IN THE UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF MISSOURI

STATE OF MISSOURI,
STATE OF ARKANSAS,
STATE OF FLORIDA,
STATE OF GEORGIA,
STATE OF NORTH DAKOTA,
STATE OF OHIO, and
STATE OF OKLAHOMA

Plaintiffs,

v.

JOSEPH R. BIDEN, Jr., in his official capacity as President of the United States,

MIGUEL A. CARDONA, in his official capacity as Secretary, United States Department of Education, and

UNITED STATES DEPARTMENT OF EDUCATION,

Defendants.

Civil Action No. _________________

COMPLAINT FOR DECLARATORY AND INJUNCTIVE RELIEF

INTRODUCTION

1. Yet again, the President is unilaterally trying to impose an extraordinarily expensive and controversial policy that he could not get through Congress. This latest attempt to sidestep the Constitution is only the most recent instance in a long but troubling pattern of the President relying on innocuous language from decades-old statutes to impose drastic, costly policy changes on the American people without their consent.

2. The President has attempted this in area after area of the economy, from imposing unlawful vaccine mandates across the country, to imposing unlawful and backbreaking regulations on energy producers, to arrogating for himself the power to prohibit every landlord in the nation

from initiating eviction proceedings. *West Virginia v. EPA*, 597 U.S. 697 (2022); *Natl. Fedn. of Indep. Bus. v. Dept. of Lab., Occupational Safety and Health Administration*, 595 U.S. 109 (2022); *Alabama Ass'n of Realtors v. Dep't of Health and Human Servs*., 141 S. Ct. 2485 (2021); *see also Georgia v. President of the United States*, 46 F.4th 1283 (11th Cir. 2022) (vaccine mandate executive order exceeded the President's authority under major questions doctrine); *Louisiana v. Biden*, 55 F.4th 1017 (5th Cir. 2022) (same); *Texas v. NRC*, 78 F.4th 827 (5th Cir. 2023) (temporary licensing program exceeded agency's authority under major questions doctrine); *cf. Texas v. United States*, 50 F.4th 498, 526 (5th Cir. 2022) (DHS final rule on DACA was foreclosed as it "undoubtedly implicates questions of deep economic and political significance" without "clear congressional authorization").

3. He has also done so in express defiance of the Supreme Court. The eviction-moratorium case provides a good example. The President unlawfully attempted to impose a nationwide eviction moratorium just one month after five justices on the Supreme Court noted that the President lacked legal authority to do so. *Alabama Ass'n of Realtors*, 141 S. Ct. at 2488 (stating that four justices voted to block the moratorium in June 2021 and a fifth, while declining to block the moratorium because it was expiring imminently, made clear that "the CDC's moratorium exceeded its statutory authority"). The President recognized that a majority of the Supreme Court justices had already said his eviction moratorium was unlawful and "that lawmakers would need to pass legislation to extend the moratorium after a recent Supreme Court decision signaled the CDC couldn't lawfully extend its moratorium again absent congressional authorization," but the President imposed the moratorium anyway. Ackerman, *Biden Administration Issues New Eviction Moratorium*, WSJ (Aug. 3, 2021).[1] When he did so, the Supreme Court was forced to block the

[1] https://www.wsj.com/articles/biden-administration-set-to-issue-new-eviction-moratorium-11628022282

executive action, declaring that the President's statutory argument "strains credulity." *Alabama Ass'n of Realtors*, 141 S. Ct. at 2486.

4. His student loans actions are no different. Just last year, the Supreme Court struck down an attempt by the President to force teachers, truckers, and farmers to pay for the student loan debt of other Americans—to the enormous tune of $430 billion. *Biden v. Nebraska*, 143 S. Ct. 2355, 2362 (2023). In striking down that attempt, the Court declared that the President cannot "unilaterally alter large sections of the American economy." *Id.* at 2375.

5. Undeterred, the President is at it again, even bragging that "the Supreme Court blocked it. They blocked it. But that didn't stop me."[2]

6. Indeed, just 10 days after the Supreme Court issued its decision in *Biden v. Nebraska*, the Federal Government published a rule that seeks to "cancel" an even *larger* amount of student loan debt, forcing American taxpayers to pick up the tab. The Final Rule is titled "Improving Income Driver Repayment for the William D. Ford Federal Direct Loan Program and the Federal Family Education Loan (FFEL Program)." *See* 88 Fed. Reg. 43,820. A true and correct copy of the Final Rule is attached hereto as Exhibit #1.

7. That new rule is the subject of this lawsuit—referred to by Defendants as the "SAVE Plan"—and is set to take full effect on July 1, 2024.

8. The Wharton School of the University of Pennsylvania estimates the economic cost of the President's newest rule at $475 billion across 10 years, $45 billion more than the program struck down by the Supreme Court. *Biden's New Income-Driven Repayment ("SAVE") Plan: Budgetary Cost Estimate Update*, Penn Wharton University of Pennsylvania (July 17, 2023).[3]

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[2] Remarks by President Biden on the Saving on a Valuable Education Plan, Culver City, CA, (Feb. 21, 2024), https://www.whitehouse.gov/briefing-room/speeches-remarks/2024/02/21/remarks-by-president-biden-on-the-saving-on-a-valuable-education-plan-culver-city-ca/

[3] https://budgetmodel.wharton.upenn.edu/issues/2023/7/17/biden-income-driven-repayment-budget-update

Others estimate the total economic cost as even higher, more than $1 trillion—more than double the cost of the program declared unlawful last summer. *See, e.g.*, Travis Hornsby, *New REPAYE Plan Could Save Borrowers Over $1 Trillion Over 10 Years*, Student Loan Planner (Dec. 20, 2023).[4]

9. The President, in fact, was in such a rush to defy the Supreme Court that the Federal Government failed to update the Final Rule to account for the Supreme Court's decision. Not only does the rule never cite *Biden v. Nebraska*, but it even goes so far as to conduct a cost-benefit analysis on the false assumption that the Supreme Court had *upheld* the rule, *see* 88 Fed. Reg. 43875, when the Supreme Court in fact did the opposite, *Biden v. Nebraska*, 143 S. Ct. at 2375. This alone is arbitrary and capricious, and it is just the tip of the iceberg.

