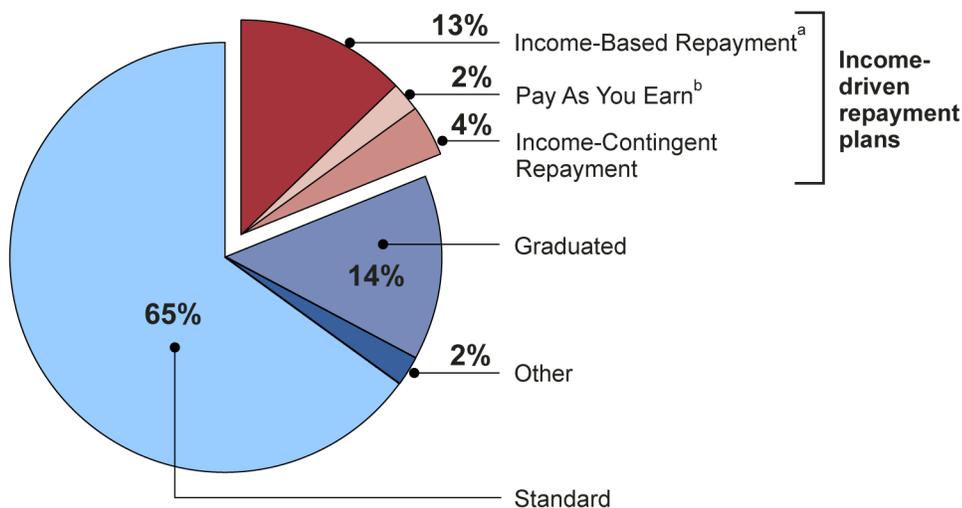
According to our review of more recent summary data from Education's National Student Loan Data System, 15 percent of about 11.2 million Direct Loan borrowers in active repayment—not in deferment, forbearance, or default—participated in IBR (13 percent) or PAYE (2

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<sup>21</sup> For this one-time analysis, Treasury matched September 2012 student loan data from Education's NSLDS on a random sample of borrowers who entered repayment in 2010 or earlier to 2010 and 2011 tax return data, depending on the most recent available for each borrower. Education does not have more recent estimates of eligibility because only borrowers who apply for income-driven repayment plans are required to provide such information to the department. While defaulted loans are not eligible for IBR until they are rehabilitated, Treasury also found that an estimated 70 percent of borrowers with defaulted loans met the income requirements for IBR.

percent) as of September 2014.<sup>22</sup> An additional 4 percent of these borrowers participated in ICR (see fig. 2). Participation in these three income-driven repayment plans ranged from 15 percent of borrowers who entered repayment in fiscal year 2009 or earlier to 23 percent of those who entered repayment in fiscal year 2013.

**Figure 2: Repayment Plan Participation of Direct Loan Borrowers in Active Repayment, September 2014**



Source: GAO review of summary data from the Department of Education's National Student Loan Data System. | GAO-15-663

Note: To determine participation, we examined data for 11.2 million borrowers with Direct Loans (excluding those with only parent PLUS loans) in active repayment (not in deferment, forbearance, or default) with an outstanding balance as of September 2014. Borrowers participating in Extended repayment with fixed payments are included in Standard, and Extended repayment with graduated payments are included in Graduated. Other includes some borrowers who did not have a repayment plan.

<sup>a</sup>Among Income-Based Repayment borrowers, 87 percent had a partial financial hardship and were paying less than they would on the 10-year Standard plan, and 13 percent had payments equal to the 10-year Standard plan.

<sup>22</sup> We included borrowers with all types of Direct Loans except for those who only had parent PLUS loans. All of the 11.2 million Direct Loan borrowers included in the analysis had loans eligible for IBR and ICR, and a subset of 4.4 million borrowers also had loans that were eligible for PAYE. About one percent of borrowers had loans being repaid with more than one repayment plan—for these borrowers, the repayment plan was based on the most recent loan that either entered repayment or was loaded into NSLDS. While borrowers in deferment and forbearance may participate in income-driven repayment plans, we excluded them from this analysis because they are not expected to make monthly payments on their loans during periods of deferment and forbearance. Borrowers in default are not eligible to participate in income-driven repayment plans.

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<sup>b</sup>Among Pay As You Earn borrowers, 95 percent had a partial financial hardship and were paying less than they would on the 10-year Standard plan, and 5 percent had payments equal to the 10-year Standard plan.

While we examined participation in IBR and PAYE as of September 2014, publicly available data from Education show participation in these plans has increased over time. According to Education's data, from June 2013 to March 2015, IBR participation among Direct Loan recipients increased from 5.8 percent to 11.7 percent, and PAYE participation increased from 0.3 percent to 2.7 percent. These percentages differ from the ones we present based on summary data from Education's NSLDS due to different borrower populations and time periods for analysis.<sup>23</sup>

While data on retention in IBR and PAYE are limited given the newness of the repayment plans, we found short-term retention rates were high, according to our review of summary data from NSLDS:

- IBR: 95 percent of Direct Loan borrowers participating in IBR with a partial financial hardship in July 2012 remained in the plan 2 years later (84 percent still had a partial financial hardship and paid less than the 10-year Standard repayment amount).
- PAYE: 98 percent of borrowers participating in PAYE with a partial financial hardship in July 2013 remained in the plan or were in IBR 1 year later (86 percent still had a partial financial hardship and paid less than the 10-year Standard repayment amount).<sup>24</sup>

## Factors That May Affect Participation

Education officials and higher education experts we interviewed said many factors may affect eligible borrowers' participation in income-driven repayment plans. They said some may not be aware of IBR or PAYE, may not understand them, or may have difficulty applying or meeting

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<sup>23</sup> While our analysis focused on borrowers with eligible loans in active repayment, Education's publicly available data covered Direct Loan recipients in active repayment, deferment, and forbearance, including those with parent PLUS loans, which are not eligible for IBR or PAYE.

<sup>24</sup> For both groups, remaining borrowers changed to another repayment plan. We used July 2013 as a starting point to study PAYE retention because the plan was not available in July 2012.

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annual income certification requirements.<sup>25</sup> Education officials also noted that some borrowers may choose non-standard repayment plans, such as the Extended or Graduated plans, which may offer lower initial monthly payments than income-driven plans. In addition, not all borrowers who are aware of IBR or PAYE and are eligible choose to participate after considering the costs and benefits. For some borrowers, the value of lower monthly payments on IBR or PAYE may outweigh the potential increase in total loan costs, while others may prefer to pay off their loans sooner at a potentially lower total loan cost if they can afford higher monthly payments on the 10-year Standard repayment plan.<sup>26</sup>

To understand the potential costs and benefits of participating in IBR or PAYE, we created two example borrowers—Borrower A and Borrower B—who are single with \$20,000 in loan debt and different starting annual adjusted gross incomes that increase by five percent annually (see fig. 3).<sup>27</sup>

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<sup>25</sup> Education has taken steps to assist borrowers with enrollment. For example, Education streamlined the online income-driven repayment application by including a link that allows borrowers to have their adjusted gross income imported directly from their tax return and by allowing borrowers to ask their loan servicers to select the best income-driven repayment option if they are eligible for more than one. On March 10, 2015, the President announced a Student Aid Bill of Rights, which directs Education and other federal agencies to take actions to help student loan borrowers afford their monthly payments. In response, Education identified steps it is taking to improve borrower communication and customer service. Education officials said they are exploring future improvements, including working with the Internal Revenue Service and Treasury to allow borrowers in income-driven repayment plans to authorize the release of tax return information for multiple years. Education also announced pilot programs to improve communication with borrowers. For example, Education plans to work with loan servicers to identify the most effective ways to communicate with income-driven repayment plan participants, after finding that the majority of a sample of participants did not recertify their income and family size on-time.

<sup>26</sup> The borrower's decision may be affected by factors other than income and amount borrowed. For example, a borrower with significant expenses other than federal student loan payments, such as private student loans, a home mortgage, or health care costs, may have greater need for lower monthly payments.

<sup>27</sup> To create these examples, we programmed a loan calculator similar to the one on Education's website. These simulations are intended for illustrative purposes only, as they do not incorporate the experiences of individual borrowers. For more information on our analysis and assumptions, including how they differ from the assumptions used in Education's calculator, see appendix I. We did not assess the impact of these programs on costs to the government.

**Figure 3: Total Loan Costs, Repayment Periods, and Monthly Payments, by Repayment Plan, for Two Borrowers with Different Incomes**



Borrower A

**Initial Annual Adjusted Gross Income = \$15,000**

Amount Borrowed = \$20,000  
Interest Rate = 6.8 percent  
Single Borrower (No Dependents)

Repayment plan	Total cost of loan	Total months of payments	Minimum-maximum monthly payment
Income-Based Repayment	\$22,877	300	\$0-\$230
Pay As You Earn	\$7,414	240	\$0-\$96
10-year Standard	\$27,619	120	\$230-\$230



Borrower B

**Initial Annual Adjusted Gross Income = \$25,000**

Amount Borrowed = \$20,000  
Interest Rate = 6.8 percent  
Single Borrower (No Dependents)

Repayment plan	Total cost of loan	Total months of payments	Minimum-maximum monthly payment
Income-Based Repayment	\$35,431	195	\$94-\$230
Pay As You Earn	\$37,241	240	\$63-\$230
10-year Standard	\$27,619	120	\$230-\$230

Source: Analysis based on GAO loan calculator. | GAO-15-663

Note: We assumed federal student loan debt of \$20,000 in Direct Loans; about half of Direct Loan borrowers in repayment, deferment, or forbearance borrowed \$20,000 or less, according to the summary data we received from the Department of Education's National Student Loan Data System. For Borrower A, we assumed an initial annual adjusted gross income of \$15,080, which we rounded to \$15,000. See appendix I for our additional assumptions. Varying our assumptions would change borrowers' monthly and total loan costs.

