US proposes student loan safety net

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In news– The US White House is moving forward with a proposal that would lower student debt payments for millions of Americans now and in the future, offering a new route to repay federal loans under far more generous terms

About student loan safety net-

- The new plan, which was first announced over the summer but officially proposed in the Federal Register, lowers monthly payment requirements and creates an easier path to loan forgiveness.
- Despite the low profile of the payment plan, however, some education experts see it as a more powerful tool to make college affordable, especially for those with lower incomes.
- If it's finalized, the **proposal would give a major overhaul to income-driven repayment plans** – one of several payment options offered by the federal government.
- The resulting plan would have lower monthly payments, an easier path to forgiveness and a promise that unpaid interest will not be added to a borrower's loan balance.
- The federal government **now offers four types of income-driven plans,** but the proposal would mostly phase out three of them while focusing on one simplified option, scaling back the confusing array of options borrowers now face.
- Under existing plans, monthly payments are capped at 10% of a borrower's discretionary income, and those earning less than $20,400 a year aren't required to make payments.
- The new proposal would cap payments for undergraduate loans at 5% of borrowers' pay, cutting their bills in

half, and require payments only for those who earn more than about $30,000 a year.

- As long as borrowers make their monthly payments, any unpaid interest would not be charged.
- The change is meant to prevent borrowers from having unpaid interest added to their loan balance, a practice that can cause debt to snowball even as borrowers make payments.
- Significantly, the proposal would also make it easier to get debt erased after making several years of payments.
- Existing plans promise to cancel any remaining debt after 20 or 25 years of payments. The new plan would erase all remaining debt after 10 years for those who took out $12,000 or less in loans. For every $1,000 borrowed beyond that, a year would be added.