

Student Loan Legislation: Changes You Need to Know

David Evans, Ph.D. | Purdue University

Changes in student loan policies, procedures, and costs (e.g., interest rates) occur frequently. If you have student loans or if you are thinking about using them to help pay for college, keeping up on changes to the laws regulating student loans could save you time and money. This fact sheet describes recent student loan laws and policies that have large impacts on borrowers.

New Repayment Plan

December 2015 saw a lot of legislation regarding federal student loans. One of the biggest changes saw an increase in the number of borrowers eligible for the Pay as You Earn (PAYE) Program. This program is called Revised Pay as You Earn (REPAYE). Under this plan, borrowers can cap their monthly student loan payment at 10 percent of monthly discretionary income, rather than 15 percent allowed under the Income Based Repayment Plan, regardless of when the loans originated.

The REPAYE program forgives any remaining debt after 20 years for undergraduate loans. Graduate degree debt is forgiven after 25 years.

Servicer Changes

More changes came in 2015 that focus on servicing of student loans. No longer can preference be given to specific student loan servicers. Congress also gave debt collectors the right to use “Robocall” technology to autodial federal student loan borrowers who haven’t made their payments.

Federal Perkins Loans Changes

The [Federal Perkins Loan Program Extension Act of 2015](#) extends the program for many students for

two more years. Under the deal, undergraduate students who demonstrate need-based eligibility for the Perkins loan can continue to receive these loans through September 2017. However, no new Perkins loans will be issued after that.

As of Oct. 1, 2015, schools were prohibited from making new Perkins loans to students who had not received a Perkins loan prior to Oct. 1, 2014. Graduate students will only be eligible to receive new Perkins loans through September 2016 if they already have an existing Perkins loan.

Additionally, the legislation requires all Perkins borrowers to exhaust their eligibility for federal Stafford loans (subsidized and unsubsidized) before receiving a Perkins loan. Existing Perkins borrowers don't have to meet this requirement.

Graduate Students Subsidized Loans

One little-known provision of the Budget Control Act that was signed into law on August 2, 2011 eliminated subsidized loans from the federal government for graduate and professional students. Graduate students can receive unsubsidized federal loans, but they are responsible for the interest that accrues on the loan while they’re in school.

Funding for Low-Income Families

For a family to qualify for an automatic zero Expected Family Contribution (EFC), the annual income for the parents of a dependent student cannot exceed \$25,000. As for independent students, their income (including a spouse if married) also cannot exceed \$25,000.

Public Service Loan Forgiveness Program

Previous laws required those wishing to take advantage of the Public Service Loan Forgiveness Program (PSLF) to make 20 years worth of payments before their loans could be forgiven. An update to the law cuts that time in half. Borrowers now have the opportunity to discharge the entire balance of their student loans after just ten years (120 on-time payments) of repayment.

Program Integrity and Improvement

Students are able to choose how to receive their Federal student aid refunds. Student will be given objective and neutral information about their financial aid disbursement options, and the fees charged to access their Federal student aid, including Pell Grants are regulated. Institutions are required to give students more choice about how to receive their student aid.

Institutions are prohibited from requiring students or parents to open a certain account into which their student aid refunds are deposited. They are required to ensure that students are not charged excessive and confusing fees (e.g., overdraft fees and transaction-swipe fees) if a student selects an account offered directly or indirectly by contractors that assist institutions in making direct payments of Federal student aid. Electronic payments made to a student's preexisting accounts are required to be made in a timely manner.

Home Buyers

In 2015, a big change came to how mortgage lenders calculate student loans into debt-to-income ratios. FHA guidelines now state that lenders must use 1% of the outstanding balance of student loans if they are being repaid under an income-based repayment plan. They are no longer allowed to use the actual amount of one's payment. So, if you owe \$75,000 and your monthly payments are \$200, the

lender will use the amount of \$750 when calculating your debt-to-income. Many lenders are using the 1% guideline across the board for all types of mortgages. So, if you need to use your actual payment to qualify for a non-FHA mortgage, you may need to do some searching.

Summary

There will likely be many changes during the time it takes to re-pay your student loans. Some of those changes can be anticipated, others cannot. It is the borrower's responsibility to remain aware of specific changes affecting them, especially those that will affect your bottom line. The best place to obtain information on changes to your federal student loans is the federal student aid office of the [U.S. Department of Education](http://www.ed.gov). Other sources of information may be outdated, inaccurate or misleading. While you may not be in school, a little homework can go a long way to helping you pay off your loans as soon as possible!

Resources

Income Driven Plans

<https://studentaid.ed.gov/sa/repay-loans/understand/plans/income-driven>

Forgiveness, Cancellation and Discharge

<https://studentaid.ed.gov/sa/repay-loans/forgiveness-cancellation>

Public Service Loan Forgiveness Program

<http://www.forgetstudentloandebt.com/student-loan-relief-programs/federal-student-loan-relief/federal-forgiveness-programs/>

Program Integrity

<https://www.federalregister.gov/articles/2015/05/18/2015-11917/program-integrity-and-improvement>