

Committee on Education and Labor
The Responsible Education Assistance through Loan (REAL) Reforms Act
Section by Section Summary

TITLE I—LIMITS ON SECRETARY AUTHORITY

Sec. 101. Limitation on authority of Secretary to Propose or Issue Regulations.

Requirements for New Regulations. Requires the Secretary to confirm that any new regulations or executive actions issued related to the student loan program would not increase costs to the federal government. Prohibits any regulations from being issued that cannot meet that threshold. This determination is in addition to other cost analyses required under law. As such, this section also effectively prohibits the Secretary from issuing illegal waivers for loan forgiveness programs, or extending the pause on federal student loan payments, similar to ideas captured in H.R. 7058, the *Federal Student Loan Integrity Act* (Reps. Bob Good and Jim Banks).

TITLE II—LOAN REFORMS

PART A—CURRENT BORROWERS

Sec. 201. Income-Contingent and Income-Based Repayment Plans.

Excessive Interest Cap. Allows existing borrowers to benefit from the cap on excessive interest provided to new borrowers in the new income-based repayment (IBR) plan established in section 226. Specifically, accrued interest is capped for borrowers beyond what they would have paid under a standard repayment plan and discharges the remaining balance for borrowers who have made payments equal to or in excess of their principal, 10 years' interest and any interest that accrued during specified deferments. For consolidation loans, the total payment amount is capped to the terms of the initial consolidation loan. This policy also applies to both current and future borrowers in both the Federal Family Education Loan (FFEL) and Direct Loan programs. For borrowers who have been in repayment for 10 years or longer and are still failing to make payments sufficient to cover the interest that accrued on their loans, the interest is waived to allow the borrower to pay down their principal; interest will still accrue for the remainder of the borrower's repayment term.

Treatment of Federal Family Education Loan (FFEL) Program Borrowers. Requires the Secretary to assume the repayment obligations of a borrower with loans made under the old FFEL program that qualify for the excessive interest cap benefit established in section 201 of the bill. This ensures the loan holder will not be inadvertently harmed by the excessive interest cap due to accelerated payments. The loan will be discharged from the borrower's perspective, and the discharged loan will be reported to credit agencies by the holder of the loan accordingly. The Secretary is barred from using any authority not explicitly authorized to borrowers when assuming the obligations of the loan to prevent the Secretary from using this provision as a way to transfer more loans onto the federal government's books.

PART B—LOAN REHABILITATION AND LOAN LIMITS

SEC. 211. Loan Rehabilitation.

Additional Rehabilitation for Borrowers in Default. Permits loans to go through the established process of loan rehabilitation twice, rather than just once. Loan rehabilitation is the process whereby a borrower brings his or her defaulted loan back into good standing by making nine on-time payments in 10 months and, in doing so, removes the black mark of the defaulted loan from the borrower's credit report.

Sec. 212. Loan Limits.

Grad PLUS. Eliminates the Grad PLUS program for new borrowers.

Graduate Stafford Loan Limits. Imposes limits on graduate borrowing for students enrolling on or after July 1, 2023. Graduate students are permitted to borrow \$25,000 annually and no more than \$100,000 in aggregate for their program.

Loan Limits Based on Institutional Discretion. Modeled after H.R. 4600, the *Responsible Borrowing Act* (Rep. Grothman), allows financial aid administrators to further limit undergraduate and graduate borrowing for certain categories of borrowers, including those attending less than full-time, in order to help prevent borrowers from incurring additional unnecessary debt. Financial aid administrators are given discretion to raise limits back to the statutory cap for certain borrowers demonstrating special circumstances or exceptional need.

PART C—REPAYMENT TERMS AND CONDITIONS FOR LOANS MADE ON OR AFTER JULY 1, 2023

Sec. 221. Repayment Terms for Federal Direct Consolidation Loans

Repayment Options for Consolidation Loans. Allows new consolidation loans to have access to the new income-driven repayment plan established by the bill.

Sec. 222. Repayment Incentives.

Prohibition on New Repayment Incentives. Prohibits any repayment incentives from being offered beyond the 0.25 percent interest rate deduction for new borrowers.

Sec. 223. Repayment Plans

Repayment Options for New Borrowers. Pares down the maze of repayment options to one standard 10-year repayment plan and one IBR income-based repayment (IBR) plan.

Sec. 224. Public Service Loan Forgiveness (PSLF).

PSLF Elimination. Eliminates the PSLF program for new borrowers.

Sec. 225. Income-Based Repayment Plan for Loans Made on or After July 1, 2023.