10. The Federal Government admits that Congress created an income-driven repayment system—called "Income Based Repayment" or "IBR"—that statutorily permits student-loan cancellation only after a borrower pays 15% of disposable income (defined to be income above 150% of the federal poverty line "FPL") for up to 25 years. (The amounts are 10% and 20 years for loans taken out after July 1, 2014, and the time is shortened to 10 years for individuals working in public service.) *See* 20 U.S. Code §§ 1098e, 1087e(m)(1); 34 C.F.R. §§ 682.221(b), 685.219.

11. Yet the Federal Government seeks to evade these statutory limits by relying on purported authority from older amendments to the HEA, the ICR amendments. 88 Fed. Reg. 43826–27 ("This statutory language clearly grants the Secretary authority to make the changes in this rule related to the amount of income protected from payments, the amount of income above the income protection threshold that goes toward loan payments, and the amount of time borrowers

[4] https://www.studentloanplanner.com/new-repaye-plan-ten-year-cost/

must pay before repayment ends."). The Federal Government seeks to hike the exempt-income threshold from 150% to 225%, slash the payment obligation from 15% to 5% for undergraduates, and permit forgiveness after as few as 10 years instead of 25.

12. This rule unlawfully seeks to evade the limits Congress set out in statute for the IBR program. It also would gut the statutory purpose of providing loans. By their nature, loans require repayment except in extenuating circumstances. The Federal Government's thresholds are set so high—arbitrarily so—that it creates a grant for most borrowers. In other words, unlike every other loan program, the *majority* of borrowers will receive a grant. Indeed, the Federal Government bragged in March that the clear majority of individuals on this new plan—57%—are paying *nothing*. This is not a student loan program. It is a grant program that Congress never authorized.

13. As Defendant Biden once remarked, "The framers intentionally chose not to create a parliamentary system of government. They meant for the President and Congress to be independent of and co-equal with one another. Maintaining each of those branches as strong and independent is fundamental to the Constitution's very structure--a structure they designed to safeguard the liberty of the governed against abuses of power by those who govern." *Proceedings of the United States Senate in the Impeachment Trial of President William Jefferson Clinton, Volume IV: Statements of Senators Regarding the Impeachment Trial of President William Jeffreson Clinton*, S. Doc. 106-4 (1999).[5] By usurping Congressional authority to the tune of hundreds of billions of dollars (if not more), and flouting the Supreme Court, Defendants seek to strike a blow to the Constitution's very structure and centralize power within the executive alone.

[5] https://www.govinfo.gov/content/pkg/CDOC-106sdoc4/html/CDOC-106sdoc4-vol4.htm

14. The President's "Plan B" attempt to force taxpayers to pay for the debts of others is no stronger than his "Plan A" attempt that was blocked last year. In fact, just days after Plaintiffs announced they would file this suit, the President announced a Plan C, which his "advisers hope to use the rules to begin canceling waves of student debt in the run-up to the November election." Andrew Restuccia, *Biden to Make Second Attempt at Large-Scale Student Loan Forgiveness*, WSJ (Apr. 5, 2024).[6] This Court should speedily put a stop to the President's unlawful attempt—again—to skirt Congress and the Constitution.

THE PARTIES

15. Plaintiff State of Missouri is a sovereign State of the United States of America. Missouri sues to vindicate its sovereign, quasi-sovereign, financial, employment, and proprietary interests.

16. Andrew Bailey is the 44th Attorney General of the State of Missouri. Attorney General Bailey is authorized to bring actions on behalf of Missouri that are "necessary to protect the rights and interests of the state, and enforce any and all rights, interests or claims against any and all persons, firms or corporations in whatever court or jurisdiction such action may be necessary." Mo. Rev. Stat. § 27.060.

17. Plaintiff State of Arkansas is a sovereign state of the United States of America. Arkansas sues to vindicate its sovereign, quasi-sovereign, financial, employment, and proprietary interests.

18. Tim Griffin is the Attorney General of Arkansas. Attorney General Griffin is authorized to "maintain and defend the interests of the state in matters before the United States Supreme Court and all other federal courts." Ark. Code Ann. 25-16-703.

[6] https://www.wsj.com/politics/policy/biden-to-make-second-attempt-at-large-scale-student-loan-forgiveness-ef1da5fe

19. Plaintiff State of Florida is a sovereign state of the United States of America. Florida sues to vindicate its sovereign, quasi-sovereign, financial, employment, and proprietary interests and those interests of its political subdivisions. *See Florida v. Becerra*, 544 F. Supp. 3d 1241, 1253 (M.D. Fla. 2021) (recognizing that for standing purposes the State of Florida includes its political subdivisions).

20. Ashley Moody is the Attorney General of the State of Florida. She is authorized by Florida law to sue on the State's behalf. *See* § 16.01, Fla. Stat.

21. Plaintiff State of Georgia is a sovereign state of the United States of America. Georgia sues to vindicate its sovereign, quasi-sovereign, financial, employment, and proprietary interests.

22. Christopher M. Carr is the Attorney General of the State of Georgia. He is authorized by Georgia law to sue on the State's behalf. GA Code § 45-15-3(6).

23. Plaintiff State of North Dakota is a sovereign State of the United States of America. North Dakota sues to vindicate its sovereign, quasi-sovereign, financial, employment, and proprietary interests.

24. Drew Wrigley is the Attorney General of North Dakota. Attorney General Wrigley is authorized to "[i]nstitute and prosecute all actions and proceedings in favor or for the use of the state." N.D.C.C. § 54-12-01(2).

25. Plaintiff State of Ohio is a sovereign state of the United States of America. Ohio sues to vindicate its sovereign, quasi-sovereign, financial, employment, and proprietary interests.

26. Dave Yost is the Attorney General of Ohio. Attorney General Yost is Ohio's chief law enforcement officer and "shall appear for the state in the trial and argument of all civil and

criminal causes in the supreme court in which the state is directly or indirectly interested." Ohio Rev. Code § 109.02.

27. Plaintiff State of Oklahoma is a sovereign state of the United States of America. Oklahoma sues to vindicate its sovereign, quasi-sovereign, financial, employment, and proprietary interests.

