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# HOW INCOME-DRIVEN REPAYMENT PLANS FAIL BLACK BORROWERS


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THIS BRIEF IS THE THIRD IN A SERIES based on qualitative data from the National Black Student Debt Study. The first two briefs examined "How Black Women Experience Student Debt" and the ways that "Student Debt Is Harming the Mental Health of Black Borrowers." A forthcoming brief will cover Parent PLUS loans. For a comprehensive report about the study, please read "Jim Crow Debt: How Black Borrowers Experience Student Loans."

APPROXIMATELY 43 MILLION AMERICANS COLLECTIVELY OWE $1.6 TRILLION IN FEDERAL STUDENT LOAN DEBT, but this burden is not borne equally by all. Black students are more likely to take on debt, borrow higher amounts, and struggle with repayment than their peers, because they generally have fewer resources to pay for college, thanks to the ongoing generational effects of systemic racism. This debt burden has far-reaching financial consequences, and many Black borrowers are unable to afford their monthly payments. Federal income-driven repayment (IDR) plans, which are meant to make monthly payments manageable, often do anything but and can be ineffective at reducing a borrower's debt burden over time. Using data and quotes from federal sources and the National Black Student Debt Study — a survey of nearly 1,300 Black borrowers and in-depth interviews with 100 borrowers conducted by Jalil B. Mustaffa, Ph.D., co-founder of the Equity Research Cooperative, and researchers from The Education Trust — this brief looks at the ways that existing IDR plans are failing Black borrowers and highlights the need for Congress and the Biden administration to cancel more student debt, overhaul income-driven repayment plans, double the Pell Grant, and create federal-state partnerships to address affordability in a comprehensive way. Like "Jim Crow Debt: How Black Borrowers Experience Student Loans," a comprehensive report that came out of that study, this brief focuses on the experiences of Black borrowers and the toll the student debt crisis is taking on them.[1] At participants' request, we've replaced their names with pseudonyms.

Borrowers who participated in the National Black Student Debt Study said income-driven repayment plans felt like a lifetime debt sentence and 80% said the federal government should cancel all student debt.[2] Black borrowers carry the greatest student debt burden and struggle the most with repayment. To begin fixing the broken student loan system, the Biden administration announced in August 2022 a plan to cancel up to $20,000 in federal student debt and a proposal to improve income-driven repayment plans. Borrowers who make less than $125,000 as individuals, or $250,000 for married couples filing jointly or heads of households, and have qualifying loans disbursed before June 30, 2022, can have up to 10,000 in student debt cancelled. Eligible borrowers who were Pell Grant recipients can have up to $20,000 in student debt cancelled. The proposed rule to improve IDR would raise the protected income threshold from 150% of the federal poverty line to 225% of the federal poverty line and cap monthly payments for undergraduate loans at 5% of discretionary income and would make other changes that would make debt repayment more affordable.[3] This brief provides information on why these proposals are necessary, especially for Black borrowers, and why more is still needed.

## BLACK BORROWERS HAVE THE HEAVIEST STUDENT DEBT BURDEN

College costs have risen dramatically over the past several decades in large part because state funding for public colleges and universities declined dramatically.[4] In the 1975-76 academic year, the average yearly full cost of a public four-year college — which includes tuition, fees, and room and board, was $1,780, or $8,444 in 2020-21 dollars, compared to $21,377 in the 2020-21 academic year.[5] Financial aid has failed to keep pace with these rising costs, resulting in a higher education system that is unaffordable for most Americans. In 1980, the Pell Grant, the nation's most important need-based grant, covered over 75% of the full cost of a public four-year college; in the 2020-21 academic year, it covered only 28%.[6]

Because of systemic racism, the inequitable distribution of wealth, a stratified labor market, and rising college costs, Black borrowers are among those most negatively affected by student loans.[7] Black people borrow the most and struggle the most with repayment. One year after completing their bachelor's degree, Black borrowers owe $39,043, on average, in principal and interest, compared to $28,661 for White borrowers.[8] Black borrowers owe $55,532 in graduate loans, compared to $27,962 for White borrowers.[9] And Black borrowers who are in repayment owe more than their White counterparts: Twelve years after starting college, the typical Black borrower owes 13% *more* than they originally borrowed and has paid down none of their balance, while the typical White borrower has successfully paid down 35% of their original loan balance.[10]

