

President Obama expands student loan repayment

By Jonathan T. Hasebe



In an effort to address the growing issue of student loan debt, on June 9, 2014, President Obama signed an executive order expanding a federal program to allow an estimated five million more borrowers to take advantage of a repayment program which caps payment of a borrower's student loans at ten percent of their income.

The figures for student loan debt continue to grow more shocking every year. Of the 20 million Americans that attend college every year, nearly 70 percent take out private or federal loans to help cover those costs. According to the Federal Reserve Board of New York, there are approximately 40 million Americans that have outstanding student loans totaling more than \$1 trillion in outstanding student loan debt. On average, a Class of 2014 graduate has \$33,000 in student loan debt, which is more than double the amount borrowers had to pay back 20 years ago, even after adjusting for inflation.

Student loan debt not only has a profound impact on the daily lives and spending habits of borrowers but on the nation's economy as a whole. In a recent survey by the American Student Alliance, 29 percent of respondents indicated that they are putting off marriage as a result of student loans. Sixty-three percent responded that student loan debt affected their ability to make large purchases, such as a car. Seventy-three percent stated they are delaying saving for retirement or other investments in order to pay down their debt. Seventy-five percent indicated that the debt has affected their decision or ability to purchase a home.

The main change in the June executive order signed by President Obama is that it allows borrowers of federal student loans who began borrowing before 2007 or stopped borrowing before 2011 to

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cap their repayments at 10 percent of their monthly discretionary income. The cap itself is nothing new—it was originally instituted in the Health Care and Education Reconciliation Act of 2010. However, prior to the President's June 9 Executive Order (which will go into effect in 2015) only certain borrowers of federal student loans could take advantage of the program. For the purpose of this cap, discretionary income is determined by subtracting 150 percent of the poverty level from an individual's total income. In 2014, the poverty level for a single person is \$11,670. So, the payments for a graduate living alone would be capped at 10 percent of any income above \$17,505.

While the expansion of the repayment program may be helpful in providing relief to some borrowers, questions remain about the systemic issues surrounding the student loan debt problem. Most importantly, the repayment plan does not address the rising cost of college tuition in this country which continues to outstrip inflation. Further, by capping repayment amounts, borrowers will be paying less on a monthly basis, but could be paying more over the long-term. Additionally, how will the cost of the program expansion be funded? Finally, will action be taken by Congress to address the ability of borrowers to refinance private loans into federal student loans?

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