- For Borrower A, who begins repayment with an annual adjusted gross income of \$15,000, repaying with IBR or PAYE rather than the 10-year Standard plan would reduce both monthly payments and total loan costs. Under PAYE in particular, Borrower A would pay less over

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## Characteristics of Participating Borrowers

the life of the loan than the amount borrowed.<sup>28</sup> Moreover, in this example, the federal government would collect less on the loan than it would on the 10-year Standard plan.

- In contrast, for Borrower B, who begins repayment with a higher annual adjusted gross income of \$25,000, repaying with IBR or PAYE would initially reduce monthly payments, but the total cost of the loans would be higher than on the 10-year Standard plan. Compared to Borrower A, Borrower B has higher total loan costs under both IBR and PAYE due to paying more each month based on the higher income. As a result, in this example, the federal government would collect more on the loan from Borrower B than it would on the 10-year Standard plan.

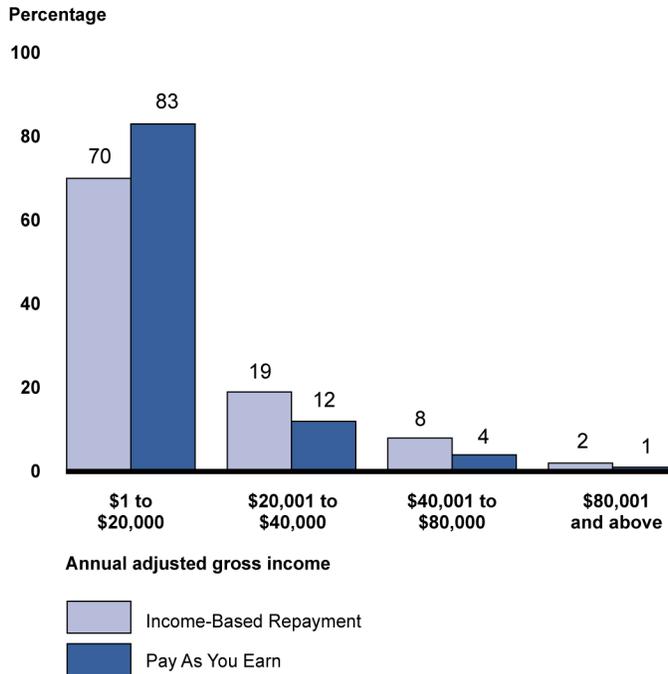
Many income-driven repayment plan participants had low annual adjusted gross incomes. For those with available income data, 70 percent of IBR participants and 83 percent of PAYE participants earned from \$1 to \$20,000, according to our review of September 2014 data from Education (see fig. 4).<sup>29</sup> In contrast, 10 percent of IBR participants and 5 percent of PAYE participants had annual adjusted gross incomes greater than \$40,000.

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<sup>28</sup> While Borrower A's monthly and total loan costs would be lowest with PAYE, not all borrowers have loans that qualify them for PAYE.

<sup>29</sup> The tax filing status for IBR and PAYE participants with available income data was mostly single (51 percent and 57 percent, respectively); other participants' filing status was married filing jointly (20 percent and 17 percent, respectively), head of household (17 percent and 14 percent, respectively), married filing separately or qualifying widower (2 percent and 1 percent, respectively), and missing (11 percent and 12 percent, respectively). These percentages may not add to 100 due to rounding.

**Figure 4: Annual Adjusted Gross Income of Income-Based Repayment and Pay As You Earn Participants in Active Repayment, September 2014**

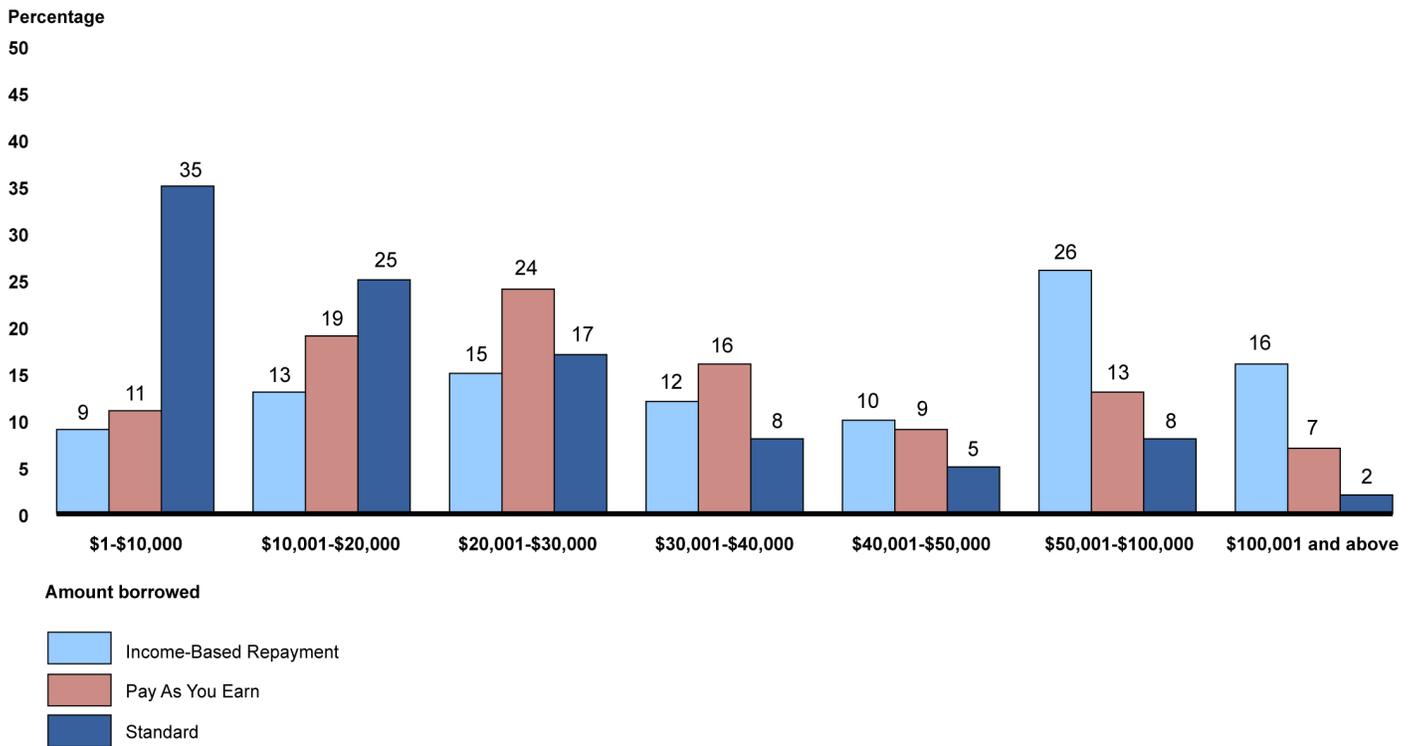


Source: GAO review of summary data from the Department of Education's National Student Loan Data System. | GAO-15-663

Note: Percentages may not add to 100 due to rounding. At the time of our analysis, adjusted gross income data were not available for 30 percent of Income-Based Repayment and 35 percent of Pay As You Earn participants, due to the timing of when Education began recording the information in the National Student Loan Data System. We did not include these participants in our analysis.

We also found that IBR and PAYE participants had borrowed more than those participating in Standard repayment. For example, 64 percent of IBR participants and 45 percent of PAYE participants had borrowed more than \$30,000, compared to 23 percent of borrowers participating in Standard repayment, according to September 2014 summary data from Education (see fig. 5).

**Figure 5: Amount Borrowed by Direct Loan Borrowers in Active Repayment, by Repayment Plan, September 2014**



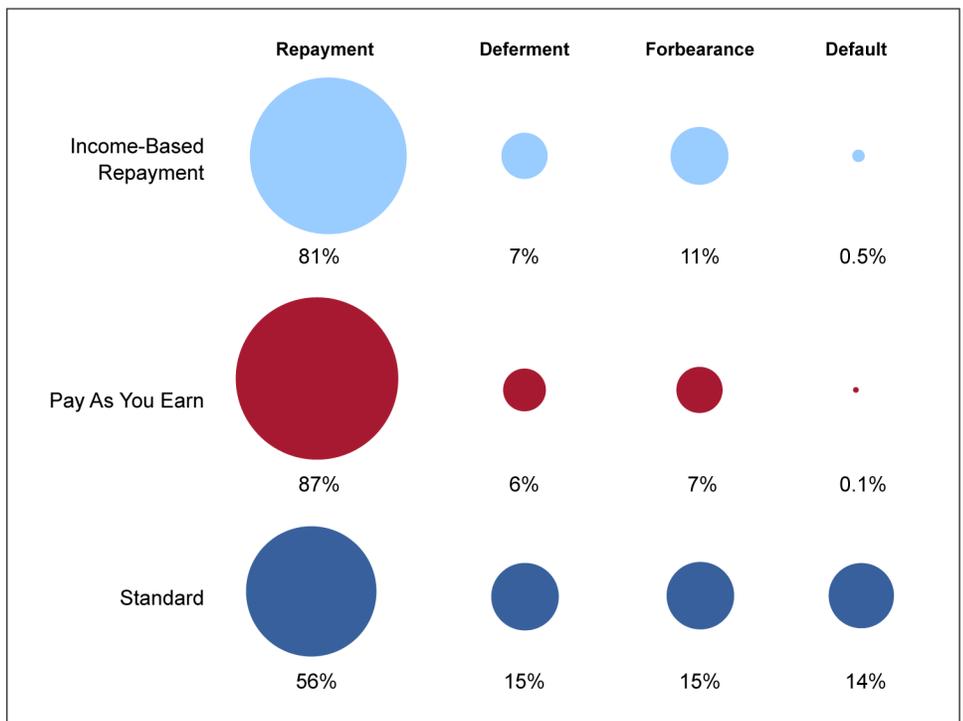
Source: GAO review of summary data from the Department of Education's National Student Loan Data System. | GAO-15-663

Note: Percentages may not add to 100 due to rounding. Amount borrowed refers to total amount of loans disbursed for all of a borrower's outstanding loans, including consolidation loans and Federal Family Education Loans, but not parent PLUS loans. Standard includes borrowers on Extended repayment with fixed payments.