## THE RACIAL WAGE AND WEALTH GAPS ARE FANNING THE BLACK STUDENT DEBT CRISIS

The racial wage and wealth gaps make student loan repayment especially challenging for Black borrowers. To reduce the amount owed on a loan, a borrower must pay enough to cover interest *and* a portion of the principal every month. But that's tough for a Black borrower to do when they don't make much or have many resources to begin with. In 2020, Black workers aged 25 to 64 who held a bachelor's degree or higher and worked full time and year-round had median earnings of $65,135, compared to $77,162 for White workers with only a bachelor's degree or higher.[11] In fact, Black workers need a professional degree to outearn White workers with a bachelor's degree.[12] But that's only part of the story. The racial wealth gap — which reflects the accumulated negative effects of centuries of systemic racism, including but not limited to slavery, Jim Crow laws, redlining, lending discrimination, and labor market and wage discrimination — makes things worse.[13] In 2019, the median Black household had just $24,100 in wealth next to $188,200 for the median White household.[14] What's more, obtaining a higher education does not erase that gap. In fact, the median Black household headed by a person with a bachelor's degree has *less wealth* than the median White household headed by a person without a high school diploma.[15] According to a 2021 report by Andre Perry, Ph.D., a senior fellow at Brookings Metro and a scholar-in-residence at American University, 52% of Black households with student loans have zero or negative wealth, versus just 25% of Black households without student debt.[16]

## A BRIEF OVERVIEW OF INCOME-DRIVEN REPAYMENT PLANS

Income-driven repayment plans are designed to make monthly federal student loan payments more affordable for borrowers early in their career and reduce delinquency and default, which occurs after a borrower misses 270 days (or approximately nine months) of payments.[17] Unfortunately, IDR plans are often no match for employment discrimination and structural racism, which keeps many Black graduates from *ever* notching the same salaries and benefits as their White peers. Under these plans, monthly payments are based on a borrower's income and family size and are usually lower than the standard monthly payment of a typical 10-year repayment plan. After 20 or 25 years of making qualifying payments under an IDR plan, a borrower's remaining balance is supposed to be cancelled, but more on that later.[18] The first IDR plan, known as Income-Contingent Repayment, became available in 1995.[19] Today, there are four types of IDR plans: Income-Contingent Repayment (ICR), Income-Based Repayment (IBR), Pay As You Earn (PAYE), and Revised Pay As You Earn (REPAYE). These plans have different terms and eligibility requirements (see Table 1).

**TABLE 1: INCOME-DRIVEN REPAYMENT PLANS**

| | Income Protection Allowance | Percentage of Discretionary Income | Time to Cancellation | Eligibility/Loan Types |
|---|---|---|---|---|
| Income-Contingent Repayment Plan (ICR Plan) | 100% of federal poverty line | Lesser of the following: 20% or what you would pay on repayment plan with a fixed payment over 12 years adjusted according to your income | 25 years | Any borrower with eligible federal student loans<br><br>Parent PLUS borrowers who consolidate their Direct PLUS Loans or Federal PLUS Loans into Direct Consolidation Loan |
| Income-Based Repayment Plan (IBR Plan) | 150% of federal poverty line | Generally, 10%, if you're a new borrower on or after July 1, 2014<br>Generally, 15%, if you're not a new borrower on or after July 1, 2014 | 20 years, if you're a new borrower on or after July 1, 2014 | Monthly payment under PAYE or IBR plan can't be higher than your 10-year standard repayment plan |
| Pay As You Earn Repayment Plan (PAYE Plan) | 150% of federal poverty line | Generally, 10%, but never more than 10-year standard repayment plan amount | 20 years | Monthly payment under PAYE or IBR plan can't be higher than your 10-year standard repayment plan<br>Must have no Direct Loan or Federal Family Education Loan (FFEL) when you receive a Direct Loan or FFEL Program loan on or after Oct. 1, 2007, and must have received a disbursement of a Direct Loan on or after Oct. 1, 2011 |
| Revised Pay As You Earn Repayment Plan (REPAYE Plan) | 150% of federal poverty line | Generally, 10% | 20 years, if all loans you're repaying under the plan are for undergraduate study<br>25 years, if any of your loans are for graduate or professional study | Any borrower with eligible federal student loans<br>Direct subsidized and unsubsidized Loans<br>Direct PLUS Loans made to students<br>Direct Consolidation Loans that do not include PLUS loans (Direct or FFEL) made to parents |

