

The Unmet Promise of Public Service Loan Forgiveness and How to Fix It

The Public Service Loan Forgiveness program, created in 2007, was intended to encourage individuals to enter vitally important public sector jobs at a time when student debt began to balloon. Public Service Loan Forgiveness has the potential to be a vital benefit in a climate where debt is skyrocketing, because the program allows eligible Americans to have their direct federal student loans forgiven, tax-free. However, only an estimated one percent of potentially eligible borrowers are currently enrolled in the program.

Public Service Loan Forgiveness' effectiveness is hamstrung by a number of factors, including limited outreach to borrowers by both loan servicers and the Department of Education, complicated enrollment procedures, and myriad disincentives for servicers to educate borrowers about their eligibility. This brief will examine existing enrollment data and a range of issues complicating the program's effectiveness that inform concrete solutions that the Department of Education—the federal agency that oversees the program—should take to fulfill the promise of Public Service Loan Forgiveness.

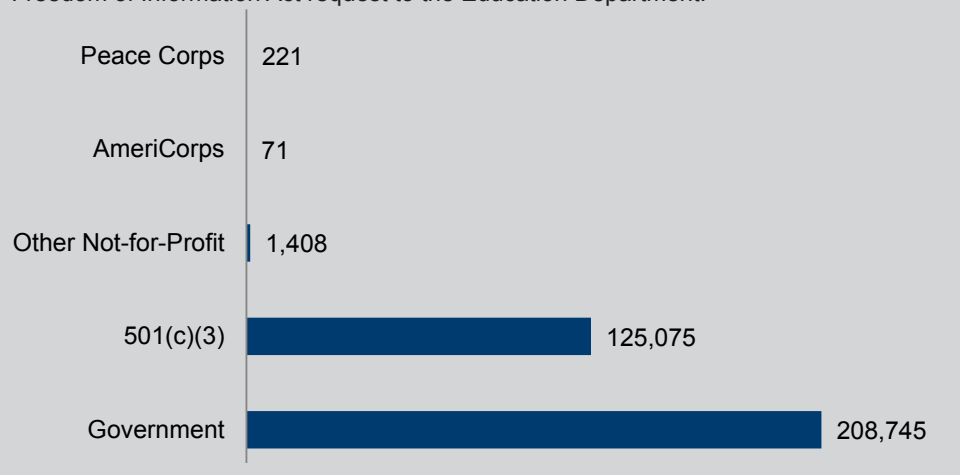
Enrollment by the Numbers

As of June 2015, only 335,520 people are enrolled in Public Service Loan Forgiveness out of the more than 33 million Americans employed in the public service.¹ Those potentially eligible for the program include teachers, community nurses and physicians, emergency personnel, social workers, public interest lawyers, civil servants and government employees employed in the public sector.

Nearly two-thirds of the individuals enrolled in the program work in the public sector, as Figure 1 indicates. Despite claims that the program is predominantly utilized by employees of nonprofit organizations, since 2012, the majority of enrollees come from the public sector.

Figure 1: Borrower Certification by Employer Type

This figure demonstrates the number of borrowers certified into Public Service Loan Forgiveness by employer type, as of June 2015. This data was obtained through a Freedom of Information Act request to the Education Department.



Enrollment data does not give an accurate picture of how many Americans actually benefit from the program. Approximately one out of every four public service employees enrolled into Public Service Loan Forgiveness are currently enrolled in repayment plans that undermine the benefit of the program or are in repayment plans that do not qualify.² Unfortunately, as of December 2014, data released by the Department of Education showed that nine percent of the

borrowers enrolled in Public Service Loan Forgiveness have their debt serviced in ineligible repayment plans (see Figure 2);³ thereby, none of their payments count toward loan forgiveness, negating the benefit of the program. This could be because a borrower certified into the program, but failed to update their income level and was then switched into another repayment plan that charges a similar amount but is ineligible for PSLF. Moreover, the same data shows that 17 percent of borrowers enrolled in Public Service Loan Forgiveness are also enrolled in the standard 10-year repayment plans that undermine the savings that the program offers. Such individuals will have paid off their loans before there is any debt left to forgive after 10 years of on-time payments.

A Record of Inadequate Outreach by the Education Department and Servicers

Education Department’s Failed Outreach and Promotions

Since Public Service Loan Forgiveness’ inception, the Department of Education has failed to effectively market this program—let alone provide basic information about it on a wide scale—to both employers and employees in the public service. Initially, the Department of Education failed to create an enrollment process to inform borrowers of what they needed to do to enroll. Five years after the program’s creation, in 2012, the agency finally produced instructions and a certification form for borrowers to fill out.

The Government Accountability Office affirmed this in an August 2015 report:⁴

“It is unclear whether borrowers who may be eligible for the program are aware of it. Although Education has a strategic goal to provide superior information and service to borrowers and provides information about Public Service Loan Forgiveness through its website and other means, it has not notified all borrowers in repayment about the program. In addition, Education has not examined borrower awareness of the program to determine how well its efforts are working. Borrowers who have not been notified about Public Service Loan Forgiveness may not benefit from the program when it becomes available in 2017, potentially forgoing thousands of dollars in loan forgiveness.”

