

The Student Debt Relief and College Affordability Act

Sen. Cortez Masto (D-NV)

Title I. Student Loan Cancellation and Forgiveness for Federal Pell Grant Recipients

Section 101: Federal Direct Loan Cancellation and Forgiveness for Federal Pell Grant Recipients

- This section requires the Secretary of Education to forgive a certain amount of interest and principal of outstanding Federal Direct Loans. The amount is to be equal to the amount received by the borrower in Federal Pell Grants while in undergraduate school. If the outstanding balance of the loan is less than the amount received in Federal Pell Grants, the entire loan is to be forgiven.

Section 493E: Federal Family Education Loan Forgiveness for Federal Pell Grant Recipients

- This section requires the Secretary of Education to forgive a certain amount of interest and principal of outstanding Federal Family Education Loans (FFEL). The amount is to be equal to the amount received by the borrower in Federal Pell Grants while in undergraduate school. If the outstanding balance of the loan is less than the amount received in Federal Pell Grants, the entire loan is to be forgiven.

Section 470: Perkins Loan Forgiveness for Federal Pell Grant Recipients

- This section requires the Secretary of Education to forgive a certain amount of interest and principal of outstanding Perkins Loans. The amount is to be equal to the amount received by the borrower in Federal Pell Grants while in undergraduate school. If the outstanding balance of the loan is less than the amount received in Federal Pell Grants, the entire loan is to be forgiven.

Title II. Increase in the Maximum Federal Pell Grant

Section 201: Increase in Maximum Federal Pell Grants

- This section amends the Higher Education Act to increase the maximum Federal Pell Grant over a period of 10 years. It is increased to \$9,000 in 2024-2025, and by \$500 each year until reaching \$13,000 in 2032-2033.

Title III. Affordable Loans for Any Student

Section 311: Income Based Repayment Plan

- This section creates a single, streamlined income-based repayment (IBR) plan calculated according to a borrower's income and family size. The plan is similar to the Revised Pay As You Earn (REPAYE) plan with payments corresponding to 10 percent of a borrower's adjusted gross income, with an exemption for basic needs measured by the federal poverty level and the borrower's family size. Payments are capped at 20 years, with outstanding balances forgiven thereafter. All borrowers of Federal Family Education Loan (FFEL) and Direct Loans (DL), including borrowers of a Parent PLUS loan, would be eligible to enroll into the IBR plan.
- Borrowers would not make payments below 250 percent of the federal poverty level—a

change from the current 150 percent exclusion under most plans—but this income exclusion would gradually phase out with adjusted gross incomes between 800 and 1300 percent of the federal poverty level. The phase-out would occur with each increase of the borrower’s income above that amount through a 0.5 percentage point reduction in the poverty exclusion for every 1 percentage point increase in the borrower’, and the borrower’s spouse’s (if applicable), adjusted gross income.

- Borrowers in IBR whose monthly payments do not cover their monthly interest charges (and are therefore negatively amortizing) will receive an interest subsidy. For borrowers of subsidized loans, any interest not covered by payments on subsidized loans, or the equivalent subsidized portion of consolidation loans, will be paid by the Department for up to three years, after which the Department will cover 50 percent of such interest. For unsubsidized loans, the interest subsidy is consistently 50 percent through the lifetime of repayment.
- This section also provides for a requirement that the Secretary allow borrowers to enroll in IBR verbally, or through other written or electronic means, under certain circumstances, in order to increase the ability of borrowers to obtain a lower payment quickly and to deal with financial distress. Borrowers would verify their income and family size within 60 days of enrollment, otherwise they would see their payment revert to the fixed amount.
- Requires the Secretary to establish procedures for borrowers to seamlessly recertify their income on an annual basis in order maintain enrollment in the IBR plan with the correct monthly payment, and without requiring additional paperwork to obtain such income information.
- Borrowers would retain the right to opt-out of such recertification. The recertification procedures would apply to both the new, streamlined IBR plan as well as for borrowers who continue to repay their loans through the existing income-driven repayment plans.

Section 312: Fixed Repayment Plan

- Creates a single, fixed repayment plan of 10 years in length in which the borrower’s payments are equal for the entire repayment period. This plan is identical to the current “standard” plan, but terminology is changed to enhance borrower understanding. The monthly minimum payment in the fixed plan, currently set at \$50 in regulation by the Secretary, would be lowered by statute to \$25.