*Source: Federal Student Aid, an Office of the U.S. Department of Education*
*Note: This is not an exhaustive list of all the eligibility requirements. Please refer to Federal Student Aid resources for more information.*

IDR plan monthly payments are determined using a formula that takes into account the borrower's income and family size. Payments are based on a percentage of the borrower's discretionary income, which is equal to their federal adjusted gross income (AGI) minus 100% or 150% of the federal poverty threshold for a borrower's household size. Depending on the plan, the borrower's monthly payment will be 10%, 15%, or 20% of their discretionary income.[20] For example, an unmarried borrower with no dependents and an AGI of $48,000 would have a monthly payment of $286.75 under REPAYE. Borrowers with an AGI below 150% of the federal poverty line can have a $0 monthly payment. In fact, nearly, half of all borrowers in IDR have $0 payments,[21] because they don't make enough to pay more. But if they're never able to chip away at their principal, those borrowers' balances could balloon. If the borrower is married, their spouse's income will also be considered, though how it is considered varies by IDR plan. Borrowers must recertify their income annually to keep their lower monthly payment. This can be a time-consuming process for some borrowers but forgetting or failing to submit the recertification paperwork can trigger higher payments.

Given all that, it's no wonder so many Black borrowers are frustrated. **Thea, who borrowed $200,000, explains why she hasn't enrolled in IDR:** ***"I could get [an] income-based repayment plan, but why do they make it so hard? I just put it to the wayside … [because] the process was too difficult for me to put it together."***

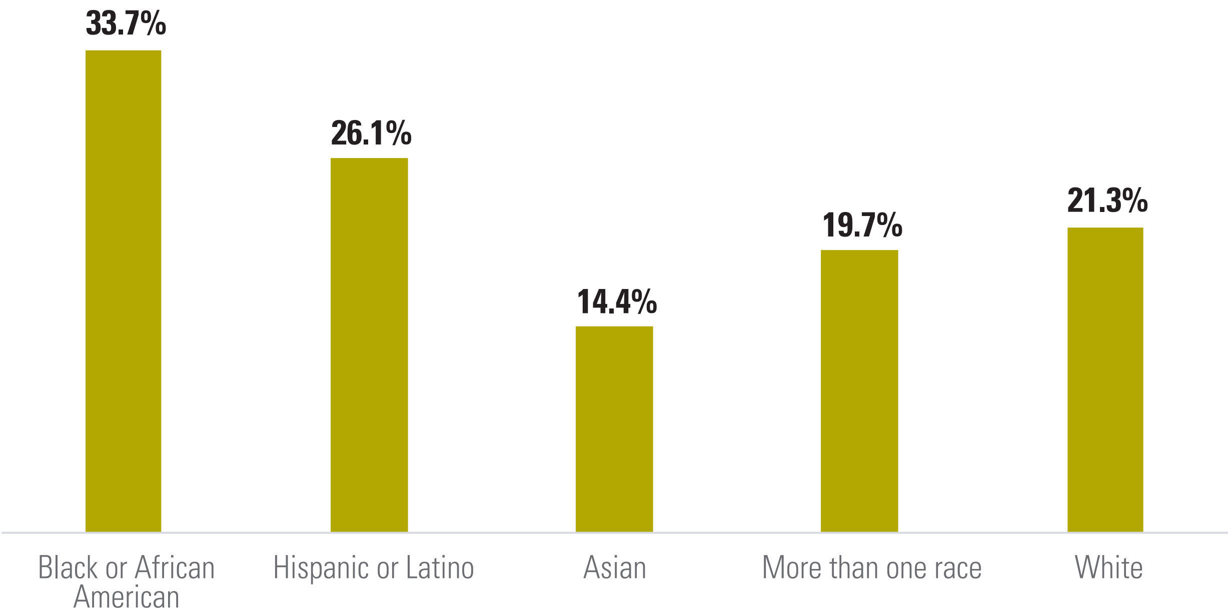
## FOR BLACK BORROWERS, INCOME-DRIVEN REPAYMENT PLANS ARE OFTEN A LIFETIME DEBT SENTENCE

Many Black borrowers who participated in the study said they feel like student loans are a lifetime debt sentence and income-driven repayment plans that saddle borrowers with more debt are a part of the problem.[22]

Racial pay and wealth inequities leave many Black borrowers with no option but to turn to IDR plans. According to federal data, 45.4% of Black borrowers say they are very likely to use IDR plans, and 23.4% say they are somewhat likely to use them, compared to 25.7% and 22% of White borrowers respectively. Twelve months after completing a bachelor's degree, 33.7% of Black borrowers were enrolled in an IDR plan, a higher percentage than any other racial or ethnic group with usable data (see Figure 1).