In addition, substantially lower percentages of IBR and PAYE participants had defaulted on their loan compared to those in Standard repayment, and the great majority were in active repayment as of September 2014. Education officials cautioned against comparing default rates across repayment plans because IBR and PAYE are newer and borrowers have not had as much time to default. However, when we examined the status of loans by cohort for borrowers who entered repayment in the same fiscal year, we found IBR and PAYE participants had substantially lower default rates than Standard plan participants. Specifically, among borrowers who entered repayment from fiscal year 2010 to fiscal year 2014, less than 1 percent of IBR and PAYE participants had defaulted on their loan, compared to 14 percent in Standard repayment (see fig. 6). According to Education officials, fundamental differences between borrowers who elect to participate in IBR and PAYE and Standard plan

participants may account for the difference in default rates. They also noted that IBR and PAYE participants may have scheduled monthly payments as low as zero dollars. For more information about how IBR and PAYE participants compare to Standard plan borrowers on characteristics such as gender, age, highest academic level, and type of school attended, see appendix II.

**Figure 6: Loan Status of Direct Loan Borrowers Who Entered Repayment from Fiscal Year 2010 through 2014, by Repayment Plan, September 2014**



Source: GAO review of summary data from the Department of Education's National Student Loan Data System. | GAO-15-663

Note: Percentages may not add to 100 due to rounding. Loan status was based on the borrower's most recent loan that either entered repayment or was loaded into the National Student Loan Data System. Standard includes borrowers in Extended repayment with fixed payments. Less than 1 percent of borrowers repaying loans with Income-Based Repayment, Pay As You Earn, and Standard repayment had another loan status, which includes loans categorized in the National Student Loan Data System under bankruptcy, disability, and fraud.

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## Education Has Not Consistently Provided Information on Income-Driven Repayment Plans to Borrowers

Education has taken steps intended to increase borrower awareness of income-driven repayment plans, including IBR and PAYE, but has not consistently provided information about these plans to borrowers who have entered repayment.<sup>30</sup> According to Education's Fiscal Year 2012-2016 Strategic Plan for federal student aid, in support of its goal to provide superior information and service to borrowers, Education aims to compile and distribute information on the costs and benefits of higher education programs to improve financial literacy and support borrowers' decision-making.<sup>31</sup> Education reported in its fiscal year 2015 budget proposal that many borrowers seemed unaware of income-based or other repayment options.<sup>32</sup> Further, in February 2015, Education officials highlighted ongoing concerns about awareness, noting that feedback they have obtained from borrowers suggests borrowers are less aware of income-driven repayment plans and many borrowers have not considered these plans because they did not have enough information about them. In addition, although 12 of the 14 borrowers we interviewed were aware of income-driven repayment plans, 9 said they had to do their own research to find information about them or did not have a good understanding of the plans.<sup>33</sup>

Education provides detailed information about income-driven repayment on its website, including repayment terms; eligibility requirements; a calculator that allows borrowers to estimate monthly loan payments and total loan costs under different repayment plans; and an online counseling tool that includes repayment options. Education also has begun publicizing IBR and PAYE through social media. However, borrowers must actively seek information through these sources. Education also provides information about repayment plans—including IBR and PAYE terms, benefits, and eligibility requirements—in the borrower rights and

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<sup>30</sup> Borrowers who have entered repayment may be in active repayment, deferment, or forbearance.

<sup>31</sup> *Federal Student Aid: Strategic Plan, Fiscal Years 2012-16*, December 2011. This objective is part of the goal of providing superior service and information to students and borrowers.

<sup>32</sup> In commenting on a draft of this report, Education noted that since it drafted the 2015 budget proposal, it has seen an increase in both awareness of and enrollment in income-driven repayment plans.

<sup>33</sup> While not generalizable to all borrowers, these interviews illustrate the types of experiences that some Direct Loan borrowers have had in repaying their loans.

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responsibilities statement that is provided when borrowers receive their loans and through required entrance and exit counseling completed by borrowers when they begin and end school. However, Education does not directly provide this information to borrowers once they have entered repayment, when they may have a better sense of whether they can afford their monthly payments.

In an effort to increase awareness of IBR and PAYE, Education conducted outreach campaigns from fall 2013 through May 2015, in which it sent emails to almost 5 million borrowers in targeted groups, such as delinquent borrowers and borrowers in their grace period who had more than \$25,000 in debt.<sup>34</sup> The emails provided general information about income-driven repayment terms and benefits and directed borrowers to Education's website for more information. Education officials said the department emailed these borrowers directly instead of having loan servicers do so because customer feedback has shown borrowers are not always familiar with their servicer.<sup>35</sup> Education officials told us in June 2015 that they plan to email in-grace borrowers with over \$25,000 in loan debt twice per year. In addition, Education has partnered with Treasury since 2014 to include a message about income-driven repayment options on the back of tax refund envelopes, and with Intuit Inc. to include information about these options for borrowers who used TurboTax to file their taxes. Education officials told us that, based on the success of these efforts, they are continuing their partnership with Intuit Inc. and that they formed a new partnership with H&R Block and Treasury to publicize income-driven repayment options.

Once borrowers enter repayment, Education primarily relies on its loan servicers to communicate directly with them about repayment options. Although Education requires loan servicers to send certain communications to borrowers who already participate in income-driven

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<sup>34</sup> In fall 2013, Education emailed 3.2 million borrowers who were at least 90 days delinquent or in default (more than 270 days delinquent) on their loans; owed more than \$50,000 and had entered repayment within the last year; were in deferment or forbearance for reasons of financial hardship or unemployment; or were in their grace period and owed more than \$25,000. In fall 2014 and May 2015, Education emailed about 1.5 million borrowers who were in their grace period and owed more than \$25,000. In February 2015, Education emailed over 125,000 borrowers who had exited their grace period and had missed their first or second loan payment.

<sup>35</sup> We did not review the effectiveness of Education's targeted efforts.

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repayment plans,<sup>36</sup> it has not established specific requirements for how servicers communicate with other borrowers about the plans. Instead, Education officials said the department provides financial incentives to servicers to help keep borrowers current in repayment (e.g. not in delinquency, default, or forbearance).<sup>37</sup> Representatives from the three selected loan servicers we interviewed, which collectively serve about half of borrowers with loans owned by Education, said they generally make information about income-driven repayment available through customer service representatives and websites. However, borrowers must actively seek information through these sources. Documentation from these three servicers also showed that they contacted some borrowers with information about repayment options, including IBR and PAYE, when borrowers missed monthly payments or their deferment or forbearance periods were ending. However, when we reviewed sample written communications the three loan servicers sent to all borrowers in repayment in 2014, we found inconsistency in the information they provided about income-driven repayment plans. In addition, these communications did not include information about how the plans work or their eligibility requirements. For example:

- Two servicers included a list of repayment plans, including IBR and PAYE, on the back of monthly billing statements sent to borrowers but did not describe the plans or their benefits.
- Another servicer, which serves more than 5 million borrowers, sent billing statements mentioning the availability of repayment plans that may help borrowers who are having difficulty making payments. The statements indicated these plans could reduce monthly payments and are based on income, but did not identify specific repayment plans.

The inconsistency and gaps we identified in how Education and its loan servicers communicate with borrowers about income-driven repayment raise questions about the sufficiency of this information. Without such information, borrowers who are unaware of these plans may miss the opportunity to reduce their risk of delinquency or default.

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<sup>36</sup> For example, servicers are required to send annual notifications of terms and conditions and recertification information to borrowers participating in IBR or PAYE.

<sup>37</sup> Education reported revising its pricing and performance metrics for servicers in 2014 to encourage enhanced communication and outreach to borrowers.

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Few Borrowers Who  
May Be Employed in  
Public Service Have  
Had Their  
Employment and  
Loans Certified for  
PSLF, and Education  
Has Not Assessed Its  
Efforts to Increase  
Awareness about  
PSLF