Section 313: Termination of certain repayment plan options

- Sunsets eligibility for borrowers to enroll into existing repayment plans. Going forward, only the two plans created by the bill—the IBR plan and the fixed repayment plan—will be available for borrowers to select. Borrowers can continue to repay under the plans they have selected prior to enactment, and can repay under those plans until they have paid off their balance.

Section 314: Providing incentives to switch into simplified repayment plans

- In order to facilitate the faster consolidation of IBR plans and the transition to a single IBR plan, this section provides for a 100 basis point (or one full percentage point) reduction in the interest rate for borrowers who consolidate their loans into one of the two streamlined plans—the new IBR plan or the fixed repayment plan.

Section 315: Study and procedures on determining family size

- Requires the Secretary to conduct a study in collaboration with the U.S. Department of the Treasury to determine if existing federal data could enable borrowers in the IBR plan to automatically recertify both the income information, as well as family size, so that the borrower would not be required to submit any additional information to maintain certification. The study's parameters would be afforded the opportunity for public comment.

Section 321: Ending interest capitalization for Federal Direct Loans.

- Beginning on the effective date, ends the capitalization of interest on all federal loans, which typically occurs when the borrower first enters repayment (after graduation or stop-out), after a period of forbearance, and when a loan defaults. Interest capitalization applies outstanding interest to the loan's principal, which can add thousands of dollars to a borrower's total repayment. This provision also ends the capitalization of interest on Federal Direct Loans for borrowers participating in the IBR plan, which under current law occurs during certain points of entry and exit into such plans—such as when a borrower fails to recertify their income.

Section 322: Elimination of Origination Fees for Federal Direct Loans

- This section ends the assessment of origination fees on Federal Direct Loans which are currently 1.057% of the total loan amount for Direct Subsidized Loans and Direct Unsubsidized Loans, and 4.228% of the total loan amount for Direct PLUS loans. Origination fees are also currently subject to sequestration under the Budget Control Act of 2011, and this section would end such sequestration by eliminating the fees entirely.

Section 331: Limits on seizing income for debt

- Limits federal debt collection amounts that are obtained through wage garnishment or tax offset to no more than the amount the borrower would pay under IBR, or approximately 10 percent of the borrower's adjusted gross income. If the entity engaged in the collection of debt cannot determine the family size of the borrower, it shall presume a family size of 1. Additionally, collectors shall encourage borrowers to exit default and enter current repayment to realize the full benefits of IBR. This section also applies tiered civil penalties for violating this limitation on seizing income.

Section 332: Allowing for multiple loan rehabilitations

- Allows borrowers to rehabilitate Federal Family Education Loans (FFEL) and Direct Loans (DL) up to two times per loan.

Section 333: Pause Payment Process

- Replaces the current deferment and forbearance options into one, streamlined "pause payment" process that does not capitalize interest. Borrowers who are currently in deferment or forbearance can maintain such enrollment or switch to the new pause payment status. All existing eligibility pathways for deferment or forbearance, including borrowers enrolled in school, in a graduate fellowship program, pursuing a medical or dental internship or residency program, serving in active duty, performing National Guard service, or experiencing an economic hardship (not to exceed three years) are maintained for pause payment. Additionally, unlike the separate forms used for each eligibility pathway for deferment and forbearance under current law, this section requires the Secretary to establish a "single, streamlined pause payment process" and form.

Section 332: Automatic Enrollment into IBR for Delinquent Borrowers

- Provides relief to borrowers at least 60 days delinquent, and those who rehabilitate their loans, by automatically enrolling them into the IBR plan.

Section 335: Separating Joint Consolidation Plans

- Allows a previously married couple who received a joint consolidation loan to separate such loans. From 1993 to 2006, the U.S. Department of Education issued joint consolidation loans to married couples. Congress eliminated the program in 2006 but did not provide a means of severing existing loans, even in cases of domestic violence, financial abuse, or an unresponsive partner. This section allows two borrowers to submit a joint application to sever their joint consolidation loan, or for one of the borrowers with the joint consolidation loan to submit a separate application in the event that they are experiencing domestic or economic abuse, or are unable to reasonably reach or access the loan information of the other borrower.

