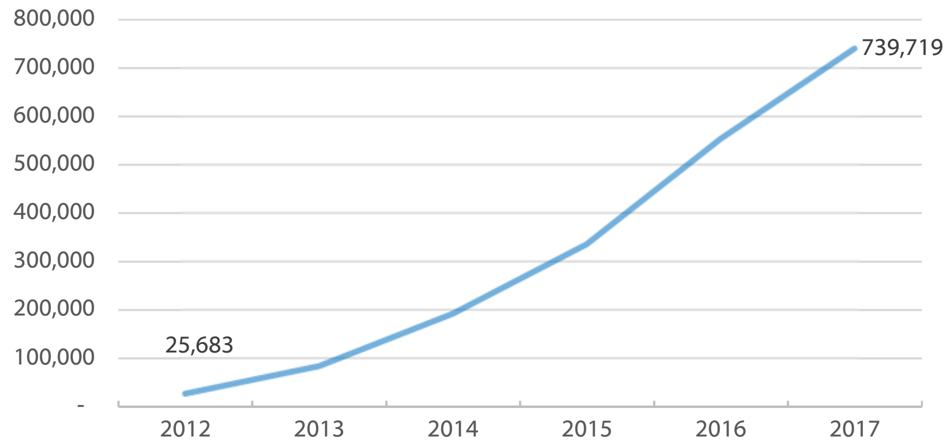
More Borrowers Pursue Federal Public Service Loan Forgiveness, Which Congress May Repeal

The Public Service Loan Forgiveness Program (PSLF) cancels the remaining balance of Federal Direct Loans for borrowers who have made 120 qualifying monthly payments while working full-time for certain government and non-profit employers. Qualifying payments must meet several eligibility criteria, including being made in full, within 15 days of the due date, and under an income-driven repayment (IDR) plan. PSLF first became available in 2007, and borrowers could (theoretically) have achieved 120 qualifying payments beginning in October 2017.

Borrowers who pursue PSLF take a risk. PSLF applies only to borrowers who enroll in IDR plans, which lower monthly payments but extend the payment period, resulting in higher interest costs over time. Borrowers who spend several years in IDR making qualifying payments can still lose eligibility due to employment changes, income growth, or Congressional action altering the PSLF terms; these borrowers now may face higher costs than if they had attempted to repay on the Standard Repayment Plan. Borrowers may also choose to pursue forgiveness through payment caps on certain IDR plans, though these options take longer and are also subject to Congressional action, and the Internal Revenue Service may tax this forgiveness as income (amounts forgiven under PSLF are not taxed).

Cumulative Borrowers Pursuing Public Service Loan Forgiveness (through 7/30/2017)



Despite the uncertainty surrounding PSLF, it is increasingly popular, with 739,719 borrowers having certified their employers' eligibility as of September 30, 2017. The chart above represents unique borrowers who have received approval for an Employment Certification Form. The Department of Education introduced the voluntary Employment Certification Form (ECF) in 2012 to help borrowers establish eligibility and track their progress towards 120 qualifying payments. Though borrowers can wait to document their eligibility until requesting forgiveness, the number of borrowers who have had at least one ECF approved is currently the best proxy for borrowers pursuing PSLF. The Department has also denied over 633,000 ECFs since 2012 (this counts denials issued to borrowers who may have been denied previously).

Congress is currently considering PSLF (among many other topics) as it moves towards reauthorization of the Higher Education Act (HEA). The PROSPER Act, the U.S. House version of HEA reauthorization that passed out of committee and is awaiting a vote of the whole House as of this writing, would eliminate PSLF for new borrowers but maintain the option for existing borrowers (it is not clear whether loans issued to existing borrowers after the cutoff date would be eligible). Previous proposals include capping the amount that is eligible for forgiveness after ten years and offering partial forgiveness periodically (e.g. forgiving ten percent every year), such that forgiveness would no longer be an all-or-nothing proposition.

Sources: U.S. Department of Education, Federal Student Aid: https://studentaid.ed.gov/sa/repay-loans/forgiveness-cancellation/public-service/questions; U.S. Department of Education, Federal Student Aid, PSLF Employment Certification Forms Report: https://studentaid.ed.gov/sa/about/data-center/student/portfolio; U.S. House Committee of Education and the Workforce, PROSPER Act: https://www.congress.gov/bill/115th-congress/house-bill/4508