Repayment Terms. Borrowers in the new IBR plan are required to repay the principal and interest they would have paid under a standard 10-year plan, as calculated when they entered repayment. The total cap protects against negative amortization, and thus caps the interest beyond what the borrower would have paid over 10 years (or the original repayment period in the case of a consolidation loan). The new IBR plan requires borrowers to pay 15 percent of their discretionary income and does not have an income cap or require borrowers to exhibit a partial financial hardship in order to qualify. Includes a mandatory minimum monthly payment of \$25.

Secretarial Prohibition on New Repayment Plans. Prohibits the Secretary from creating new repayment plans, and from modifying an existing repayment plan in a manner that increases costs to the government.

Parent Borrower IBR Loophole. A current loophole allows parent loan borrowers to enter IBR if such borrowers consolidate a consolidation loan. This bill eliminates this “double consolidation” loophole for all loans.

Eligibility Determinations and Notification to Borrowers. Aligns the new IBR plan with current law allowing for data matching for the purposes of certifying borrowers’ income upon implementation of the FUTURE Act.

Sec. 226. Deferment on Loans Made on Or After July 1, 2023.

Deferment Options. The bill allows for the following deferment and forbearance options for new borrowers: (1) in-school; (2) grace period; (3) periods when borrower is pursuing graduate fellowship or rehabilitation education program; (4) active duty; (5) National Guard duty; (6) medical or dental internship or residency program; (7) 120-day deferment for defaulted borrowers who sign new agreement to repay their outstanding balance; (8) administrative deferments; and (9) cancer deferment. As in current law, interest does not accrue on subsidized loans during deferment periods except when a borrower is enrolled in a medical or dental internship or residency program. Interest will accrue under all deferments for unsubsidized loans except during administrative deferments and cancer deferments. A borrower can discontinue a deferment or forbearance at any time. The bill maintains the benefit of no interest accrual for Active-Duty Service Members deployed in hostile areas in current law.

Parent Borrowers. Maintains current loan deferment options for parent borrowers as they are not eligible for IBR plans.

Prohibition on New Deferments and Borrower Fees. The Secretary is prohibited from authorizing additional deferment options or periods of deferment besides those authorized in statute. Borrowers are protected from administrative fees in connection with deferments granted.

PART D—ELIMINATION OF INTEREST CAPITALIZATION

Interest Capitalization Eliminated. To stop the predatory practices of the federal government under the student loan program, the bill eliminates all instances of interest capitalization for current and new borrowers going forward upon enactment.

TITLE III—WORKFORCE PELL GRANTS

Pell Grants for Short-Term Workforce Development Programs. Based on ideas included in H.R. 5777, the *CHOICE Act* (Rep. Keller), and the *Pell Flexibility Act* (Rep. Banks), the bill establishes a path to Pell Grants for shorter-term programs.

Accountability Guardrails. Defines a program eligible for a Workforce Pell Grant, as a program with the following specifications: at least 150 clock hours, or the equivalent, offered during a minimum of eight weeks; provides education aligned with an in-demand industry sectors or occupations; has a completion and job placement rate of at least 70 percent; provides graduates with an increase in median earnings by an amount greater than or equal to the cost of the program, two years after such students complete; has not been in operation for less than one year; and meets the hiring requirements for in-demand sectors or occupations.

Terms and Conditions. Establishes that the Workforce Pell Grant program will begin on July 1, 2023, in which each of these grants will have the same terms and conditions and will be awarded in the same manner as other Pell Grants. Defines that a student eligible for a Workforce Pell Grant must be enrolled in an eligible Workforce Pell Grant program, may not have received a graduate degree, and must otherwise meet the eligibility criteria to receive a Pell Grant.

Accreditation Provisions. If an accreditation agency or association includes within its scope, the evaluation of the quality of Workforce Pell Grant programs, then the accreditation agency or association must demonstrate to the Secretary that the agency or association has standards and a process in place for determining if an institution has the capability to effectively offer an eligible Workforce Pell Grant program. The agency or association must also demonstrate that the Workforce Pell Grant program is meeting all of the established requirements, in addition to providing academic content, instructional time, competencies to satisfy any educational requirement, so that the student who completes the program is qualified to find employment in the sectors or occupation that the program prepared them to enter.

Requires the National Advisory Committee of Institutional Quality and Integrity to hold additional meetings through 2025 in order to evaluate the expanded scopes of accreditation agencies or associations that seek to evaluate eligible programs under the Workforce Pell Grant program.