28. Gentner Drummond is the duly elected Attorney General for the State of Oklahoma. Being the chief law officer of the state, General Drummond is empowered "[t]o appear for the state and prosecute and defend all actions and proceedings in any of the federal courts in which the state is interested as a party." OKLA. STAT. tit. 74, § 18b(A)(2).

29. Defendants are officials of the United States Government and United States governmental agencies responsible for implementing the Final Rule and the SAVE Plan.

30. Defendant Joseph R. Biden, Jr., is the President of the United States of America. He is sued in his official capacity.

31. Defendant Miguel A. Cardona is the United States Secretary of Education (the "Secretary") and is responsible for the operation of the Department, including the issuance of the challenged rule. 20 U.S.C. § 3411. He is sued in his official capacity.

32. Defendant United States Department of Education (the "Department") is an agency of the United States government, located at 400 Maryland Avenue, S.W., Washington, D.C. 20202.

JURISDICTION AND VENUE

33. This Court has jurisdiction pursuant to 5 U.S.C. §§ 701–706 and 28 U.S.C. §§ 1331, 1361, and 2201,

34. This Court is authorized to award the requested declaratory and injunctive relief under 5 U.S.C. §§ 702 and 706, 28 U.S.C. §§ 1361 and 2201–2202, and its inherent equitable powers.

35. Venue is proper in this district under 28 U.S.C. § 1391(b)(2) and (e)(1). Defendants are United States agencies or officers sued in their official capacities. Plaintiff Missouri is a resident of this judicial district, and a substantial part of the events or omissions giving rise to the Complaint occur within this district.

36. Plaintiff States Missouri, Arkansas, Florida, Georgia, North Dakota, Ohio, and Oklahoma bring this action to redress harms to their sovereign, quasi-sovereign, financial, employment, and proprietary interests, including their interests under 5 U.S.C. § 702.

FACTUAL ALLEGATIONS

A. The Higher Education Act of 1965 and Amendments

37. The Higher Education Act of 1965 ("the HEA") was enacted "to increase educational opportunities and 'assist in making available the benefits of postsecondary education to eligible students in institutions of higher education.'" *Biden*, 143 S. Ct. at 2362 (quoting 20 U.S.C. § 1070(a) (cleaned up).

38. Among other things, the HEA provided for two different forms of financial assistance: grants and loans. *See* 20 U.S.C. § 1070-1070h, § 1071-1087-4.

39. Initially, the HEA authorized the Federal Government only to guarantee private loans. 20 U.S.C. §§ 1071 et seq. In 1993, however, Congress amended the HEA to authorize direct loans from the Federal Government to students through the William D. Ford Federal Direct Loan Program ("DLP") and allowed the Department to offer plans for repayment of student loans. 20 U.S.C. §§ 1087a *et seq.*

40. Among the repayment plans authorized by the 1993 amendments was an Income-Contingent Repayment plan ("ICR") requiring "repayment of such loan, including principal and interest," with "varying annual repayment amounts based on the income of the borrower, paid over

an extended period of time prescribed by the Secretary, not to exceed 25 years." *See* 20 U.S.C. § 1087e(d)(1)(D). Defendants try to invoke this authority to justify their SAVE Plan.

41. Unlike statutory authority passed years later for the "Income-Based Repayment" program, this statute contains no textual authorization for cancelling loans.

42. In 1994, the Department implemented the first income-contingent repayment plan, which limited annual loan payments to 20% of a borrower's income in excess of 100% of the federal poverty line. The Department also, without explicit authorization, established by rule that borrowers who had a remaining balance after 25 years of timely payments would have the remaining balance forgiven. *See The Federal Direct Student Loan Program*, Congressional Research Service, at 15 (1995).[7]

43. Any incidental cancellation under that rule was small. The Government Accountability Office estimated that only nine percent of borrowers participated in ICR. GAO *Direct Student Loans: Analysis of Borrowers' Use of Income Contingent Repayment Option* 7 (1997).[8] And of that subset, the Department estimated that only "approximately 12% of [participating] borrowers would not [fully] repay within the 25-year period." *Id.* at 11. That meant that, consistent with the statutory purpose of the ICR in obtaining "repayment of such loan, including principal and interest," 20 U.S.C. § 1087e(d)(1), nearly everybody was expected to pay their loans: only about 1 percent of borrowers received some cancellation of debt.

44. In 2007, Congress determined that the income-contingent program was not sufficiently protective, so it enacted three significant changes to the HEA.

45. First, Congress established an updated program, called the Income-Based Repayment ("IBR") plan—which became available in addition to the income-*contingent*

[7] https://files.eric.ed.gov/fulltext/ED378875.pdf
[8] https://www.gao.gov/assets/hehs-97-155.pdf

repayment plan. This new program provided relief for borrowers facing a *temporary* "financial hardship" by increasing the exempt-income threshold from 100% of the federal poverty line to 150% and decreasing the annual repayment cap from 20% to 15% of disposable income. *See* 20 U.S.C. § 1098e(a)(3)(B), (b)(1). Eligibility for this program remains only "during any period the borrower has the partial financial hardship," *id.*, as that term is defined in 20 U.S.C. § 1098e(a)(3).

46. Second, unlike with the ICR program, Congress included statutory text expressly giving the Department authority to cancel debt. *Id.* § 1098e(b)(7). The Secretary was directed to "cancel any outstanding balance" for persons under the IBR program who have met certain requirements, including payment for a period of time "not to exceed 25 years." *Id.* For the first time, Congress also expressly authorized forgiveness for persons who have "made payments under an income-*contingent* repayment plan," but *only* if those borrowers joined the income-*based* repayment plan. *Id.* § 1098e(b)(7)(A), (b)(7)(B)(iv) (emphasis added). The statute does not contain authorization for persons who are on ICR plans only.