Section 336: Removing the Collection Cost Requirement

- Removes the statutory mandate that borrowers pay for their own collection costs.

Section 341: Student Loan Contract, Simplifying Loan Disclosures.

- Changes the use of the term “master promissory note” regarding new loans taken out by borrowers to “student loan contract” to make the terms easier to understand. to improve consumer understanding of the purpose of the document. Additionally, this section requires the disclosures to be streamlined, reducing and simplifying the paperwork that students are required to complete, and for the borrower to complete all applicable loan counseling prior to signing the student loan contract. The contract and the loan counseling process will be linked for the borrower.

Section 342: Pre-Loan Information and Counseling Requirements

- Changes the structure of “pre- loan counseling” for all borrowers conducted in-person or online in an interactive manner. The “pre-loan counseling” requires specific consumer protection disclosures about the loan products and information to help the borrowers prepare for repayment, such as anticipated loan amounts, repayment plan options, projected monthly payments, forgiveness options, and recommendations for exhausting federal aid and federal loan eligibility before taking out private loans. Information for a first-time borrower is distinct from borrowers with an existing federal loan (such as percentage of loan limits used). Federal Parent PLUS borrowers would go through a shorter counseling process.

Section 343: Exit Counseling

- Enhances the level of information required to be provided through the exit counseling process, either online or in-person, including the expected date that the borrower will enter repayment, information on available repayment plans, and information on the pause payment process. Borrowers would receive information tailored to their individual loan balance.

Section 344: Online Counseling Tools

- Requires the Secretary to maintain the online loan counseling tools (pre-loan and exit) and to consumer test such tools to ensure they are effective. This section also requires the Secretary to keep a record of which individuals have received counseling using the tool and notify the applicable institutions of the completion of counseling. This section also ensures that the online counseling tool enables the borrower to accept and electronically sign the student loan contract.

Section 345: Private Education Loan Certification and Information

- Requires institutions to certify a student’s eligibility for private student loans and makes changes to the *Truth in Lending Act* to define private educational lender and private education loan. Lenders will be required to make disclosures to borrowers, including co-signers. This section will assist in helping students make informed choices to exhaust their federal student

loan eligibility before taking out private student loans, where appropriate and beneficial to the borrower.

Section 351: Effective Date, Rulemaking

- Clarifies the effective date of all the provisions to be July 1, 2026 and the ability of borrowers to maintain current benefits and enrollment plan options if they so choose. Allows the Secretary to waive application of the Paperwork Reduction Act and the negotiated rulemaking process

Title IV. Offsets

Section 401: Excise Tax on the Repurchase of Corporate Stock

- The provision imposes a 1 percent excise tax on publicly traded US corporation for the value of any of its stock that is repurchased by the corporation during the taxable year. The term repurchase means a redemption within the meaning of section 317(b) with regard to the stock of such corporation, and any other economically similar transaction as determined by the Secretary of Treasury. The amount of repurchases subject to the tax is reduced by the value of any new issuance to the public and stock issued to the employees of the corporation. A subsidiary of a publicly traded US corporation that performs the buyback for its parent or a US subsidiary of a foreign corporation that buys back its parent's stock is subject to the excise tax.
- The provision excludes certain repurchases from the excise tax to the extent: 1) the repurchase is part of a tax-free reorganization; 2) the repurchased stock or its value is contributed to an employee pension plan, ESOP, or similar plan; 3) the total amount of stock repurchases within the year is less than \$1 million; 4) the purchase is by a dealer in securities in the ordinary course of business; 5) the repurchase is treated as a dividend; and 6) the repurchase is by a RIC or REIT. The provision provides authority for Treasury to issue guidance necessary or appropriate to administer and to prevent the avoidance of the purposes of this section.

Section 402: Application of Net Investment Income Tax to Trade or Business Income of Certain High Income Individuals

- Amending IRC Section 1411, this provision would expand the NIIT to cover net investment income (NII) derived in the ordinary course of a trade or business for (1) individuals with taxable income exceeding \$400k (single filer) or \$500k (joint filer), and (2) trusts and estates. The provision clarifies that this tax is not assessed on wages to which FICA or SECA already applies.