***"When I came out of school, I owed $120,000. I've been paying for 15 years, and I owe $110,000." – Bill***

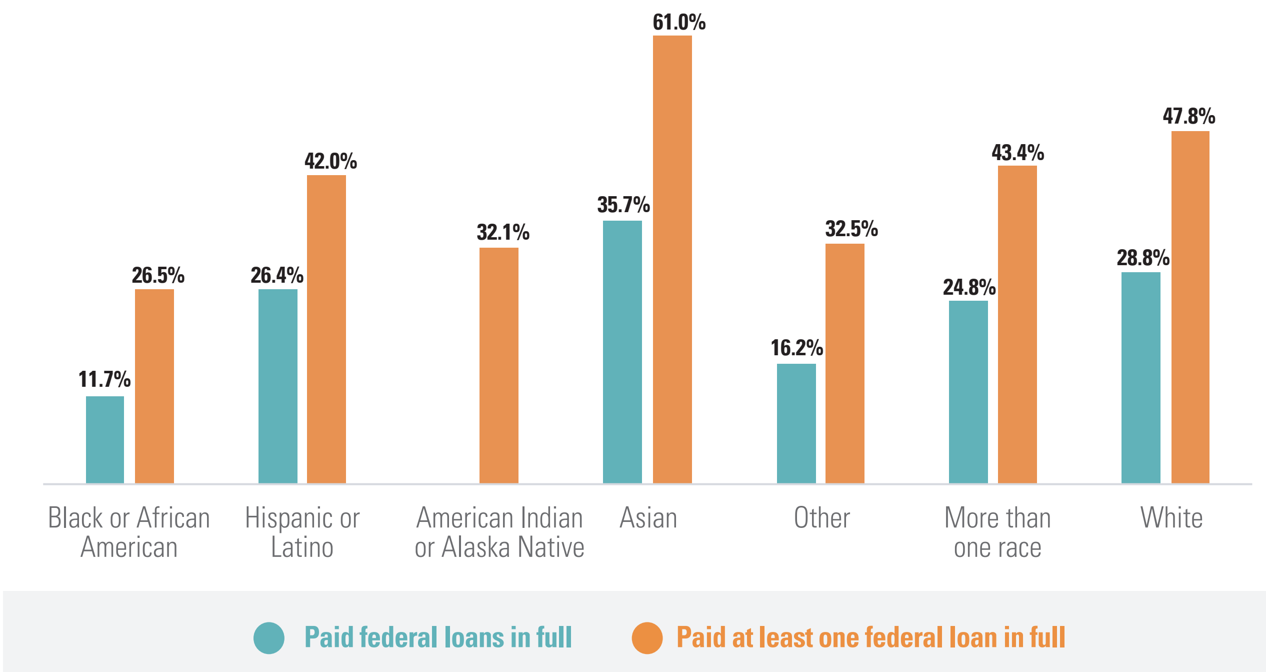
**FIGURE 1: PERCENTAGE OF BORROWERS IN IDR PLANS (BY RACE/ETHNICITY), 12 MONTHS AFTER COMPLETING A BACHELOR'S DEGREE**




*Source: U.S. Department of Education, National Center for Education Statistics, Baccalaureate and Beyond: 2016/2017 (B&B)*
*Note: American Indian or Alaska Native and Native Hawaiian/other Pacific Islander were not included because reporting standards were not met.*