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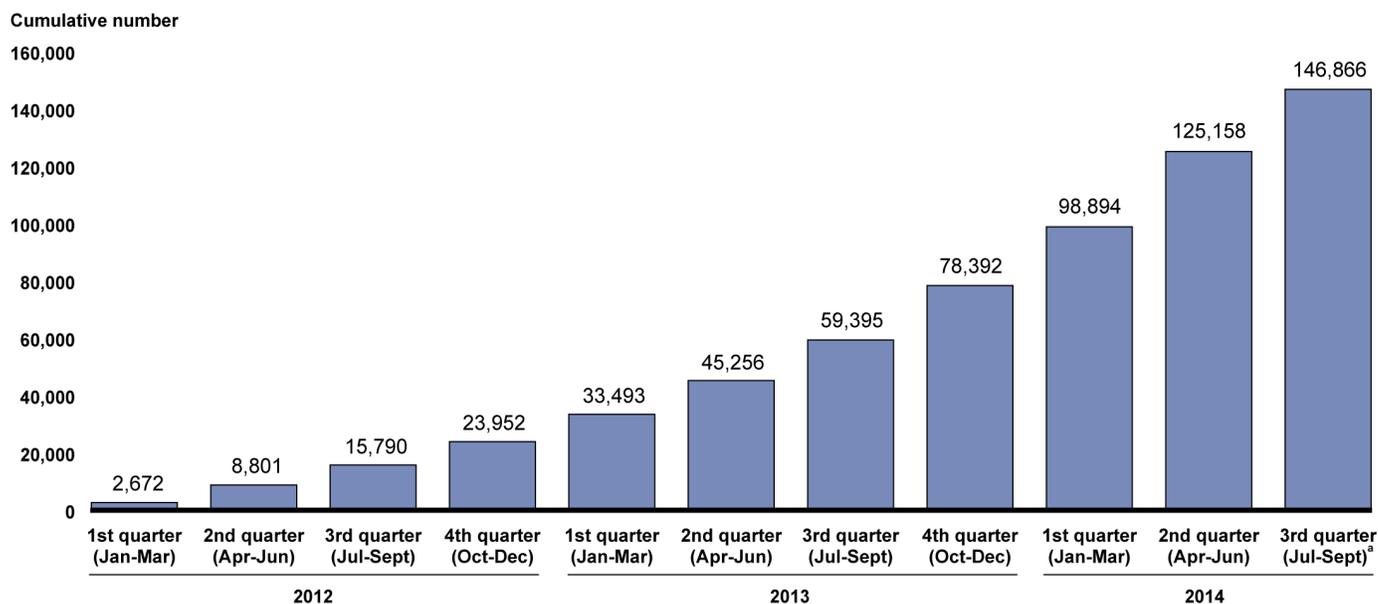
About 147,000 Borrowers  
Had Employment and  
Loans Certified in  
Anticipation of PSLF, and  
4 Million Borrowers May  
Be Employed in Public  
Service

Certification of Employment  
and Loans

While information on PSLF participation will not be available until borrowers can begin applying for loan forgiveness in October 2017, about 147,000 borrowers have had their employment and loans certified for PSLF as of September 2014, according to data from Education's loan servicer for the program. Although borrowers may wait until 2017 before requesting certification, those who participate in the voluntary process in advance learn whether they currently meet the basic eligibility requirements and the number of qualifying loan payments they have

made.<sup>38</sup> The number of borrowers who had employment and loans certified for PSLF increased steadily from January 2012, when Education established the voluntary process, through September 2014 (see fig. 7). For more information on approvals and rejections of PSLF employment certification forms, see appendix III.

**Figure 7: Cumulative Number of Borrowers Who Had Employment and Loans Certified for PSLF, January 2012 to September 2014, by Quarter**



Source: GAO analysis of data from the Pennsylvania Higher Education Assistance Agency, the loan servicer that administers Public Service Loan Forgiveness for Education. | GAO-15-663

<sup>38</sup> Certification of employment and loans does not guarantee the borrower will receive forgiveness under PSLF. For example, borrowers may pay off their loans before forgiveness, leave public service employment, not make payments on time, or not submit required documentation. Actual participation numbers will not be available until borrowers apply for and begin receiving loan forgiveness benefits in 2017. In addition, some borrowers have certified employment and loans but have zero qualifying monthly payments, and we are unable to determine whether these borrowers will make qualifying payments in the future. Qualifying payments are separate, on-time payments made after October 1, 2007, under a qualifying repayment plan, while the borrower is employed full-time by a public service organization or serving in a full-time AmeriCorps or Peace Corps position. Qualified public service organizations include those in federal, state, local government; 501(c)(3) nonprofits; and other nonprofit organizations providing a variety of public services.

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Note: Certification of employment and loans does not guarantee the borrower will receive forgiveness under Public Service Loan Forgiveness. For example, borrowers may pay off their loans before forgiveness, leave public service employment, not make payments on time, or not submit required documentation.

<sup>a</sup>Because data were provided to GAO in September 2014, 3rd quarter 2014 data do not represent the entire quarter.

## Eligibility

The exact number of borrowers eligible for and planning to apply for PSLF forgiveness when it becomes available beginning in 2017 is not known.<sup>39</sup> Only borrowers who complete Education's voluntary process provide their employment information to Education, and we identified no additional data source on both federal student loans and public service employment that would allow us to identify borrowers who may be eligible for PSLF. However, according to 2012 annual employment data from the Bureau of Labor Statistics, an estimated 24.7 percent of U.S. workers nationwide (32.5 million of 131.7 million) were employed in public service, considering federal, state, and local government agencies and 501(c)(3) nonprofit organizations.<sup>40</sup> If rates of public service employment are comparable among Direct Loan borrowers, about 4 million current Direct Loan borrowers may be employed in public service.<sup>41</sup> Furthermore, if rates of public service employment are comparable among Direct Loan borrowers across repayment plans, about 643,000 Direct Loan borrowers repaying their loans through IBR, PAYE, and ICR as of September 2014 may be employed in public service. As previously discussed, these repayment plans are more likely to leave borrowers with an outstanding

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<sup>39</sup> To receive forgiveness, borrowers must make 120 on-time, scheduled, monthly payments while employed full-time by a qualified public service organization, such as a government or nonprofit organization.

<sup>40</sup> Bureau of Labor Statistics data on government employment include workers employed by federal, state, and local government agencies. The research data on nonprofit employment include 501(c)(3) nonprofit organizations, and the most recent data available are for 2012. Because these data do not include other nonprofit organizations, such as 501(c)(4)s, the nationwide rate of public service employment may be higher than 24.7 percent. In addition, because the characteristics of student loan borrowers may differ from those of the overall U.S. workforce, these estimates may understate or overstate PSLF eligibility. The Consumer Financial Protection Bureau similarly estimated that more than 25 percent of the U.S. labor force was employed in public service as of July 2010 based on data from the Bureau of Labor Statistics, the U.S. Department of Defense, and the Johns Hopkins University Nonprofit Economic Data Project. Consumer Financial Protection Bureau, *Public Service & Student Debt: Analysis of Existing Benefits and Options for Public Service Organizations* (Washington, D.C.: August 2013).

<sup>41</sup> This analysis includes loans in repayment, deferment, or forbearance, and excludes loans in default.

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Key Characteristics of  
Borrowers Who Had  
Employment and Loans  
Certified

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balance after 120 payments and enable them to benefit from PSLF after it becomes available in 2017.

Most of the borrowers who had their employment and loans certified for PSLF were enrolled in an income-driven repayment plan, had annual adjusted gross incomes exceeding \$20,000, and had borrowed more than \$30,000.<sup>42</sup> As of September 2014, 71 percent (104,422 of 146,866) of borrowers who had their employment and loans certified for PSLF were enrolled in IBR, PAYE, or ICR (see fig. 8).<sup>43</sup> Borrowers on these income-driven plans for longer periods of time are more likely to have remaining loan balances to be forgiven after making the required 120 payments, in contrast to those on other qualifying plans, such as 10-year Standard repayment, who would be set to fully repay their loans in 10 years or less.<sup>44</sup> Officials from Education's loan servicer for PSLF told us they encourage borrowers who had employment and loans certified for PSLF to enroll in repayment plans that are more likely to enable them to benefit from forgiveness.

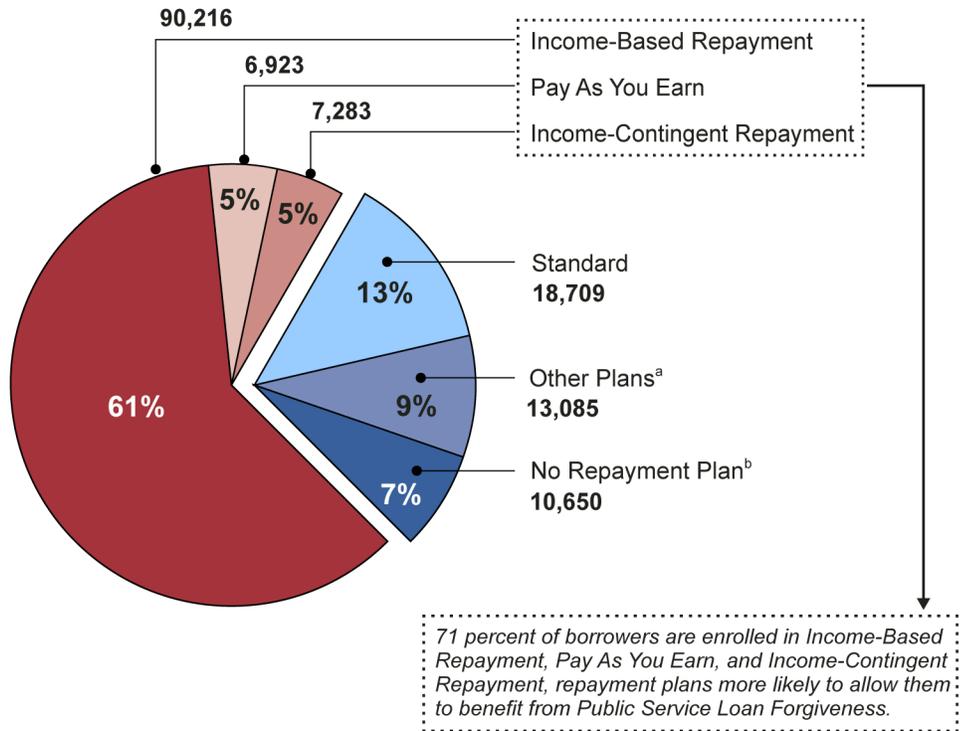
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<sup>42</sup> Because Education's process for certifying employment and loans for PSLF is voluntary, the characteristics of borrowers who chose to have their employment and loans certified may be different from the characteristics of all borrowers who plan to apply for PSLF beginning in October 2017.

<sup>43</sup> Qualifying repayment plans include IBR, PAYE, ICR, Standard repayment, or another repayment plan if the payments equal or exceed the 10-year Standard payment amount.

<sup>44</sup> About 5 percent of borrowers enrolled in PAYE or IBR did not have a partial financial hardship and were paying the equivalent of the 10-year Standard payment. In addition, some ICR participants may be making payments at or above the 10-year Standard payment. These borrowers may be less likely to have balances remaining for PSLF forgiveness after 120 payments.