47. Third, the IBR program (unlike the ICR program) expressly authorizes the Secretary to subsidize the interest of borrowers—but only for a limited time. If the amount of a borrower's monthly payment under the program is not sufficient at that time to cover monthly interest, then the Secretary must, "on subsidized loans," pay the difference between the borrower's payment and the interest due that month. § 1098e(b)(3). But the Secretary may do so only during the first 3 years after the borrower elects to participate in the IBR program. *Id.* In contrast, the ICR provisions expressly permit the Secretary only to "limit[ ] the amount of interest that may be capitalized." § 1087e(e)(5). In other words, borrowers under the ICR program still must pay the interest. They may simply avoid the interest becoming capitalized into the principal.

48. The 2007 amendments also established the Public Service Loan Forgiveness ("PSLF") program. Under the PSLF, the Secretary was granted the authority to "cancel the balance of principal and interest" of borrowers who made 120 eligible monthly payments while employed in a "public service job." *See* 20 U.S.C. § 1087e(m)(1). By reducing the statutory amount of time to receive forgiveness from 25 years to 10, this program offered a powerful incentive to pursue public service employment.

49. The last significant statutory amendments to loan repayment statutes were made in 2010. That year, the President urged Congress to pass a "bill" to make IBR more generous by lowering the payment cap to 10% (from 15%) of income above 150% of the federal poverty guideline and ensure that "debt will be forgiven after 20 years," down from 25 years under IBR. Barack Obama, *Remarks by the President in State of the Union Address* at 5 (Jan. 27, 2010).[9] The President did not lay claim to being able to accomplish those changes unilaterally. Instead, the President "urge[d] the Senate to follow the House and pass a bill" to that effect. *Id.*

50. Congress did so in the Health Care and Education Reconciliation Act of 2010 but expressly restricted the amended terms to "new borrower[s] on or after July 1, 2014." 20 U.S.C. § 1098e(e).

51. While Congress has set specific statutory limits on loan forgiveness, the Department has routinely tried to exercise power to lower the eligibility thresholds. Moreover, the Department has unilaterally overridden some of these provisions in the rulemaking process to make them higher. For example:

i. In 2012, the Department established the Pay as You Earn (PAYE) plan, which retroactively extended the 2010 statutory amendments to loans taken out as far

[9] https://www.govinfo.gov/content/pkg/DCPD-201000055/pdf/DCPD-201000055.pdf

back as 2007, despite statutory language stating that the amendments should apply only to loans taken out after July 1, 2014. *See* 77 Fed. Reg. 66,088.

ii. In 2015, the Department established the REPAYE plan, extending the 2010 amendments to all borrowers regardless of when they took out the loans. 80 Fed. Reg. 67,204.

52. Even with the Department's changes, the average individual borrower under the REPAYE plan would still ultimately pay back more than the amount that they took out in loans. 88 Fed Reg. 43,880.

53. While the HEA includes a variety of provisions allowing the secretary to promulgate regulations for income-driven repayment and other repayment programs, no provision of the HEA delegates to the Secretary authority to convert a student "loan" program into what is effectively a student "grant" program for the majority of borrowers. By statute, loan forgiveness is supposed to be the exception, not the rule—an acknowledgment that writing off bad loans is unavoidable in any industry. Nor does the HEA include authority for the Department to use the ICR program to evade the statutory limits of the IBR program.

B. Congressional Inaction and Defendants' Failed Attempt at Mass Cancellation

54. Congress has not enacted any substantial amendments to the HEA, or otherwise passed laws providing amending the treatment of student debt, since 2010. But that does not mean that Congress has left the issue un-considered.

55. In July 2019, Senator Elizabeth Warren introduced the Student Loan Debt Relief Act of 2019, a bill that would have automatically canceled $50,000 of student loan debt for those

who make under $100,000. Congress chose not to pass the bill. *See* Student Loan Debt Relief Act of 2019, S. 2235, 116th Cong. (2019).[10]

56. In March 2021, Representative Al Lawson introduced the Income-Driven Student Loan Forgiveness Act, which would have cancelled the outstanding balance on loans for all borrowers under a certain income cap. *See* Income-Driven Student Loan Forgiveness Act, H.R. 2034, 117th Cong. (2021).[11] Congress chose not to pass the bill.

57. Frustrated by their lack of success in the legislative arena, some members of Congress then began to assert that the President could skirt Congress and cancel loans through executive action. In February 2021, Senators Elizabeth Warren and Chuck Schumer and Representatives Alma Adams, Ilhan Omar, and Mondaire Jones introduced resolutions asserting that the Biden Administration has statutory power to cancel student debt immediately. Elizabeth Warren, *Warren, Schumer, Pressley, Colleagues: President Biden Can and Should Use Executive Action to Cancel up to $50,000 in Federal Student Loan Debt Immediately* (Feb. 4, 2021).[12]

58. But even this unbinding resolution was too controversial to pass. The Senate resolution was signed by 20 members and still failed. S.R. 46, *A Resolution Calling on the President of the United States to Take Executive Action to Broadly Cancel Federal Student Loan Deb*t, 117th Congress (2021).[13] The same is true of the House resolution, which was signed by 68 members of the House but was not popular enough to get a vote. H.R. 100, *Calling on the President of the United States to Take Executive Action to Broadly Cancel Federal Student Loan Debt*, 117th Cong. (2021).[14]

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[10] https://www.congress.gov/bill/116th-congress/house-bill/3887
[11] https://www.congress.gov/bill/117th-congress/house-bill/2034
[12] https://www.warren.senate.gov/newsroom/press-releases/warren-schumer-pressley-colleagues-president-biden-can-and-should-use-executive-action-to-cancel-up-to-50000-in-federal-student-loan-debt-immediately
[13] https://www.congress.gov/bill/117th-congress/senate-resolution/46
[14] https://www.congress.gov/bill/117th-congress/house-resolution/100

59. Still, the resolutions had their desired effect. On August 24, 2022, the Administration announced that, under the HEROES Act, it would cancel $10,000 to $20,000 in student debt for all borrowers who have loans owned by the Department and whose annual income was less than $125,000 (or $250,000 for married borrowers who file jointly). *FACT SHEET: President Biden Announces Student Loan Relief for Borrowers Who Need It Most*, The White House (Aug. 24, 2022).[15]

60. The Wharton School of the University of Pennsylvania released a study concluding that the Department's Mass Debt Cancellation would cost up to $519 billion over ten years, and the overall cost could rise to more than $1 trillion when factoring in the other components of the Department's announcement. *See The Biden Student Loan Forgiveness Plan: Budgetary Costs and Distributional Impact*, Penn Wharton University of Pennsylvania (Aug. 26, 2022).[16]

61. On September 29, 2022, six states—including Plaintiff States Missouri and Arkansas here—sued in federal court to block that unlawful executive action. They were successful.