Many of them are still paying their student loans and will be for the foreseeable future. Of the Black borrowers who began their postsecondary education in 2004, only 11.7% had fully repaid their federal student debt 12 years later — i.e., by June 30, 2015 (see Figure 2).[23] Just 3.3% had fully repaid their loans without defaulting or having a portion of their loan discharged.[24] During this same time frame, only 26.5% of Black borrowers managed to pay off at least one federal loan in full — less than any other racial or ethnic group (see Figure 2).[25] **Bill, who borrowed $130,000, says he's made little headway, despite many years of making payments:** ***"When I came out of school, I owed $120,000. I've been paying for 15 years, and I owe $110,000."***

**FIGURE 2: PERCENTAGE OF BORROWERS (BY RACE/ETHNICITY) WHO STARTED COLLEGE IN 2004 AND HAD REPAID ALL FEDERAL STUDENT LOAN DEBT OR AT LEAST ONE FEDERAL STUDENT LOAN (OR ANY FEDERAL STUDENT LOAN) WITHIN 12 YEARS**




*Source: U.S. Department of Education, National Center for Education Statistics, Beginning Postsecondary Students: 2004/2009 (BPS).*
*Note: "Paid federal loans in full" for American Indian or Alaska Native borrowers is not included because reporting standards were not met.*

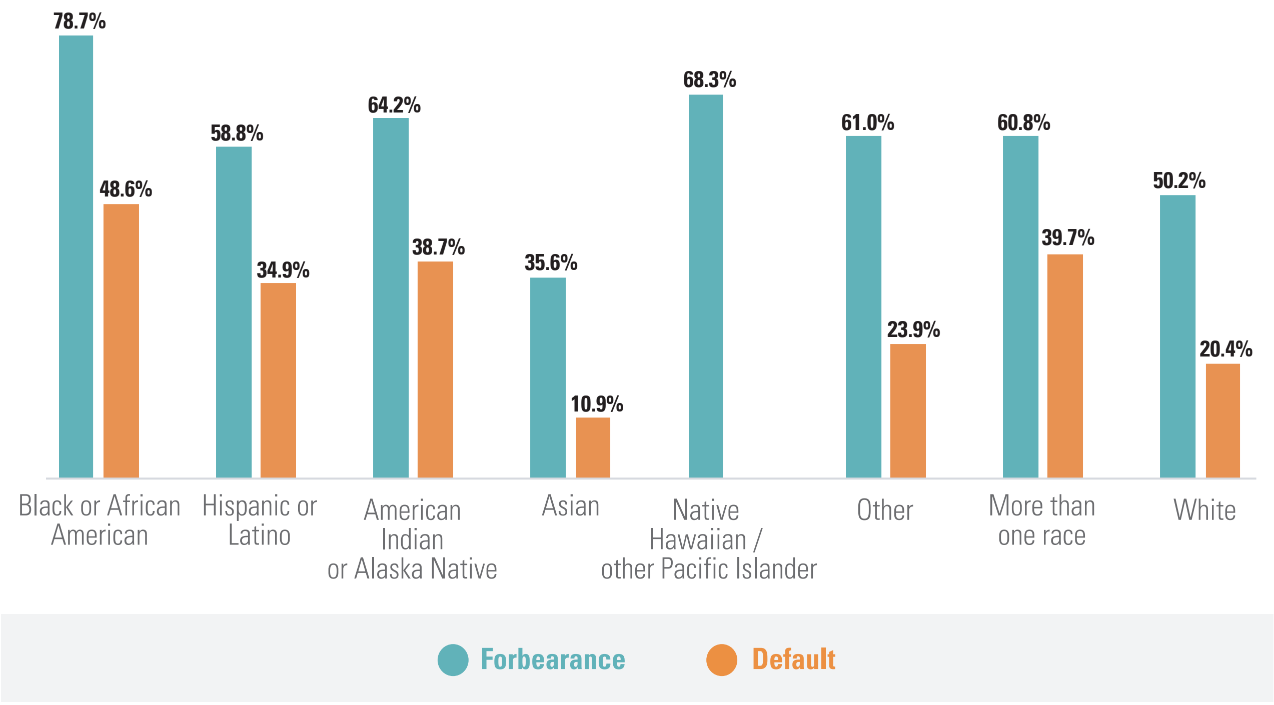
## EXISTING INCOME-DRIVEN REPAYMENT PLANS DON'T PREVENT MANY BLACK BORROWERS FROM DEFAULTING OR USING FORBEARANCE