**Figure 8: Borrowers Who Had Employment and Loans Certified for PSLF by Repayment Plan, September 2014**



Source: GAO analysis of data from the Pennsylvania Higher Education Assistance Agency, the loan servicer that administers Public Service Loan Forgiveness for Education. | GAO-15-663

Note: Eligible repayment plans include income-driven plans (i.e., Income-Based Repayment, Pay As You Earn, Income-Contingent Repayment); 10-year Standard repayment; or any other repayment plan if the payments equal or exceed the 10-year Standard payment.

<sup>a</sup>Includes Graduated, Extended, and other repayment plans.

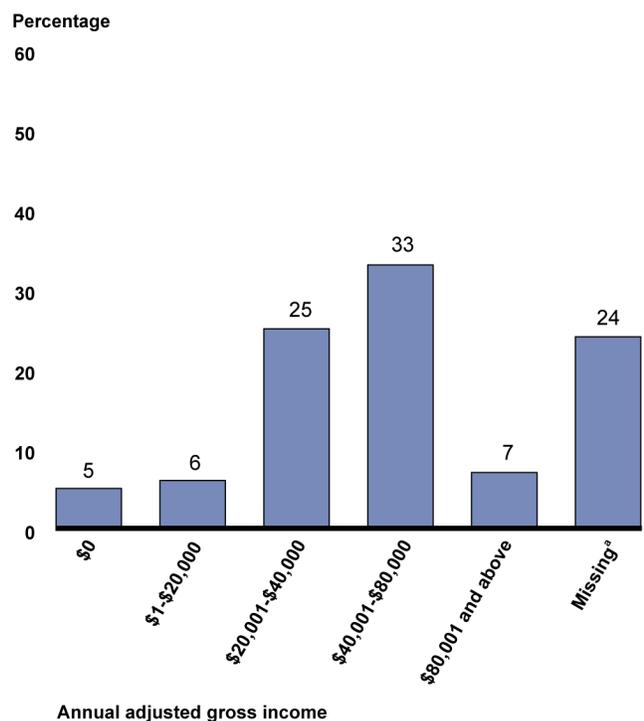
<sup>b</sup>Includes borrowers who had not selected a repayment plan, including borrowers in school, in grace, deferment, and forbearance.

As of September 2014, nearly two-thirds of borrowers who had employment and loans certified for PSLF had annual adjusted gross incomes of more than \$20,000 (see fig. 9).<sup>45</sup> In addition, nearly two-thirds of borrowers were employed in federal, state, or local government (63

<sup>45</sup>Annual adjusted gross income information is missing for about one quarter of borrowers who had not applied for an income-driven repayment plan, such as those on 10-year Standard repayment.

percent, or 93,257), and the remainder were employed in the nonprofit sector (37 percent, or 53,609).

**Figure 9: Annual Adjusted Gross Income of Borrowers Who Had Employment and Loans Certified for PSLF, September 2014**



Source: GAO analysis of data from the Pennsylvania Higher Education Assistance Agency, the loan servicer that administers Public Service Loan Forgiveness for Education. | GAO-15-663

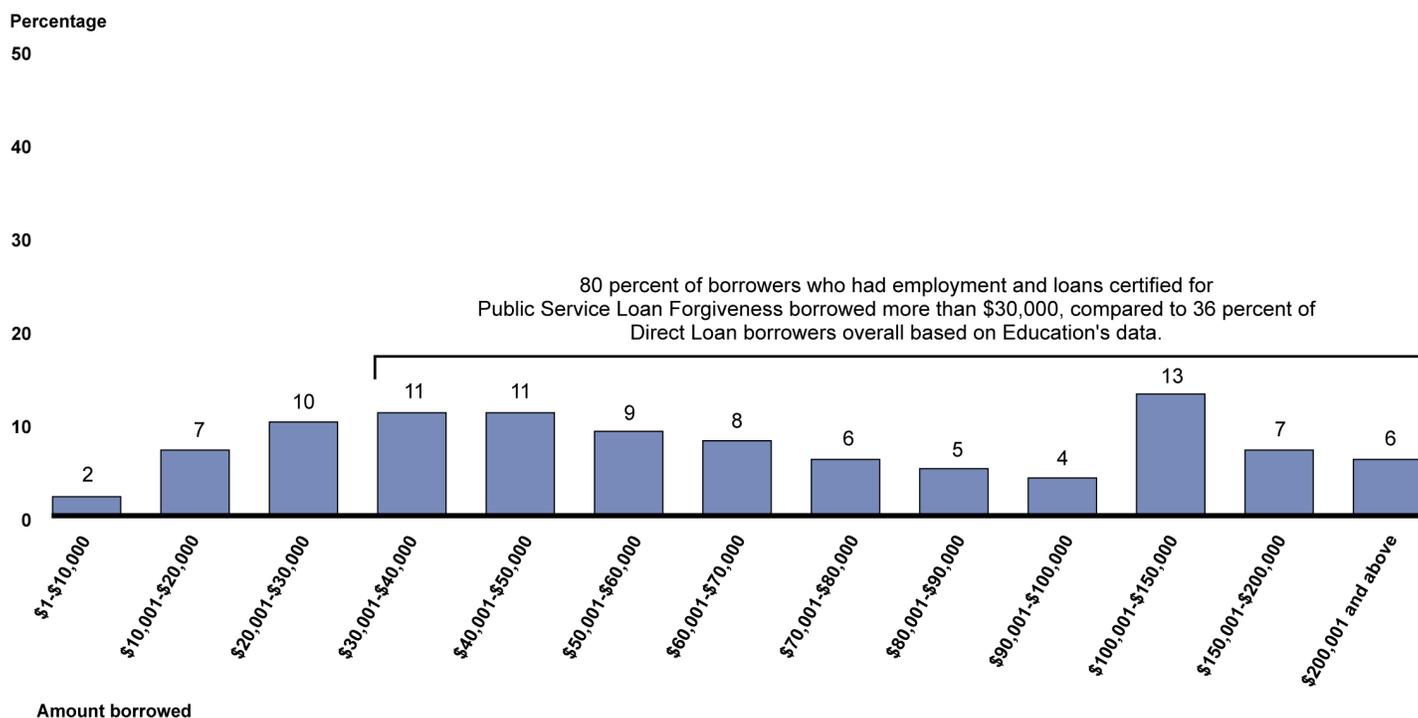
Note: The data include available annual adjusted gross income information for 146,866 borrowers. The data did not contain information on tax filing status.

\*Annual adjusted gross incomes are missing for borrowers who have not applied for an income-driven repayment plan, such as those on 10-year Standard repayment.

Borrowers who had employment and loans certified for PSLF had higher student loan debt than Direct Loan borrowers generally. According to the September 2014 data on borrowers who had employment and loans certified for PSLF, 80 percent of borrowers had borrowed more than

\$30,000, compared to 36 percent of Direct Loan borrowers overall based on Education's data (see fig. 10).<sup>46</sup>

**Figure 10: Amount Borrowed by Borrowers Who Had Employment and Loans Certified for PSLF, September 2014**



Source: GAO analysis of data from the Pennsylvania Higher Education Assistance Agency, the loan servicer that administers Public Service Loan Forgiveness for Education, and review of summary data from the Department of Education's National Student Loan Data System. | GAO-15-663

Note: Percentages may not add to 100 due to rounding. Amount borrowed refers to total amount of loans disbursed and is based on data for 146,866 borrowers.

### Examples of PSLF Borrowers

To understand the potential costs and benefits of PSLF, we created two example borrowers—Borrower A and Borrower B—and found that the program may provide substantial savings over the life of the loan for qualifying borrowers in IBR and PAYE, without the trade-off of higher loan costs faced by some borrowers in these repayment plans. In contrast, borrowers who make all qualifying payments on the 10-year Standard repayment plan would have paid their loans in full (i.e., have \$0 balance)

<sup>46</sup> The NSLDS summary data we analyzed cover all types of Direct Loans except parent PLUS and cover borrowers with loans in repayment, deferment, and forbearance, regardless of repayment plan, as of September 2014.

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after 120 qualifying payments (see fig. 11).<sup>47</sup> For each borrower, forgiveness under PSLF would reduce the amount of the loan that the federal government collects.

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<sup>47</sup> To create these two example borrowers, we programmed a loan calculator similar to the one on Education's website. For more information about our analysis and assumptions, including how they differ from the assumptions used in Education's calculator, see appendix I.

**Figure 11: Total Loan Costs, Payment Periods, and Monthly Payments under PSLF, by Repayment Plan, for Two Borrowers with Different Incomes**



**Initial Annual Adjusted Gross Income = \$25,000**

Amount Borrowed = \$60,000  
 Interest Rate = 6.8 percent  
 Single Borrower (No Dependents)

Borrower A

Repayment plan	Total cost of loan with Public Service Loan Forgiveness	Total cost of loan without Public Service Loan Forgiveness	Total months of payments with/without Public Service Loan Forgiveness		Minimum-maximum monthly payment with Public Service Loan Forgiveness
Income-Based Repayment	\$18,383	\$92,845	120 months	300 months	\$94-\$221
Pay As You Earn	\$12,256	\$39,461	120 months	240 months	\$63-\$147
10-year Standard	\$82,689	\$82,689	120 months	120 months	\$689-\$689



**Initial Annual Adjusted Gross Income = \$40,000**

Amount Borrowed = \$60,000  
 Interest Rate = 6.8 percent  
 Single Borrower (No Dependents)

Borrower B

Repayment plan	Total cost of loan with Public Service Loan Forgiveness	Total cost of loan without Public Service Loan Forgiveness	Total months of payments with/without Public Service Loan Forgiveness		Minimum-maximum monthly payment with Public Service Loan Forgiveness
Income-Based Repayment	\$46,684	\$116,329	120 months	228 months	\$281-\$511
Pay As You Earn	\$31,122	\$89,060	120 months	240 months	\$188-\$341
10-year Standard	\$82,689	\$82,689	120 months	120 months	\$689-\$689

Source: Analysis based on GAO loan calculator. | GAO-15-663

Note: We assumed amount borrowed of about \$60,000 (rounded from \$59,978) to reflect the approximate median loan amount of borrowers with employment and loans certified for PSLF. We assumed that borrowers would remain in public service employment, and we did not analyze the costs and benefits of them moving to the private sector. See appendix I for our additional assumptions. Varying our assumptions would change borrowers' monthly and total loan costs.

