NCLC National Consumer Law Center

Left Out to Dry: Proposals to Streamline Student Loan Repayment Eliminate Affordable Pathways for Parent Borrowers

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Parent PLUS loans are federal loans made to parents to help pay for their children's college education. There are currently over **3.6 million people** with Parent PLUS loans. A significant portion of today's parent borrowers are very low-income and are struggling with repayment. Currently, they can access lower payments to help avoid distress and default by consolidating and repaying through the Income-Contingent Repayment (ICR) plan, which sets payments based on income. But proposals to streamline student loan repayment, including the College Cost Reduction Act and the Streamlining Accountability and Value in Education for Students Act, would eliminate the ICR plan and exclude Parent PLUS borrowers from any affordable repayment options—leaving millions of low-income, older adults with student loan debt at high risk of financial distress and default.

Low-income families have taken on Parent PLUS loans due to the rising cost of college and insufficient aid to low-income students.

- Congress originally designed the Parent PLUS Loan program to help more affluent parents spread the cost of college over a longer timeframe. But due to rising college costs and insufficient financial assistance, **many low-income families have since turned to Parent PLUS loans** to cover the gap between the amount the student can obtain in Pell Grants and federal student loans and the cost of attendance.
- The federal government issues low-income parents substantial loans even if their financial aid application demonstrates that they have **no financial ability to contribute to the cost of their child's college education**. In 2018, **18% of Parent PLUS borrowers, including 42% of Black and 25% of Latino Parent PLUS borrowers, had an expected family contribution of $0**.
- Parent PLUS borrowers are a significant and growing constituency: In the 2019-2020 school year, about **24% of federal undergraduate loans originated were Parent PLUS - a 10% increase from a decade earlier**.

Proposals to streamline student loan repayment ignore Parent PLUS borrowers and leave low-income parents without access to affordable payments.

- Members of Congress are considering streamlining the current slate of federal student loan repayment options. An overlooked issue is what to do about Parent PLUS borrowers who cannot afford standard payments.

- Currently, Parent PLUS borrowers who cannot afford payments in the standard plan can consolidate their loans and repay in the Income-Contingent Repayment (ICR) plan, a plan created 30 years ago that sets payments based on the borrower's income. The plan generally requires higher payments than other income-driven repayment plans like IBR or SAVE, but is the only IDR plan open to Parent PLUS borrowers and is relied upon by low-income parents who have no other options to manage their payments and avoid default.

- The Streamlining Accountability and Value in Education for Students Act (S.1971), introduced by Senators Cornyn and Cassidy, would eliminate ICR, SAVE, and PAYE for both new and existing borrowers. They would be replaced by a new plan that would not be available to Parent PLUS borrowers. **As a result, new and existing Parent PLUS borrowers would be left without access to any affordable repayment options.**

- The College Cost Reduction Act (CCRA) (H.R. 6951), introduced by Representative Foxx, would leave access to ICR and other current plans for existing loans, but eliminate these plans for new loans and replace them with a new Repayment Assistance Plan that would not be available to Parent PLUS borrowers. **Therefore, any new Parent PLUS borrowers and any existing Parent PLUS borrowers who have not already consolidated their loans would be left without access to any affordable repayment options.**

By not providing affordable repayment options to existing Parent PLUS borrowers, the CCRA leaves many low-income Parent PLUS Borrowers out to dry, increasing their likelihood of default.

- Parent PLUS loans have a lifetime **default rate of 15.5 percent**.

- **Many low-income parents struggle with repayment**. After 10 years of repayment, **Parent PLUS borrowers still owe more than half of the initial loan amount**, and **after 20 years in repayment, they still owe 38%** of the initial loan amount.

- About **25% of Parent PLUS borrowers are age 60 or older**, with many relying on Social Security and pensions as their only source of income.

- Defaulting on a federal student loan could lead to severe financial hardship for Parent PLUS borrowers, especially older adults living on Social Security benefits. These borrowers could face seizure of money from their Social Security benefits to collect, which **the Government Accountability Office found pushed many older adults with student debt into poverty**.

For more information, contact Alpha Taylor (ataylor@nclc.org) or Abby Shafroth (ashafroth@nclc.org).