Bill's situation isn't an anomaly. Despite the existence of IDR plans, which are intended to help keep borrowers out of delinquency and default, Black borrowers still have the highest forbearance and default rates of any group. Nearly 49% of Black borrowers defaulted on their loans within 12 years of starting college, much higher than any other group (see Figure 3). [26] Default occurs when a borrower misses nine months of payments on a federal student loan. It can ruin a person's credit and make it harder for them to rent an apartment, buy a car or a home, or even get a job. In addition, if a borrower defaults on a federal student loan, the government may garnish their wages and Social Security income or withhold tax refunds and other public benefits.[27] In April 2022, the Department of Education announced that it would give borrowers who were delinquent or in default a "fresh start" that would allow them to resume repayment in good standing.[28] This initiative will help over 7.5 million borrowers in default.[29]

More than 78% of Black borrowers have used forbearance,[30] which is an option that lets struggling borrowers *temporarily* pause monthly payments. However, using forbearance increases the amount owed on a loan, as interest continues to accrue. At the end of the forbearance, that accrued interest is capitalized, meaning it is added to the principal; and going forward, interest will accrue on this new, higher principal balance.[31] Using forbearance is costly —

borrowers will pay more interest over the life of the loan — and not a good long-term solution. Additionally, time spent in forbearance does not count toward federal student loan forgiveness.

**FIGURE 3: PERCENTAGE OF BORROWERS (BY RACE/ETHNICITY) WHO BEGAN COLLEGE IN 2004 AND DEFAULTED OR USED FORBEARANCE WITHIN 12 YEARS**




*Source: U.S. Department of Education, National Center for Education Statistics, Beginning Postsecondary Students: 2004/2009 (BPS).*
*Note: Default for Native Hawaiian/other Pacific Islander not included because reporting standards were not met.*

***Data from the U.S. Department of Education shows that of the 2 million borrowers who were eligible for IDR loan cancellation in 2019, only 32 of them have had their outstanding debt cleared.***

## HOW LOAN SERVICERS UNDERMINED INCOME-DRIVEN REPAYMENT PLANS

A key feature of many IDR plans is the promise that after 20 or 25 years of making qualifying payments a borrower's remaining loan balance will be cancelled. In theory, this is supposed to ensure that borrowers aren't making payments indefinitely. In practice, though, many borrowers who've made payments for 20 – 25 years or more are **no closer** to debt cancellation. Data from the U.S. Department of Education shows that of the 2 million borrowers who were eligible for IDR loan cancellation in 2019, only **32** of them have had their outstanding debt cleared. [32]

Loan servicers — that is, the companies that manage student loans on behalf of the federal government — are at least partly to blame.[33] They are responsible for placing borrowers into payment plans; managing billing, forbearances, and deferments; collecting and tracking borrowers' payments and balances; and submitting reports to credit bureaus; and, therefore, play a critical role in the student loan repayment process. For IDR plans to work properly, loan servicers must not only guide struggling borrowers to the right plan, but also effectively track their payments and maintain accurate records. Unfortunately, some servicers have failed on all counts.

Not surprisingly, the industry has a long history of misleading and harming borrowers financially.[34] Reporting by NPR has revealed the extent to which several loan servicers undermined IDR plans and financially harmed millions of borrowers.[35] Documents from the Department of Education show that these loan servicers steered borrowers into forbearance instead of income-driven repayment plans, even though the lowest-income borrowers could have had monthly payments as low as $0 or $5. Forbearance steering is particularly harmful to borrowers with low incomes because the time spent in forbearance doesn't count toward cancellation, and loan interest continues to accumulate. What's more, three loan servicers neglected to track borrowers' payments and progress toward cancellation at all.[36]

## HOW THE FEDERAL GOVERNMENT PLANS TO ADDRESS DEBT CANCELLATION AND INCOME-DRIVEN REPAYMENT PLANS

In April 2022, the U.S. Department of Education released a plan to remedy some of the harm done to borrowers by loan servicers who steered them into costly forbearance. First, the government will automatically count the payments of borrowers who were in forbearance for longer than 12 consecutive months, or more than 36 months in total, toward IDR cancellation. [37] Additionally, any payments made by borrowers will count toward cancellation, even if they were not in an IDR plan. As a result of the changes, an estimated 3.6 million borrowers will get three years of credit toward cancellation, and an estimated 40,000 borrowers could have their debt completely canceled. Borrowers who were in forbearance for fewer than 12 months may file a complaint with the Federal Student Aid Ombudsman and request an account review to have their qualifying payment count toward cancellation adjusted. Going forward, the department, instead of loan servicers, will track qualifying payments.