62. In *Biden v. Nebraska*, the Supreme Court rejected Defendants' assertion that they could use a vague provision of the HEROES Act as authority to transfer half a trillion dollars in wealth from taxpayers to student loan borrowers. 143 S. Ct. 2355.

63. In holding that "the HEROES Act provides no authorization for the Secretary's plan," the Supreme Court also found that "the 'economic and political significance' of the Secretary's action is staggering by any measure." *Id.* at 2373 (citing *West Virginia v. EPA*, 597 U.S. 697 (2022) (cleaned up)). Beyond "the ordinary tools of statutory interpretation," the

[15] https://www.whitehouse.gov/briefing-room/statements-releases/2022/08/24/fact-sheet-president-biden-announces-student-loan-relief-for-borrowers-who-need-it-most/
[16] https://budgetmodel.wharton.upenn.edu/issues/2022/8/26/biden-student-loan-forgiveness

Defendants' efforts were unlawful because "the basic and consequential tradeoffs inherent in a mass debt cancellation program are ones that Congress would likely have intended for itself." *Id.* at 2375 (cleaned up).

64. The ruling confirmed what the Democratic Speaker of the House had already professed: "People think that the President of the United States has the power for debt forgiveness. He does not. . . . That has to be an act of Congress. . . . The President can't do it." *See* Lauren Camera, *Pelosi: Biden Lacks Authority to Cancel Student Debt*, U.S. News & World Report (July 28, 2021).[17]

C. The Proposed Rule

65. After the six States sued over the August 2022 rule, the President's administration began working feverishly on a Plan B. On January 11, 2023, just one month after the Supreme Court granted certiorari in *Biden v. Nebraska*, Defendant Department issued the Proposed Rule, entitled, "Notice of Proposed Rulemaking on Improving IDR for the Direct Loan Program." *See* 88 Fed. Reg 1894.

66. The Proposed Rule was characterized as an effort "to amend the regulations governing income-contingent repayment plans by amending the Revised Pay as You Earn (REPAYE) repayment plan, and to restructure and rename the repayment plan regulations under the William D. Ford Federal Direct Loan (Direct Loan) Program, including combining the Income Contingent Repayment (ICR) and the Income-Based Repayment (IBR) plans under the umbrella term of 'Income-Driven Repayment (IDR) plans.'" *Id.*

67. The Proposed Rule required that any and all comments must be submitted "on or before February 10, 2023," *id.*, a mere thirty days later.

[17] https://www.usnews.com/news/education-news/articles/2021-07-28/pelosi-biden-lacks-authority-to-cancel-student-debt

68. The provisions in the Proposed Rule were "estimated to have a net budget impact of $137.9 billion across all loan cohorts through 2032." *Id.* at 1895. Critically, the Department arrived at this number only by assuming that the Supreme Court would *uphold* its August 2022 mass cancellation effort. 88 Fed. Reg. 43875.

D. Commenting Period for the Proposed Rule

69. Despite the economic and political significance of the Proposed Rule, the Department denied all requests for extensions beyond the thirty-day period it had originally established. *Id.* at 43821.

70. By its nature, the condensed timeline reduced the number of people who could have otherwise provided valuable comments and prohibited other individuals and entities that ultimately submitted comments to develop their arguments adequately given the truncated period.

71. Despite these limitations, commenters raised concerns about the legal authority of the Department to impose this new rule.

72. Specifically, commenters raised concerns that: (1) the Secretary and Department were acting in excess of statutory authority, *id.* at 43826; (2) the provisions in the Final Rule implicated the major questions doctrine and violated the federal separation of powers, *id.* at 43830; and (3) the provisions in the Final Rule are arbitrary and capricious, *id.* at 43848, -58.

73. Another commenter raised concerns with the Proposed Rules "cost estimates, which account for the Administration's onetime debt relief plan to forgive $20,000 for Pell Grant eligible borrowers and $10,000 for other borrowers," and "suggest[ed] that [the Department] should produce a secondary cost estimate in the event that the loan cancellation plan does not go into effect." *Id.* at 43875. In other words, the commenter noted that if the Supreme Court rejected

the President's August 2022 mass cancellation attempt, the Proposed Rule would artificially discount the cost estimate by tens, if not hundreds, of billions of dollars.

74. In a March 13, 2023 public letter, the Congressional Budget Office ("CBO") expressed a belief that the Proposed Rule would cost $230 million. *See Congressional Budget Office, Re: Costs of the Proposed Income-Driven Repayment Plan for Student Loans,* (Mar. 13, 2023).[18] The letter also noted that the cost estimate employed by the Department relied on assumptions that "there would be no increase in enrollment in the IDR plan among current or future borrowers[,] no increase in borrowing among eligible students in the future," and that the Supreme Court would rule in its favor in *Biden v. Nebraska*. *Id.* at 2, 7–8. In the event the Supreme Court ruled against the Department, the CBO found that the cost estimate would increase by another $46 billion in the first year alone. *Id.* at 2.

E. The Final Rule

75. Shortly after the Supreme Court's ruling in *Biden v. Nebraska*, Defendant Biden released a statement calling "the Court's decision . . . wrong" and promising to "stop at nothing" to evade the ruling. *Statement from President Joe Biden on Supreme Court Decision on Student Loan Debt Relief*, The White House (June 30, 2023).[19]

76. True to his word, the President's administration released the Final Rule just 10 days after *Biden v. Nebraska*, on July 10, 2023. *See* 88 Fed. Reg. 43,820.