- Borrower A enrolled in IBR or PAYE has an initial annual adjusted gross income of \$25,000. PSLF reduces total costs over the life of the loan to less than \$20,000—substantially less than the \$60,000 borrowed.

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- Borrower B, who borrowed the same amount and has a higher initial annual adjusted gross income of \$40,000, also has reduced total costs under PSLF. In particular, the borrower has lower monthly payments under IBR and PAYE compared to 10-year Standard repayment but does not have the higher total loan costs that some borrowers in IBR and PAYE face, due to PSLF loan forgiveness after 120 payments.

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### Education Has Not Assessed Its Efforts to Increase Awareness of PSLF

Education has taken some steps intended to increase borrower awareness of PSLF, but it has not notified all borrowers who have entered repayment about the program. As previously noted, Education aims to compile and distribute information on the costs and benefits of higher education programs to improve financial literacy and support borrowers' decision-making.<sup>48</sup> Although Education provides general information about PSLF on its website and through social media, borrowers must actively seek information through these sources. Education also provides information about PSLF in the borrower rights and responsibilities statement that is provided when borrowers receive their loans, and through entrance and exit counseling that borrowers complete when they begin and end school.<sup>49</sup> In addition, Education has included information about the program in targeted emails sent to borrowers in their grace period who had more than \$25,000 in debt. However, Education has not examined borrower awareness of PSLF to determine how well these efforts are working. For example, although Education conducts regular surveys of borrowers to measure customer satisfaction, it has not included an assessment of borrower awareness of PSLF in these surveys. Beyond its current efforts, Education officials told us they are considering a PSLF email campaign targeted to borrowers on income-driven plans and an effort to publicize the program to public service employers. Education officials told us they have not provided information about PSLF to those employed in public service because they do not have a way to identify and target such Direct Loan borrowers. Apart from its targeted efforts, Education does not directly provide

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<sup>48</sup> *Federal Student Aid Strategic Plan, FY 2012-16*, December 2011. This objective is part of the goal of providing superior service and information to students and borrowers.

<sup>49</sup> In addition, Education officials said they also acted to raise awareness by implementing a new online loan consolidation process that allows borrowers to indicate that they are consolidating for the purpose of PSLF, after which their loans are routed to the responsible loan servicer.

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information about PSLF to all borrowers once they have entered repayment, which would eliminate the need to identify and target those employed in public service. Because borrowers are to apply for PSLF at least 10 years after they enter repayment and after they receive exit counseling, information provided during repayment could help them make decisions about forgiveness.

While Education primarily relies on loan servicers to communicate with borrowers who have entered repayment, it has established few requirements about what information the servicers should provide on PSLF and when. Although Education requires servicers to provide documents on PSLF when borrowers request them—including the employment certification form and related information—they are not required to notify other borrowers about the program. While loan servicers make information about PSLF available through their websites and customer service representatives, borrowers may not seek this information if they are not aware the program is available. Education officials said they rely on a performance-based system to provide incentives to servicers to manage their loan portfolios and keep borrowers in repayment, rather than setting specific requirements about how servicers communicate with borrowers. However, our review of sample written communications from 2014 for the three selected loan servicers, which serve about half of borrowers with loans owned by Education, showed limitations in the PSLF information provided to all borrowers who have entered repayment. For example, two servicers mentioned PSLF in their billing statements but did not describe the program terms or benefits; instead, they directed borrowers to websites with more information. Another servicer representing about 23 percent of borrowers (more than 5 million) did not provide any information on PSLF to borrowers unless they requested it. As a result, many of these borrowers may be uninformed about PSLF. After discussing our preliminary findings with Education in June 2015, Education officials reported that they are developing plans to require servicers to include information about PSLF in their initial communications to borrowers, such as the welcome letter sent when borrowers are assigned or transferred to a servicer, by the end of September. However, Education had not yet specified the information servicers must provide. In addition, servicers would not be required to provide PSLF information in ongoing communications with borrowers beyond the initial notification or to the millions of borrowers already in repayment.

Assessing its efforts to increase borrower awareness of PSLF could better position Education to identify gaps in borrower awareness of the

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program and strengthen its outreach as needed. Such efforts would support Education's goal to provide superior information and service to borrowers. Borrowers who have entered repayment and have not been notified about the program may be making decisions without complete information and might miss the opportunity to benefit from the program when it becomes available in 2017. For example, borrowers might fail to account for the value of PSLF forgiveness in weighing decisions about whether to enter public service. Other borrowers who are employed in public service and meet all program requirements may forfeit potentially large amounts of loan forgiveness if they are unaware of the program or do not learn about it in time to make changes that ensure their payments count toward forgiveness.

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## Conclusions

Borrowers need sufficient and timely information to ensure they are aware of their eligibility for and can make informed decisions about available repayment options. Although Education has used a variety of approaches to raise awareness about IBR and PAYE and participation in the plans has increased, the gap between participation and eligibility and Education's own assessment of borrower feedback suggests that borrowers are not receiving sufficient information about income-driven repayment plans. Thus, providing consistent information to all borrowers who have entered repayment would support Education's goal to provide superior information and service to borrowers. Moreover, the lower default rates among borrowers in IBR and PAYE suggest that these plans may be an important tool for preventing default on federal student loans. Borrowers also need sufficient and timely information about Public Service Loan Forgiveness. However, Education has little assurance that borrowers know about the program, given that it has not assessed its efforts to raise awareness and relatively few borrowers have had their employment and loans certified for PSLF. As a result, borrowers employed in public service for at least 10 years may miss opportunities to benefit from the program when it becomes available in 2017, potentially forgoing thousands of dollars in loan forgiveness.

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## Recommendations for Executive Action

To help ensure that Income-Based Repayment, Pay As You Earn, and Public Service Loan Forgiveness serve their intended beneficiaries to the greatest extent possible, we recommend that the Secretary of Education:

- take steps to consistently and regularly notify all borrowers who have entered repayment of income-driven repayment plan options, including Income-Based Repayment and Pay As You Earn.

- 
- take steps to examine borrower awareness of Public Service Loan Forgiveness and increase outreach about the program as needed.

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## Agency Comments and Our Evaluation

We shared a draft of this report with the Department of Education for review and comment. In written comments, Education generally agreed with our recommendations, stating that it is committed to ensuring the federal student loan borrowers have the information they need to manage their debt, including details regarding income-driven repayment plans and loan forgiveness programs. However, Education stated that it is not clear that providing information on repayment options to all borrowers is the most efficient or effective way to achieve this goal. Education indicated that the steps it is taking to raise awareness about income-driven repayment would include streamlined processes for learning about, applying for, and recertifying eligibility for income-driven repayment plans with enhanced communications targeted to borrowers most likely to benefit from these plans. While these are positive steps, because Education does not have income and family size information needed to determine which borrowers could benefit from income-driven repayment, we maintain it is important for Education to notify all borrowers of these options. In response to our recommendation regarding Public Service Loan Forgiveness, Education agreed to examine borrower awareness and use the results to inform its outreach efforts. Beyond our recommendations, Education expressed concern that the draft report overstated the extent to which borrowers lack awareness of income-driven repayment plans. We made revisions to acknowledge the increase in borrower participation in these repayment plans and to clarify Education's ongoing concerns regarding borrower awareness of these plans. Education also highlighted several of its efforts to increase awareness of repayment options and support borrowers. We acknowledged these efforts in our report and incorporated additional details about them based on Education's comments. Education also provided technical comments, which we incorporated as appropriate. Education's comments are reproduced in appendix IV.

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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 interested congressional committees and to the Departments of Education and the Treasury, the Bureau of Labor Statistics, and the Consumer Financial Protection Bureau. In addition, the report will be available at no charge on the GAO website at <http://www.gao.gov>.

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If you or your staff have any questions about this report, please contact me at (617) 788-0534 or [emreyarrasm@gao.gov](mailto: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 who made key contributions to this report are listed in appendix V.

*Melissa Emrey-Arras*

Melissa Emrey-Arras, Director  
Education, Workforce, and Income Security Issues

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# Appendix I: Objectives, Scope, and Methodology

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This appendix discusses in detail our methodology for addressing two research questions for the Direct Loan program: (1) How does borrower participation in Income-Based Repayment (IBR) and Pay As You Earn (PAYE) compare to available estimates of eligibility, and to what extent has the Department of Education (Education) taken steps to increase borrower awareness of these plans? and (2) What is known about Public Service Loan Forgiveness (PSLF) certification and eligibility, and to what extent has Education taken steps to increase awareness of this program?

To address these questions, we used data from Education, the Department of the Treasury (Treasury), the loan servicer that administers PSLF for Education, and the Department of Labor's Bureau of Labor Statistics. We reviewed relevant federal laws, regulations, and documentation from Education. We also conducted interviews with officials from Education and three of its loan servicers, Treasury, and the Bureau of Labor Statistics; representatives of higher education associations; borrower advocacy groups; researchers; and a nongeneralizable sample of Direct Loan borrowers.<sup>1</sup> We conducted this performance audit from November 2013 to August 2015 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.

