U.S. Department of Education Announces Two Final Regulations to Protect Students and Help Borrowers

Final regulations will protect students from unreasonable fees, safeguard taxpayer dollars and expand income-based repayment plan to millions of Americans

As part of the Obama Administration’s commitment to helping students and borrowers, today, the Department of Education is announcing the publication of two regulatory packages that will protect students in the rapidly-expanding college debit and prepaid card marketplace and add a new income-based repayment plan so more borrowers can limit the amount of their payments to 10 percent of their income.

“Since day one, protecting students and borrowers has been a key priority for the Obama Administration,” said Secretary of Education Arne Duncan. “The two final rules published today represent a continuation of our efforts. The two final rules announced today represent the next step of our efforts. These regulations will help make sure student loan debt is affordable for all borrowers and bring overdue reforms to campus cards, a sector that too often puts taxpayer dollars and student consumers at risk.”

Protecting Students, and Federal Student Aid

Recent changes in the higher education marketplace have led to the proliferation of campus debit and prepaid cards offered to students in exchange for monetary benefits to schools. According to the Government Accountability Office (GAO) and the U.S. Public Interest Research Group (USPIRG), institutions enrolling approximately nine million students—about 40 percent of all college students—have debit or prepaid card agreements. The Department estimates that nearly $25 billion dollars in Pell Grant and Direct Loan program funds are annually released to students at institutions using these accounts. The Department proposed the Cash Management regulation in May.

Under the final regulations, students will be able to freely choose how to receive their Federal student aid refunds, student will be given objective and neutral information about their financial aid disbursement options, and they will no longer be forced to pay excessive fees to access their Federal student aid, including Pell Grants. They will also:

- Require institutions to give students greater choice about how to receive their student aid.
- Prohibit institutions from requiring students or parents to open a certain account into which their student aid refunds are deposited.
• Require institutions to ensure that students are not charged excessive and confusing fees (e.g., overdraft fees and transaction-swipe fees) if a student selects an account offered directly or indirectly by contractors that assist institutions in making direct payments of Federal student aid.

• Require an institution to provide students with a list of account options that the student may choose from to receive their student aid refunds, where each option is presented in a neutral manner and makes clear that the student can have their student aid deposited to their preexisting bank account.

• Require institutions to ensure that electronic payments made to a student's preexisting account are made as timely as, and no more onerous to the student than, payments made to accounts marketed through the institution.

• Allow institutions to share limited student information with third-party servicers that offer financial products to allow the continued functioning of disbursement processes, while also protecting private student information, such as Social Security numbers or portions thereof.

The goal of these regulations is to protect students by (1) ensuring that students have fee-free access to funds needed to pay for education expenses such as food and housing and books and supplies, (2) improve contractual transparency between educational institutions and private financial partners, and (3) eliminate or reduce many of the troubling practices identified by consumer advocates, the GAO, and in a Department’s Inspector General’s report calling for student choice and transparency.

The report identified several troubling practices in the campus card market, including biased and incomplete information provided to students, evidence that third-party servicers use their access to student information to persuade students to select a preferred account over other options, and evidence that some students are incurring unreasonably high fees by using these accounts and are losing their federal student aid funds as a result.

Easing Student Loan Debt For All Students

In June of 2014, President Obama issued a Presidential Memorandum directing the Department of Education to propose regulations to ease the burden of student loan debt. Today’s publication of the Revised Pay As You Earn (REPAYE) Plan regulations responds to that directive by expanding repayment options to allow five million more Direct Loan borrowers to cap their monthly student loan payment amount at 10 percent of their annual income allocated per month, without regard to when the borrower first obtained their loans. The Department announced the proposed regulations earlier this year. In addition, the new regulations also include:

• Starting in 2016; an expansion of the circumstances under which institutions may challenge or appeal a cohort default rate that appears artificially high because of a corresponding low rate of student borrowing;

• Starting July 1, 2016; new procedures for FFEL Program loan holders to identify servicemembers who may be eligible for a lower interest rate under the Servicemembers Civil Relief Act (SCRA), enabling these borrowers to receive this important benefit automatically.

• A requirement that guarantors provide information to FFEL Program borrowers on repayment plans available to them after they rehabilitate their defaulted loans, to help ensure that borrowers have a smoother transition to regular repayment. This section of the regulations will be implemented July 1, 2016.

• And a provision to allow lump-sum payments made on behalf of borrowers through student loan repayment programs administered by the Department of Defense to count toward Public Service Loan Forgiveness, similar to the application of lump sum
payments for Peace Corps and AmeriCorps volunteers. This action assures that these borrowers benefit more fully from their public service employment.

The new REPAYE repayment plan will be available to borrowers starting this December. Borrowers interested in enrolling in learning more about income-based repayment options can visit www.StudentAid.gov/IDR or contact their loan servicers.

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