77. Eager to evade the Supreme Court's ruling as quickly as possible, the President's administration released the Final Rule without bothering to update any analysis in light of *Biden*

[18] https://www.cbo.gov/system/files/2023-03/58983-IDR.pdf
[19] https://www.whitehouse.gov/briefing-room/statements-releases/2023/06/30/statement-from-president-joe-biden-on-supreme-court-decision-on-student-loan-debt-relief/

v. Nebraska or amend financial assumptions that were wholly reliant on the administration prevailing in that case. In fact, the Final Rule does not even cite that case.

78. The Final Rule amends 34 C.F.R. §§ 682, 685. *See* 88 Fed. Reg. 43,889–905.

79. The Final Rule, except for limited designated provisions, is set to take effect on July 1, 2024. 88 Fed. Reg. 43820.

80. As an initial matter, the Final Rule "rename[s] the REPAYE [plan] as the Saving on a Valuable Education (SAVE) plan." *Id.* at 43822. Under the Final Rule, all borrowers on a "REPAYE" plan are categorized under the "SAVE" plan. *Id.* Although the "REPAYE" and "SAVE" plans are the same under the Final Rule, "the Department [] refer[s] to the SAVE plan as REPAYE throughout this final rule." *Id.* The Final Rule also "combin[es] the Income Contingent Repayment (ICR) and the Income-Based Repayment (IBR) plans under the umbrella term of 'Income-Driven Repayment' (IDR) plans." *Id.* at 43820.

81. The Final Rule makes several significant changes to preexisting regulations: for the "REPAYE" or "SAVE" plan, the Final Rule: (1) defines "discretionary income" to be income above 225% of the applicable Federal poverty guideline, up from the current 150%; (2) sets the monthly payment amount at $0 if the borrower's income falls below that threshold; (3) caps the monthly payment amount at 5% of the borrower's income that goes above that threshold for undergraduate loans, down from the current 10% to 15%; (4) forgives any interest that is not paid off each month, despite the statutory limit in the IBR program permitting interest subsidization only for the first 3 years; and (5) accelerates cancellation to as quick as 10 years, even if a borrower is not enrolled in Public Service Loan Forgiveness. *See id.* at 43900–05.

82. Under the Final Rule, loans are eligible for complete cancellation after 10 years if the original balance was less than $12,000. The number of years increases for every $1,000 in

original principle balance, so a person with an original principal amount of $13,000 will be eligible for complete cancellation after 11 years. *Id.* at 43903.

83. Under authority proscribed by the HEA, *see* 20 U.S.C. 1089(c)(2), Defendant Cardona designated certain provisions for "early implementation" in the Final Rule, including:

i. "Adjusting the treatment of spousal income in the REPAYE plan for married borrowers who file separately as described in § 685.209(e)(1)(i)(A) and (B);"

ii. "Increasing the income exemption to 225 percent of the applicable poverty guideline in the REPAYE plan as described in § 685.209(f);"

iii. "Not charging accrued interest to the borrower after the borrower's payment on REPAYE is applied as described in § 685.209(h);"

iv. "Designating in § 685.209(a)(1) that REPAYE may also be referred to as the Saving on a Valuable Education (SAVE) plan;"

v. "[C]hanges to the definition of family size for Direct Loan borrowers in IBR, ICR, PAYE, and REPAYE in § 685.209(a) to exclude the spouse when a borrower is married and files a separate tax return;" and

vi. "[T]he provision awarding credit toward forgiveness for certain periods of loan deferment prior to the effective date of July 1, 2024, as described in § 685.209(k)(4)."

Id. at 43820–21. Defendants used this designation to implement those identified provisions before the July 1, 2024 effective date of the Final Rule.

84. The Final Rule emphasizes that the goal of the changes is to help more borrowers avert delinquency and default as well as the negative consequences associated with those events, *see id.* at 43280, but not to create a "grant," *see id.* at 43832.

85. The data within the Final Rule tells a different story. The Final Rule states that it will apply to a clear majority of borrowers. *Id.* at 43823. And according to the Department's own figures, the typical undergraduate borrower under this new "SAVE" plan would pay only about $6,121 for every $10,000 borrowed. *Id.* at 43880.

86. Under the current/pre-Rule "REPAYE" plan, that amount is $10,956 for every $10,000 borrowed. *Id.*

87. In other words, while the typical borrower under the current plan repays at least as much as they borrowed, the typical borrower under the new plan will only pay 61% of what they borrowed. Thus, the Final Rule transforms the typical "loan" into a 39% "grant"—without any appropriation from Congress for the resulting billions of dollars in additional federal spending.

88. In fact, the Final Rule is so forgiving that it would benefit borrowers in *every* quintile of lifetime income. *Id.* at 43878. Undergraduate borrowers with *above*-median incomes will have the total amounts of their payments across the life of their loans reduced by as much as 30%. *Id.* Far from a program to help atypical Americans avoid default, this is a program to turn loans into grants even for borrowers making more money than most Americans.

89. The Final Rule rejects challenges to the Department's legal authority by ignoring the entire absence of statutory authority to forgive loans under the ICR program (under which the Final Rule proceeds) and then arguing that the HEA "sets an explicit upper limit, but no lower limit for the 'extended period' time that a borrower must spend in repayment" and that the Secretary has "discretion as to how much a borrower must pay, specifying only that payments must be set based upon the borrower's annual adjusted gross income." *Id.* at 43826-27.

90. The Final Rule asserts that the Secretary has the "authority to make the changes in this rule related to the amount of income protected from payments, the amount of income above

the income protection threshold that goes toward loan payments, and the amount of time borrowers must pay before repayment ends." *Id.* at 43827.

91. The Department seems to believe that the only limitation on its authority under the HEA is to provide a "reasoned basis for the parameters it chose." *Id.*

92. The Final Rule does not acknowledge any statutory limiting principle on the Secretary's authority to abolish debts and does not dispute that the Department's interpretation of the relevant statutes would permit the Department to de facto cancel all student loans.

93. The Final Rule expressly states, for example, that the Department believes it could exempt even 400% or more of the federal poverty line from income. The Department simply is not doing so "at this time." *Id.* at 43831.

94. Under this view, there is nothing in the HEA that would prevent the Secretary from limiting debt repayment on income-contingent repayment plans to: 0.01% of income over $1,000,000 for 1 year only, with all remaining debt—typically 100%—cancelled by the Federal Government.