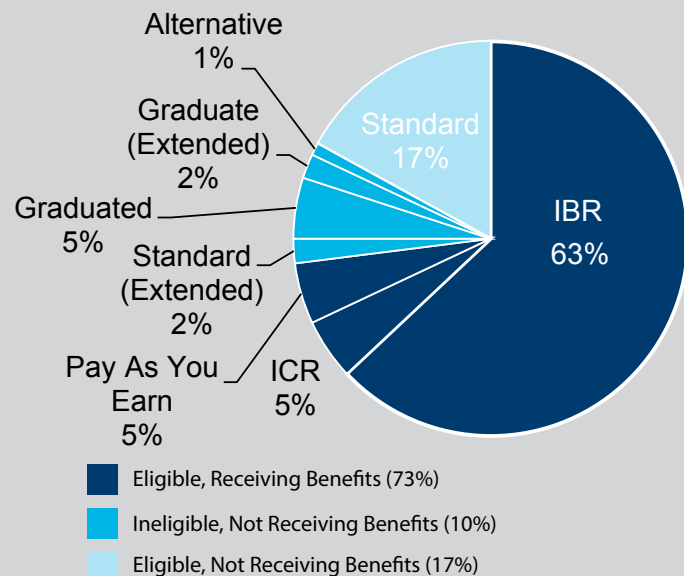
Errors and Indifference From Servicers Add Up

Additionally, student loan servicers under contract with the Department of Education have also failed to promote the program to the borrowers whose accounts they handle, leading borrowers to pay tens of thousands of dollars more than necessary over the life of their loans.⁵ Student loan servicers have also contributed to hurdles that make it difficult for student borrowers to find accurate information about Public Service Loan Forgiveness.

Servicers have come under great scrutiny in the past year for their failure to provide borrowers with critical loan information, resulting in more than 700,000 student loan borrowers falling out of income-driven repayment plans annually.⁶ Servicer errors such as these can be disastrous for student loan borrowers attempting to enroll in the forgiveness program, given the complicated nuances borrowers are required to meet in order to receive this benefit. For instance, a servicer error that results in a late payment will extend the length of time the borrower has to pay before the loan is forgiven. In the worst-case scenarios, these errors can leave the borrower perpetually a month behind on his or her bill,

Figure 2: Repayment Plan Breakdown

This figure displays the type of repayment plans that borrowers who have certified into Public Service Loan Forgiveness are currently enrolled in (as of December 2014).



meaning that he or she is failing to build any credit toward the required 120 on-time payments even while making more than 120 payments in an income-driven repayment plan and working full-time in the public service. Borrowers can go for years without learning their payments have been ineligible, pushing them that much further behind on achieving the benefit of loan forgiveness as a reward for their career in the public service.

Recommendations: A Renewed Public Service Loan Forgiveness Program

Robust, Sustained and Tailored Outreach to Borrowers

The Department of Education could immediately begin to better promote the program through multiple avenues. In November 2014, in response to the low enrollment rate into income-driven repayment plans that reduce monthly payments—one of the only types of repayment plans that qualify for Public Service Loan Forgiveness—the department directly emailed nearly 3.5 million borrowers who they believed would benefit from the repayment program.⁷ To further increase enrollment, the department should consider a sustained, direct outreach program such as this to proactively reach student borrowers, as well as public service employers.

Safe Harbors for Student Loan Borrowers Making Good-Faith Efforts

The Department of Education should solve for the dilemma faced by borrowers, who through misinformation and errors made by their servicers and through no fault of their own, are unaware that they are no closer to forgiveness than when they began making payments. A “safe harbor” program should be created that allows borrowers in this position to regain credit for good-faith efforts to meet the requirements to benefit for Public Service Loan Forgiveness. If a borrower was unaware of the need to consolidate or credit past payments due to mistakes made by their servicer that resulted in non-qualifying payments, borrowers should be able to apply for retroactive credit on payments made on Federal Family Education Loans. Additionally, this would address “Rolling Late Payers,” who are borrowers that are a month behind on their payments and sometimes don’t even realize it, because federal student loans don’t carry late fees. In this situation, a borrower could make 120 payments in an income-driven repayment plan and not reach forgiveness because all of their payments were one month late. These borrowers should not be excluded from the benefits of Public Service Loan Forgiveness when they’ve clearly made good-faith efforts to comply with the necessary requirements.

Conclusion

There is no reason that Public Service Loan Forgiveness should go unpublicized and underutilized in the middle of our country’s student debt crisis. Presently, a vast number of people working in the public service are making key life and financial choices without being aware of a program that could erase their student debt burden. Employees saddled by debt have delayed getting married, starting families, opening new businesses and buying homes. This program could open a new lifeline to millions of borrowers who are currently struggling to get ahead and deserve a return on their work in the public service.

Citations

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3. Ibid.
4. U.S. Government Accountability Office, 2015. "Federal Student Loans: Education Could Do More to Help Ensure Borrowers Are Aware of Repayment and Forgiveness Options," GAO-15-663, August, Page 2.
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