

Pay As You Earn Loan Forgiveness Plan

Posted on May 4, 2018

Description of the Problem

The PAYE was an initiative of the federal government to help college students pay their outstanding loans. The follow-up became a problem for the federal government, and it was this challenge that they were trying to solve with the PAYE and the REPAYE plans.

These two programs are among the income-based repayment plans adopted by federal student borrowers and have since then become famous. To sign up for this program, financial distress had to be long-established, at a point where you cannot make the required payments on a standard ten-year repayment plan.

The program was first initiated by the president of the U.S., Barack Obama, in October 2011, and is far espoused as the 'Obama [Student Loan Plan](#).' The most outstanding component of this plan is to cap monthly loan repayments at 10% of your income and give loan forgiveness past 20 years of qualified payments. (Congressional Research Service [CRS], 2024)

The problem with the PAYE plan was that it was limited to students who received William D. Ford Direct Loans after Oct. 1, 2007, and had funds disbursed to them on or after Oct. 1, 2011. Those loans include direct loans, subsidized and unsubsidized loans, graduate PLUS loans, and direct consolidation loans made after Oct. 1, 2011, unless they contain direct or FFEL loans made after Oct. 1, 2007.

Ethical Thinking

The most important questions while looking at this would be Fairness, Responsibilities, Empathy, and Rights.

- This fairness should be able to guide on how you can best balance the legitimate interests of everyone. To achieve this every individual is treated according to his capability when it comes to the loan repayment plan, and this repayment plan can be changed anytime to the one best suited for you at that specific point or stage for free.
- It brings out the duties or the obligations of everyone who benefits or benefits from this program. It can be dispensed with by ensuring that every beneficiary repays this loan within the stipulated time. The sustainability of this program highly depends on the loan repayment by all the beneficiaries. It makes responsibility a key point here.
- It involves profoundly caring for those involved. Caring is needed for the management involved with this Programme to understand and be able to deal with individual cases which may arise

while administering the PAYE Programme.

- If the amount you would have to wage under the PAYE or IBR plan (based on your salary and family size) is more than what you would have to pay under the 10-year Standard Repayment Plan, you won't subsidy from having your monthly payment amount based on your income, so you don't qualify.

Evidence

Critics have pointed out changes to the Programme. It came into existence after being passed in Congress and signed by the then-president of the U.S.A. They argue they didn't consider the market risk involved in making the loans. They were of the opinion that this Programme forces many Americans to pay for the 'forgiveness' even when they don't have a bachelor's degree themselves. The subsidies in the long term can drive the cost of education up.

Public Service Loan Forgiveness was designed by the College Cost Reduction and Access Act of 2007 to reduce the weight of student loans for greatly qualified graduates and reassure them to pursue professions in the public service division.

This forgiveness option applies exclusively to Direct Federal Student Loans. Private student loans are not qualified for Public Service Loan Forgiveness. To obtain loan forgiveness below this package, you must be a full-time worker in a public service job and make ten years of on-time monthly payments after merging your federal loans into a qualified repayment program. (Federal Student Aid, n.d.)

Influence of Context

PAYE Programme was taken as the long-term solution for college students who have been struggling for a long time to repay their college education loans. In most cases, it was assumed that some of them might not be able to repay the whole amount due to financial challenges and for this case, the law also allows for loan forgiveness after 20 years of payments, and after ten years for those in "public service" — a broad category that includes government and nonprofit workers.

Politics in a significant way is affecting this Programme. President Trump has proposed changes to this program, but as of July 2017, none of the changes have been legislated. It is a result of a change in government from the one which initiated it. The result of this might be a whole different PAYE term. (CRS, 2024)

The economy is also affecting the initial idea, along with the forgiveness plan, since some Americans see this as a burden to them. Even the growing number of borrowers expecting to have their loans forgiven is enormous, thus stretching the money allocated to the budget to cater to this programme. (CRS, 2024)

My Position as a Student

I believe the government should strive to sustain the PAYE loan repayment plan for college students. By doing this, it will be able to grow the economy in the long run since more students will be able to access [college education](#) despite their financial constraints. Also, the authorities involved in making sure that the loans are paid back should be capable of doing this with all the fairness required since failure to observe such will disadvantage some borrowers whose income is low compared to the average wage. Although this action may mainly affect the economy since the higher the number of borrowers, the higher the number of defaulters too, the institution should devise stringent measures to deal with these shortcomings.

In 2013, only 124,000 people enrolled in the PAYE plan. A year later, Obama directed the Secretary of Education to suggest regulations to cap credits for another 5 million people possibly. The loan program variations and expansions tacked on the extra \$22 billion to the price tag. It shows the high rate of growth and development of this initiative.

Conclusion

The government should view the risk the way cloistered lenders would, something known as Fair Value Accounting. The government doesn't use Fair Value Accounting; instead, it tracks the Federal [Credit Reform Act](#) of 1990, or FCRA, when making forecasts. It has initiated those numbers more accurately because, unlike a bank, the federal government isn't required to get a profit and is better able to branch out. The Obama administration has promised to work on slowing the soaring costs, for instance, by showing prospective borrowers what they're getting for their money, by doing that the whole project would become a success celebrated by all citizens. (CRS, 2024)

References

Congressional Research Service. (2024). *Federal student loans made through the William D. Ford Federal Direct Loan Program: Terms and conditions for borrowers* (CRS Report R45931).

Congress.gov. <https://www.congress.gov/crs-product/R45931>

Federal Student Aid. (n.d.). *Public Service Loan Forgiveness*. U.S. Department of Education. <https://studentaid.gov/manage-loans/forgiveness-cancellation/public-service>