95. The Final Rule brushes off comments that the program was a matter of economic significance that did not have clear Congressional authorization by stating that there is not anything "unprecedented or novel about the Department relying on section 455 of the HEA as statutory authority for designing and administering repayment plans based on income." *Id.* at 43830.

96. But by the Department's own estimates, the Final Rule would abolish extraordinary amounts of debt and convert loans into grants for the *typical* borrower. That is incontestably unprecedented and novel—especially when Congress expressly placed statutory limits in place in the IBR program that prohibit the Department from doing the same thing to IBR loans, as the Department is forced to acknowledge. *See id.* at 43851.

97. While the Final Rule notes that commenters argued that its provisions are matters of economic and political significance that require "clear Congressional authorization," it includes no discussion as to whether the Final Rule was an issue of economic or political significance that required clear Congressional authorization. *Id.* at 43830. To the contrary, the Final Rule suggests that the Secretary's power is unlimited unless Congress stops him. *See id.* ("Yet Congress has taken no action to limit the Secretary's discretion . . . .").

98. It is also uncontestable that the Final Rule does not accurately estimate the extraordinary cost of the program. The Final Rule estimates that the cost of the program would be $156 billion across the span of ten years. *Id.* at 43820, 43886. But that estimate is expressly based on the (false) assumption that the Department would prevail at the Supreme Court in *Biden v. Nebraska*. The Final Rule says that the Department's cost estimates "account for the Administration's one-time debt relief plan to forgive $20,000 for Pell Grant eligible borrowers and $10,000 for other borrowers" and then falsely says "[t]his issue remains before the Supreme Court" even though the Supreme Court had already issued its decision rejecting that program 10 days earlier. *Id.* at 43875; *see also id.* at 43886 ("This estimate is based on … the August 2022 announcement that the Department will discharge up to $20,000 in Federal student loans for borrowers …."). Rather than heed the advice by one commenter to create a "cost estimate in the event that the loan cancellation plan does not go into effect," the Department dismissed the suggestion and stated it was "confident in our authority" on the issue. *Id.* at 43875.

99. Unlike the Department, which steadfastly refuses to assess costs after *Biden v. Nebraska*, other organizations have assessed the cost of the Final Rule. Before the Final Rule was published, the CBO informed Congress that, if the administration lost *Biden v. Nebraska*, the Department's Final Rule could cost an additional $46 billion in the first year alone, on top of its

10-year estimate of $230 billion. *See Congressional Budget Office, Re: Costs of the Proposed Income-Driven Repayment Plan for Student Loans,* at 2 (Mar. 13, 2023).[20] After the Supreme Court decided *Biden v. Nebraska* and the Department published the Final Rule, the CBO scored a joint resolution that would repeal the Final Rule. *See At a Glance H.J. Res. 88, a joint resolution providing for Congressional disapproval under chapter 8 of title 5, United States Code, of the rule submitted by the Department of Education relating to "Improving Income Driven Repayment for the William D. Ford Federal Direct Loan Program and the Federal Family Education Loan (FFEL) Program*," CBO at 1 (Sept. 18, 2023).[21] The CBO assessed the 10-year cost of the Departments plan at $260.7 billion. *Id*. That total is $104 billion more than the estimate in the Final Rule.

100. The CBO also stated that the actual cost of the Final Rule by itself would be higher, but CBO decided to discount the cost because of anticipated savings provided by a separate rule. *Id.* at 6.

101. The CBO also noted that the Department's estimate was "much lower" than CBO's because the "the department's estimate incorporates the costs of the Administration's plan to cancel up to $20,000 in outstanding balances for eligible borrowers" even though "[t]he Supreme Court invalidated the loan cancellation plan on June 30, 2023." *Id.* The Department also failed to "include any costs for increased borrowing among eligible students in the future." *Id.*

102. Similarly, shortly after the Final Rule was released, the Wharton School of the University of Pennsylvania published a budget model that found the Final Rule's would have a net cost *three times higher* than the government projected, coming in at over $475 billion across a 10-year budget, more than the program struck down in *Biden v. Nebraska*. *See Biden's New Income-*

[20] https://www.cbo.gov/system/files/2023-03/58983-IDR.pdf
[21] https://www.cbo.gov/system/files/2023-09/hjres88.pdf

Driven Repayment ("SAVE") Plan: Budgetary Cost Estimate Update, Penn Wharton University of Pennsylvania (July 17, 2023).[22]

103. More recently, commentators estimated that the true costs of the Final Rule could exceed one trillion dollars, or *more than double* the economic impact of the loan-cancellation rule the Supreme Court last year declared illegal, in part because of the total's "staggering" economic significance. *See, e.g.*, Travis Hornsby, *New REPAYE Plan Could Save Borrowers Over $1 Trillion Over 10 Years*, Student Loan Planner (Dec. 20, 2023).[23]

F. Congressional Inaction on the SAVE Plan

104. Perhaps sensing the legal vulnerability with Defendants' unprecedented actions, several members of Congress have introduced legislation to codify the SAVE Plan. A bill was introduced in the House signed by 16 members, and in the Senate signed by 14 members. *See* Codifying SAVE Plan Act, H.R. 6593, 118th Cong. (2023);[24] *Gillibrand Announces Legislation To Protect Historic Student Loan Debt Relief; Urges Borrowers To Apply For "SAVE Plan"* (Apr. 2, 2024).[25] Neither chamber in Congress has passed this legislation.

G. Defendants Rush to Cancel Loans Months Earlier Than Scheduled

105. Even though loan cancellation was not supposed to occur under the Final Rule until July 2024, Defendants decided earlier this year—with almost no notice—to accelerate.

106. On January 16, the Department of Education published a half-page notice in the Federal Register saying that it would begin implementing early cancellation just 5 days later, on

[22] https://budgetmodel.wharton.upenn.edu/issues/2023/7/17/biden-income-driven-repayment-budget-update
[23] https://www.studentloanplanner.com/new-repaye-plan-ten-year-cost/
[24] https://www.congress.gov/bill/118th-congress/house-bill/6593
[25] https://www.gillibrand.senate.gov/news/press/release/gillibrand-announces-legislation-to-protect-historic-student-loan-debt-relief-urges-borrowers-to-apply-for-save-plan/

January 21—despite previously saying Defendants would wait until July. 89 Fed. Reg. 2489. The Department provided no explanation for this change in policy.