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## Review and Analysis of Data

To examine participation and key characteristics of borrowers in IBR, PAYE, and other repayment plans,<sup>2</sup> we reviewed summary data from Education's National Student Loan Data System (NSLDS) on 19.3 million

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<sup>1</sup> We did not review costs to the government or proposals to revise existing repayment and forgiveness plans. These topics were beyond the scope of our review.

<sup>2</sup> While the focus of this review was on IBR and PAYE, we mention other income-driven repayment plans, such as Income-Contingent Repayment (ICR), as they relate to our review.

Direct Loan borrowers<sup>3</sup> (excluding parent PLUS)<sup>4</sup> who entered repayment and had an outstanding loan balance as of September 2014. We chose these parameters in order to get as close as possible to the eligibility criteria for IBR and PAYE. To determine participation in IBR and PAYE, we focused on data for 11.2 million borrowers in active repayment (not in deferment, forbearance, or default). For borrowers with multiple loans, the repayment plan was based on the most recent loan that either entered repayment or was loaded into NSLDS. While borrowers with multiple loans are able to participate in different repayment plans, we found that to be the case for only 1 percent of borrowers in our analysis.

In addition, we reviewed available estimates of IBR eligibility from a Treasury analysis of tax return data and Education's student loan data for a random sample of borrowers. These estimates, which are based on September 2012 NSLDS data for borrowers who entered repayment in 2010 or earlier and Internal Revenue Service tax return data from 2010 and 2011, depending on the most recent available for each borrower, are the most recent and only available estimates of IBR eligibility we identified. We were not able to estimate eligibility using data from Education because only borrowers who apply for income-driven repayment plans are required to provide information on their income and family size.

We also analyzed data from the Pennsylvania Higher Education Assistance Agency, the loan servicer that administers PSLF for Education, on 146,866 borrowers who voluntarily requested and had their

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<sup>3</sup> While Federal Family Education Loans (FFEL) are eligible to be repaid under IBR, we excluded them from our review based on data limitations. Education does not have repayment plan information for FFEL loans held by commercial lenders, and repayment plan information for FFEL loans that Education holds is limited. Private student loans are not eligible for IBR, PAYE, or PSLF and were outside the scope of our review.

<sup>4</sup> While consolidation loans that include parent PLUS loans are not eligible, Education officials said it would not be feasible to exclude them from the summary data.

employment and loans certified for PSLF, as of September 22, 2014.<sup>5</sup> Specifically, we analyzed the number of certifications over time, repayment plan participation, and available borrower characteristics (i.e., sector of employment, amount of student loan debt, and adjusted gross income).<sup>6</sup>

To approximate the percentage of Direct Loan borrowers who may be eligible for PSLF, we used 2012 Bureau of Labor Statistics data—the most recent available.<sup>7</sup> We calculated the percentage of workers nationwide who were employed by federal, state, and local government agencies and 501(c)(3) nonprofit organizations, and applied it to our summary NSLDS data on 16.3 million Direct Loan borrowers (excluding parent PLUS) who were in repayment, deferment, or forbearance as of September 2014. We also applied this percentage to the sub-population of these Direct Loan borrowers who were participating in IBR, PAYE, or ICR, the repayment plans more likely to enable borrowers to benefit from PSLF.

To examine how IBR, PAYE, and PSLF may affect total loan costs for borrowers with various characteristics, we used summary data from Education’s NSLDS, specifications from November 2014 for a calculator

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<sup>5</sup> Data on borrowers with employment and loans certified for PSLF reflect only the borrowers who voluntarily submitted employment certification forms to Education. Actual participation numbers will not be available until borrowers apply for and begin receiving loan forgiveness benefits in 2017. Certification of employment and loans does not guarantee the borrower will receive forgiveness under PSLF. For example, borrowers may pay off their loans before forgiveness, leave public service employment, not make payments on time, or not submit required documentation. The data include borrowers who had not yet made any qualifying monthly payments, and we are unable to determine whether these borrowers will make qualifying payments in the future.

<sup>6</sup> Data on borrowers’ race and gender were not available from the PSLF loan servicer. Because Education’s process for certifying employment and loans for PSLF is voluntary, the characteristics of borrowers who chose to have their employment and loans certified may be different from the characteristics of all borrowers who plan to apply for PSLF beginning in October 2017.

<sup>7</sup> Bureau of Labor Statistics data on government employment include workers employed by federal, state, and local government agencies. The research data on nonprofit employment include 501(c)(3) nonprofit organizations, and the most recent data available are for 2012. Because these data do not include other nonprofit organizations, such as 501(c)(4)s, the rate of public service employment may be higher than 24.7 percent. In addition, because the characteristics of student loan borrowers may differ from those of the overall U.S. workforce, these estimates may understate or overstate PSLF eligibility.

on Education's website that allows borrowers to estimate loan payments, and program requirements based on federal laws and regulations. We developed repayment scenarios by assigning selected levels of adjusted gross income and loan debt to a set of hypothetical borrowers to simulate their total payments under IBR, PAYE, and 10-year Standard plans, and under PSLF.<sup>8</sup> In each of our scenarios, we assumed:

- each borrower is single with no dependents;
- borrowers' initial annual adjusted gross incomes will increase 5 percent annually, consistent with the assumption Education uses for its loan calculator;
- the poverty threshold will increase at an average annual rate of 2.3 percent, which is based on the Congressional Budget Office's inflation rate projections from 2014 through 2024, and is consistent with the assumption Education uses for its loan calculator;
- all loans have an interest rate of 6.8 percent, the rate for certain borrowers with federal student loans disbursed from July 1, 2006 through June 30, 2013;
- all Direct Loans are subsidized. While borrowers may have a combination of subsidized and unsubsidized loans, making this assumption allowed us to show the effect of Education paying the first 3 years of interest if an IBR or PAYE borrower's payments do not fully cover the interest owed on a subsidized loan.<sup>9</sup> This assumption means we might understate total loan costs for IBR and PAYE borrowers with unsubsidized loans whose payments do not fully cover interest. Education's loan calculator assumes that all Direct Loans are unsubsidized and therefore does not account for this potential interest benefit for IBR and PAYE borrowers with subsidized loans. Education officials told us this assumption would have a slight effect on total loan costs, and that the department plans to revise the calculator by December 2015 to account for this potential interest benefit.

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<sup>8</sup> We did not assess how borrowers may value money differently over time.

<sup>9</sup> IBR and PAYE offer benefits to assist borrowers with some of the increased interest costs they may incur from making lower payments. For example, if a borrower's payments do not fully cover the interest owed on subsidized loans, the federal government pays the unpaid interest for the first 3 years. In addition, both plans include provisions to protect both subsidized and unsubsidized borrowers from unpaid interest being added to the principal loan balance—a practice known as capitalization—as long as they remain on the plans and have a partial financial hardship. Capitalization increases the total amount of principal and interest borrowers must pay.

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Changing the assumptions explained above would change the monthly and total loan costs for borrowers in our scenarios. To the extent possible, we validated our results against Education’s loan calculator and worked with Education officials to resolve discrepancies. These scenarios are intended for illustrative purposes only; they do not incorporate experiences that could affect individual borrowers’ eligibility for income-driven repayment or their payment amounts. For example, individual borrowers could experience periodic unemployment or job promotions, and get married or form families. These and other experiences could change income levels or household size, which help determine the applicable poverty threshold for monthly income-based payments.

We determined that data from each of these sources were sufficiently reliable for the purposes of this report by reviewing existing information about the data and the systems that produced them, and by interviewing knowledgeable agency officials.

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### Review of Federal Laws, Regulations, Documentation, and Awareness Efforts

To understand program terms and eligibility requirements, we reviewed relevant federal laws, regulations, and documentation from Education. To determine the extent to which Education has taken steps to raise awareness of IBR, PAYE, and PSLF, we reviewed program information Education makes available to borrowers on its website, including fact sheets; a loan repayment calculator; and entrance, exit, and financial awareness counseling tools. We also reviewed information about Education’s targeted efforts to raise awareness of IBR and PAYE, including documentation of borrower email campaigns and partnerships, press releases, and memoranda from the President. We compared information on Education’s efforts to criteria outlined in contract requirements applicable to Education’s 11 Direct Loan servicers related to communication with borrowers and the goals and objectives in the Office of Federal Student Aid’s Fiscal Year 2012-2016 Strategic Plan.

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### Interviews

To examine IBR and PAYE participation and eligibility, PSLF certification and eligibility, and determine the extent to which Education has taken steps to raise awareness of the programs, we interviewed officials from Education, Treasury, and the Bureau of Labor Statistics. In addition, we interviewed representatives of higher education associations, borrower advocacy groups, and researchers about student loan repayment and forgiveness, including factors that may affect borrowers’ decisions about repayment. We also interviewed representatives of, and reviewed documentation for, 3 of Education’s 11 loan servicers, which serviced

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about half of all recipients of loans owned by Education.<sup>10</sup> In addition, during April and May 2015, we interviewed a nongeneralizable sample of 14 randomly selected borrowers about their awareness of income-driven repayment plans. Using a random sample of Direct Loans from a 4-percent random sample of loans from the NSLDS, we identified 4,000 borrowers who, as of January 2014, were in active repayment, deferment, or forbearance. Education sent emails to these borrowers inviting them to email us to participate in interviews.

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<sup>10</sup> This includes borrowers with Direct Loans and FFEL loans whose loans were in active repayment, deferment, or forbearance as of September 2014.