In August 2022, the Biden administration announced a plan to cancel $10,000 in federal student loans for individual borrowers with incomes below $125,000 or $250,000 for married couples filing jointly or heads of households in 2020 or 2021. Borrowers who received a Pell Grant and qualify otherwise are eligible for up to $20,000 in cancellation. Only federal student loans disbursed before June 30, 2022, qualify. More specifically, undergraduate and graduate Direct Loans, Grad PLUS loans, Parent PLUS Loans, Perkins Loans held by Department of Education, Federal Family Education

Loans (FFEL) held by the Department of Education, and defaulted loans qualify, as do consolidation loans, as long as the underlying loans were disbursed before June 30, 2022. Commercially held FFEL and Perkins loans do not qualify unless the borrower applied to consolidate their loans into Direct Loans before September 29, 2022.[38] Borrowers who do not want their debt cancelled can opt out.[39]

The administration has proposed a new income-driven repayment plan that would raise the protected income threshold from 150% of the federal poverty line to 225% of the federal poverty line and cap monthly payments for undergraduate loans at 5% of discretionary income. Monthly payments for graduate loans would be based on a "weighted average rate." If a borrower's monthly payment is less than the monthly interest, the government will cover the remaining interest. In addition, borrowers with initial balances of $12,000 or less could have their remaining balance cancelled after making qualifying payments for 10 years. Full details of the proposed plan have yet to be released. The payment pause for federal student loans has been extended to December 31, 2022.[40]

## RECOMMENDATIONS

These are strong steps in the right direction, but they do not address the underlying issue of affordability or help future students, who may still be forced to take out loans in pursuit of a college degree, which is all but required to compete in today's labor market. And while Biden's proposal for a new income-driven repayment plan is a welcome and marked improvement over existing programs, it does not do nearly enough to make debt repayment manageable for borrowers who were already struggling before the pandemic upended the economy and their lives and brought about greater economic hardship and rising prices for food, fuel, and rent.[41] Through no fault of their own,[42] Black people are particularly likely to have student debt and must contend with employment discrimination that often results in lower wages and higher unemployment.[43] The student debt crisis among Black borrowers is the result of failed and intentionally racist policies that are beyond their control.[44] Policymakers must recognize that and do more to alleviate Black borrowers' student debt burden. The Biden administration and Congress should take the following steps to end the crisis and make college affordable for all students:

1. More than 80% of the participants in the National Black Student Debt Study think the federal government should cancel **all** student debt, and policymakers would be wise to listen to them and help ease their debt burden. The Education Trust supports canceling at least $50,000 of federal student debt per borrower and opposes limiting eligibility for cancellation by income, loan type, or degree level (e.g., undergraduate versus graduate degree).

2. In addition to total broad-based debt cancellation, a new IDR plan that includes the following features should be created in place of existing plans:

    - Raises protected income threshold to 300% or more of the federal poverty line, depending on a borrower's family size
    - Caps monthly payments at 5% or less of a borrower's discretionary income
    - Has a time to cancellation of 10 years or less, regardless of original loan balance, and shortens time to cancellation for Public Service Loan Forgiveness to eight years
    - Cancels a portion of the outstanding balance after every 12 months of payments, with full cancellation of the outstanding balance after 10 years or 120 monthly payments

- Allows borrowers to request a lower IDR payment in times of economic hardship (e.g., due to major medical expenses or debt, the need to pay for child care, elder care, or other dependent care)
- Subsidizes interest for borrowers whose monthly payments do not cover all accrued interest and does not add interest to borrower's original loan balance during repayment
- Is available to undergraduate and graduate borrowers with the same terms
- Is available to borrowers with Parent PLUS loans (without the need to consolidate)
- Is available to borrowers at all income levels
- Makes student debt cancellation via IDR tax-exempt

**3.** Congress should double the Pell Grant and create federal-state partnerships to make public college debt-free.

A higher education is supposed to be a ticket to a better future, not a lifetime debt sentence. Let's end the student debt crisis once and for all and make college affordable for students.

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