

GAO Highlights

Highlights of [GAO-19-347](#), a report to congressional requesters

Why GAO Did This Study

As of September 2018, almost half of the \$859 billion in outstanding federal Direct Loans was being repaid by borrowers using IDR plans. Prior GAO work found that while these plans may ease the burden of student loan debt, they can carry high costs for the federal government.

This report examines (1) whether there are indicators of potential fraud or error in income and family size information provided by borrowers on IDR plans and (2) the extent to which Education verifies this information. GAO obtained Education data on borrowers with IDR plans approved from January 1, 2016 through September 30, 2017, the most recent data available, and assessed the risk for fraud or error in IDR plans for Direct Loans by (1) matching Education IDR plan data for a subset of borrowers who reported zero income with wage data from NDNH for the same time period and (2) analyzing Education IDR plan data on borrowers' family sizes. In addition, GAO reviewed relevant IDR policies and procedures from Education and interviewed officials from Education.

What GAO Recommends

GAO recommends that Education (1) obtain data to verify income information for borrowers who report zero income on IDR plan applications, (2) implement data analytic practices and follow-up procedures to verify borrower reports of zero income, and (3) implement data analytic practices and follow-up procedures to verify borrowers' family size. Education generally agreed with our recommendations.

View [GAO-19-347](#). For more information, contact Melissa Emrey-Arras at (617) 788-0534 or emreyarrasm@gao.gov and Seto J. Bagdoyan at (202) 512-6722 or bagdoyans@gao.gov.

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FEDERAL STUDENT LOANS

Education Needs to Verify Borrowers' Information for Income-Driven Repayment Plans

What GAO Found

GAO identified indicators of potential fraud or error in income and family size information for borrowers with approved Income-Driven Repayment (IDR) plans. IDR plans base monthly payments on a borrower's income and family size, extend repayment periods from the standard 10 years to up to 25 years, and forgive remaining balances at the end of that period.

- **Zero income.** About 95,100 IDR plans were held by borrowers who reported zero income yet potentially earned enough wages to make monthly student loan payments. This analysis is based on wage data from the National Directory of New Hires (NDNH), a federal dataset that contains quarterly wage data for newly hired and existing employees. According to GAO's analysis, 34 percent of these plans were held by borrowers who had estimated annual wages of \$45,000 or more, including some with estimated annual wages of \$100,000 or more. Borrowers with these 95,100 IDR plans owed nearly \$4 billion in outstanding Direct Loans as of September 2017.
- **Family size.** About 40,900 IDR plans were approved based on family sizes of nine or more, which were atypical for IDR plans. Almost 1,200 of these 40,900 plans were approved based on family sizes of 16 or more, including two plans for different borrowers that were approved using a family size of 93. Borrowers with atypical family sizes of nine or more owed almost \$2.1 billion in outstanding Direct Loans as of September 2017.

These results indicate some borrowers may have misrepresented or erroneously reported their income or family size. Because income and family size are used to determine IDR monthly payments, fraud or errors in this information can result in the Department of Education (Education) losing thousands of dollars of loan repayments per borrower each year and potentially increasing the ultimate cost of loan forgiveness. Where appropriate, GAO is referring these results to Education for further investigation.

Weaknesses in Education's processes to verify borrowers' income and family size information limit its ability to detect potential fraud or error in IDR plans. While borrowers applying for IDR plans must provide proof of taxable income, such as tax returns or pay stubs, Education generally accepts borrower reports of zero income and borrower reports of family size without verifying the information. Although Education does not currently have access to federal sources of data to verify borrower reports of zero income, the department could pursue such access or obtain private data sources for this purpose. In addition, Education has not systematically implemented other data analytic practices, such as using data it already has to detect anomalies in income and family size that may indicate potential fraud or error. Although data matching and analytic practices may not be sufficient to detect fraud or error, combining them with follow-up procedures to verify information on IDR applications could help Education reduce the risk of using fraudulent or erroneous information to calculate monthly loan payments, and better protect the federal investment in student loans.