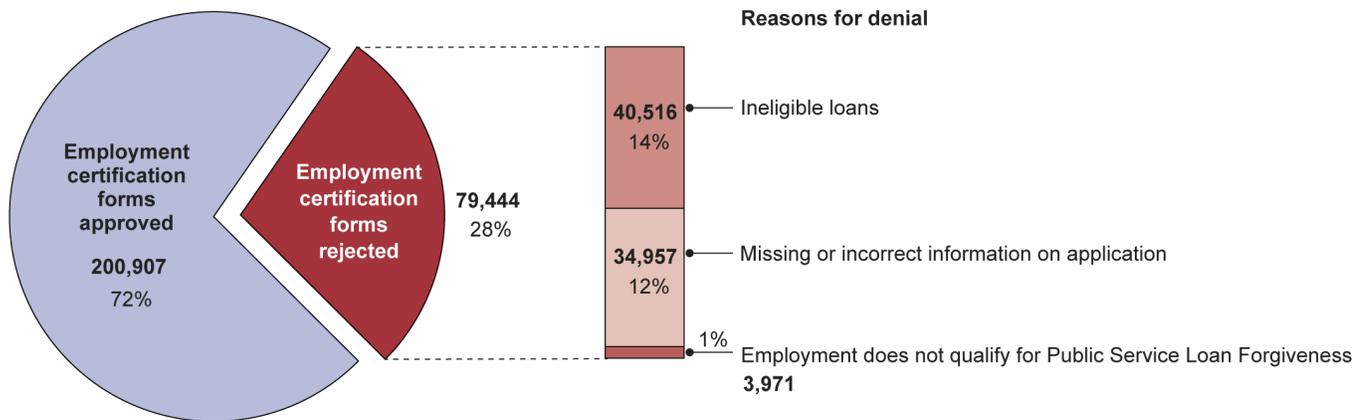
# Appendix II: Selected Characteristics for Direct Loan Borrowers in Active Repayment, by Repayment Plan, September 2014

	Income-Based Repayment (percent)	Pay As You Earn (percent)	Standard (percent)
<b>Gender</b>			
Female	66	66	57
Male	31	33	40
<b>Age</b>			
Up to 22 years old	1	9	11
23-29 years old	36	55	42
30-39 years old	38	22	28
40+ years old	25	14	18
<b>Highest academic level</b>			
Borrowed for undergraduate school only	58	80	80
Borrowed for graduate school	34	20	15
<b>Type of school attended</b>			
Attended public school	46	46	52
Attended private, nonprofit school	29	25	21
Attended private, for-profit school	24	28	26

Source: GAO review of summary data from Education's National Student Loan Data System.

Note: Totals do not add to 100 percent because of values that were missing or not available from Education's system. Academic level was determined using the most recent non-consolidation loan for 11.2 million Direct Loan borrowers (excluding parent PLUS) in active repayment (not in deferment, forbearance, or default) as of September 2014. Borrowers participating in Extended repayment with fixed payments are included in Standard. Education does not track borrowers' ethnicity or race in the National Student Loan Data System.

# Appendix III: Status of Public Service Loan Forgiveness Employment Certification Forms, September 2014



Source: GAO analysis of data from the Pennsylvania Higher Education Assistance Agency, the loan servicer that administers Public Service Loan Forgiveness for Education. | GAO-15-663

Note: Percentages for reasons for denial do not add to 28 percent due to rounding. The loan servicer for Public Service Loan Forgiveness provided data on 280,351 employment certification forms as of September 2014. Some borrowers submitted multiple forms, including for multiple employers or multiple periods of employment.

# Appendix IV: Comments from the Department of Education



AUG - 3 2015

Ms. Melissa Emrey-Arras  
Director  
Education, Workforce, and Income Security Issues  
Government Accountability Office  
441 G Street, NW  
Washington, DC 20548

Dear Ms. Emrey-Arras:

Thank you for providing the Department of Education (Department) with an opportunity to review and respond to the draft of the Government Accountability Office (GAO) report, *FEDERAL STUDENT LOANS: Education Could Do More to Help Ensure Borrowers Are Aware of Repayment and Forgiveness Options* (GAO-15-663).

The Department is committed to ensuring that Federal student loan borrowers have the information they need to manage their debt, including details regarding income-driven repayment (IDR) plans and loan forgiveness programs. As noted on pages 17-19 of your draft report, since the time the Treasury analysis was conducted on participation and eligibility, we have taken a broad range of steps to foster and increase awareness of these important options, including entrance and exit counseling, online payment calculators, social media, and targeted outreach campaigns. Over that period the share of borrowers in repayment under an IDR plan has increased by 40 percent, from 12 percent to 17 percent. In addition, IDR usage has been steadily increasing and during the quarter ending March 31, 2015, represented 31 percent of all repayment plans.

We have also taken a number of steps not noted in your report, such as the imposition in 2014 of revised pricing and performance metrics for our loan servicers focused on reducing delinquency and keeping borrowers in repayment current on their accounts through enhanced communication and outreach. More recently, on March 10, 2015, President Obama announced the Student Aid Bill of Rights, which committed the Administration to additional activities, some of which have already been implemented, to further ensure that borrowers receive the information and flexibility they need to repay their loans responsibly and avoid default. We strongly suggest that these initiatives be reflected in your final report.

More specifically, activities mandated in the Student Aid Bill of Rights include an explicit focus by the Department on improved communication with borrowers and higher customer service standards in IDR plans. For example, by October 1, 2015, the Secretary of Education and the Secretary of the Treasury are directed to report to the President, through the Director of the Domestic Policy Council and the Director of the Office of Management and Budget, on the feasibility of developing a system to give borrowers the opportunity to authorize the Internal Revenue Service to release income information for multiple years for the purpose of

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automatically determining monthly payments under income-driven repayment plans. In addition, by January 1, 2016, the Secretary of Education is directed to report to the President, through the Director of the Domestic Policy Council, on the findings of a pilot program to test new methods for communicating with borrowers who have Federal Direct student loans on which they are at least 140 days delinquent but which have not entered default. By January 1, 2017, the Secretary is also directed to develop and implement, in consultation with the Director of the White House Office of Science and Technology Policy, at least five behaviorally designed pilot programs to identify the most effective ways to communicate with borrowers to maximize successful borrower repayment and help reduce delinquency and default and to report to the President, through the Director of the Domestic Policy Council, on the status and results of those pilot programs. As of today, borrower outreach under four of these pilots has been launched.

Furthermore, on July 9, 2015, the Department published a notice of proposed rulemaking to create a new income-contingent repayment plan in accordance with the President's initiative to allow more Direct Loan borrowers to cap their loan payments at 10 percent of their monthly incomes. The Secretary is also proposing changes to the regulations for the Federal Family Education Loan Program and the Direct Loan Program to streamline and enhance existing processes and provide additional support to struggling borrowers.

In addition to suggesting that your report include more information on these additional initiatives, we have a number of other concerns we would like to share with you. In particular, we believe that some of the report's conclusions, and especially the summary included in the Highlights page of the draft report, overstate the extent to which borrowers lack awareness of the income-driven repayment plans and fail to reflect the successful outreach efforts undertaken by the Department over the past few years. As you note in your report, according to the Treasury analysis, only 50 percent of borrowers are eligible for an IDR repayment plan. In addition, IDR is not necessarily the best option for repayment even if borrowers are eligible based on their income. Your conclusions focus extensively on the Department's decision to not have "consistently notified borrowers who have entered repayment about the (income-based repayment) plans" but do not acknowledge the combination of extensive up-front counseling and disclosures and targeted outreach to borrowers in their grace and repayment periods that does occur. The conclusions also fail to note the increased take-up rate for the IDR plans since these efforts have been in place. We strongly suggest including this information in the summary part of the report to provide context for your overall conclusions.

We generally concur with the two recommendations GAO made to the Department. The Department's response to the recommendations follows:

**Recommendation 1:** *Take steps to consistently and regularly notify all borrowers who have entered repayment of income-driven repayment plan options, including Income-Based Repayment and Pay As You Earn.*

Response to Recommendation 1: As noted above, the Department is already taking steps to increase awareness of IDR options and is committed to ensuring that all borrowers have the information they need to effectively manage their Federal student loan debt. It is not clear, however, that providing detailed information on all repayment options to all borrowers is the

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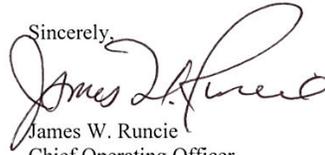
most efficient or effective way to achieve this goal. Given that a large percentage of our portfolio is not eligible for income-driven repayment, a “one size fits all” approach could lead to confusion and imprudent decision making about whether to enroll in an IDR plan or not. The steps we are taking to raise awareness about IDR will combine streamlined processes for learning about, applying for, and recertifying eligibility for IDR plans with enhanced direct communications targeted on borrowers most likely to benefit from these plans.

**Recommendation 2:** *Take steps to examine borrower awareness of Public Service Loan Forgiveness and increase outreach about the program as needed.*

Response to Recommendation 2: We agree to examine borrower awareness, as well as other aspects of Public Service Loan Forgiveness, and use the results to inform efforts to increase and improve the effectiveness of outreach efforts related to this important benefit.

Thank you again for the opportunity to review and comment on the draft GAO report.

Sincerely,



James W. Runcie  
Chief Operating Officer

Enclosure: Technical Comments

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# Appendix V: GAO Contact and Staff Acknowledgments

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## GAO Contact

Melissa Emrey-Arras, (617) 788-0534 or [emreyarrasm@gao.gov](mailto:emreyarrasm@gao.gov)

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## Staff Acknowledgments

In addition to the contact named above, Debra Prescott (Assistant Director), Marissa Jones (Analyst-in-Charge), George Bustamante, and Jeff Miller made key contributions to this report. Additional assistance was provided by Susan Aschoff, Rachel Beers, Deborah Bland, Ben Bolitzer, Jessica Botsford, Holly Dye, Hedieh Fusfield, Nisha Hazra, Jenn McDonald, Jean McSween, Brittini Milam, John Mingus, Mimi Nguyen, Rhiannon Patterson, Ellen Phelps Ranen, and Cody Raysinger.

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