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Assembly Higher Education Committee
October 27, 2016
Assembly Bill No. 4084
Income-Driven Repayment Option for NJCLASS Loan Program

The state colleges and universities support this legislation. At the national level, income-based repayment programs for federal student loans have been a success, and they can serve as a model for the NJCLASS Loan Program.

The federal government offers several programs to assist students with loans, the most significant of which are income-driven repayment options such as the Pay As You Earn (PAYE), Income-Based Repayment (IBR), and Income-Contingent Repayment (ICR) programs. These programs set borrowers' monthly payments at 10 percent or 15 percent of their discretionary income, as defined by a formula.

About 4.6 million borrowers with direct federal loans were enrolled in such plans as of December 2015, a 48 percent increase from December 2014 and a 140 percent increase from December 2013. Borrowers who make payments under the plans while working in government or nonprofit jobs can have any remaining balance forgiven after 10 years of payments. Those in the private sector can have balances forgiven in 20 to 25 years.

On December 17, 2015, a new income-driven repayment plan called Revised Pay As You Earn (REPAYE) was made available to borrowers. The REPAYE Plan enables Direct Loan borrowers to cap their monthly student loan payment amount at 10 percent of monthly discretionary income after graduation, without regard to when the borrower first obtained the loans. After 20 years of payments – or 10 years for those who work for government organizations or most nonprofits – any remaining balance for undergraduate loans will be forgiven.

According to a recent report, more than one-third of borrowers on an income-based repayment plan had monthly payments of zero, because of their relatively low incomes.