107. On February 21, 2024, Defendant Biden announced in a "Fact Sheet" that this had occurred. He announced the "approval of $1.2 billion in student debt cancellation for almost 153,000 borrowers" pursuant to "a SAVE plan policy that provides debt forgiveness to borrowers who have been in repayment after as little as 10 years and took out $12,000 or less in student loans." *FACT SHEET: President Biden Cancels Student Debt for more than 150,000 Student Loan Borrowers Ahead of Schedule*, The White House (Feb. 21, 2024).[26]

108. In the same "Fact Sheet," Defendant Biden boasted that while "[o]riginally planned for July, the Biden-Harris Administration implemented this provision of SAVE and is providing relief to borrowers nearly six months ahead of schedule." *Id.*

109. The "SAVE plan policy" and "provision of SAVE" referenced by Defendant Biden is found in the Final Rule at 34 C.F.R. § 685.209(k)(3), which provides that "a borrower receives forgiveness if the borrower's total original principal balance on all loans that are being paid under the [SAVE] plan was less than or equal to $12,000, after the borrower has satisfied 120 monthly payments or the equivalent, plus an additional 12 monthly payments or the equivalent over a period of at least 1 year for every $1,000 if the total original principal balance is above $12,000." 88 Fed. Reg. 43903.

110. Section 685.209(k)(3) was not designated in the Final Rule for early implementation.

111. An "Issue Brief" published by White House Counsel of Economic Advisors on February 21, 2024, explains that "the full SAVE regulations will go into effect on July 1, 2024,

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[26] https://www.whitehouse.gov/briefing-room/statements-releases/2024/02/21/fact-sheet-president-biden-cancels-student-debt-for-more-than-150000-student-loan-borrowers-ahead-of-schedule/

but the Department of Education has implemented three key benefits already," and identifies the provisions in Paragraphs 51(i), 51(ii), and 51(iii). *See Issue Brief: The Benefits of SAVE*, The White House Counsel of Economic Advisors (Feb. 21, 2024).[27] While the brief notes that "[a]s of February 2024, borrowers who borrowed $12,000 or less will receive forgiveness after making the equivalent of 10 years of payments," it provides no justification for the early implementation of this provision. *Id.*

H. The Final Rule Irreparably Harms Plaintiff

i. The Final Rule harms a public instrumentality that services loans in Missouri

112. The Higher Education Loan Authority of the State of Missouri ("MOHELA") is "a public instrumentality and body corporate" of the State of Missouri that performs "an essential public function" by providing residents access to student loans. Mo. Rev. Stat. § 173.360; *see also Biden*, 143 S. Ct. at 2366.

113. Because it is a public instrumentality of Missouri, "harm to MOHELA is also a harm to Missouri." *Biden*, 143 S. Ct. at 2366.

114. MOHELA's purpose is to ensure that all eligible post-secondary education students in Missouri have access to guaranteed student loans. Since 2010, MOHELA has provided roughly $100 million in funding for college scholarships in the State of Missouri. As of 2022, MOHELA "owns over $1 billion in FFELs"—that is, MOHELA owns asset-backed securities made up of student loans. *Id.* at 2365. As of 2022, "[i]t also services nearly $150 billion worth of federal loans, having been hired by the Department of Education to collect payments and provide customer service to borrowers." *Id.* "MOHELA receives an administrative fee for each of the five million federal accounts it services, totaling $88.9 million in revenue [in 2022] alone." *Id.* "Its profits

[27] https://www.whitehouse.gov/cea/written-materials/2024/02/21/issue-brief-the-benefits-of-save/

help fund education in Missouri: MOHELA has provided $230 million for development projects at Missouri colleges and universities and almost $300 million in grants and scholarships for Missouri students." *Id.*

115. MOHELA is authorized to act as a servicer for student loan debt, see Mo. Rev. Stat. § 173.385.1(18), and it may use fees and charges from that activity "to pay the costs of the authority," § 173.385.1(12).

116. MOHELA is a servicer for federally held student debt, including Direct Loan program loans, under contracts with the Education Department. The amount of federally held student debt MOHELA services is substantial. As of June 30, 2023, (the date of the most recent financial statement) the entity services roughly $344.4 billion in federal direct loans representing over 7.8 million accounts, which are primarily DLP loans. *See Financial Statements and Schedule of Expenditures of Federal Awards: Higher Education Loan Authority of the State of Missouri As of and for the Years Ended June 30, 2023 and 2022 With Reports of Independent Auditors* 4, MOHELA (2023) ("FY 2023 Financial Statement").[28] Servicing revenue for fiscal year 2023 were $279.2 million. *Id.* at 4.

117. And while much of what MOHELA does is service loans owned by the Federal Government, MOHELA also owns $874 million of legacy FFELP loans. *Id.* at 6, 8. The entity generates revenue from those outstanding FFELP loans. *See Financial Statements: Higher Education Loan Authority of the State of Missouri As of and for the Years Ended June 30, 2021 and 2020 With Reports of Independent Auditors* 7, MOHELA (2021).[29]

118. Since 2020, MOHELA has greatly expanded the number of loans it services. While the organization now services 7.8 million accounts, in 2020, it serviced just 2.4 million.

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[28] Available at https://www.mohela.com/DL/common/publicInfo/financialStatements.aspx

[29] *Id.*

MOHELA, *Letter to Senators Warren, Blumenthal, Van Hollen, Markey, Brown, and Menendez* at 2 (Aug. 8, 2023).[30]

119. "The majority of the increase was net direct loan servicing fees." FY 2023 Financial Statement at 4. But part of that increase comes from MOHELA obtaining status as the sole servicer of all PSLF loans. *Id.* In 2022, the Federal Government "completed [a] transfer of all PSLF borrowers from FedLoan Servicing to MOHELA." Federal Student Aid, Department of Education, *Public Service Loan Forgiveness Program Transitioning from FedLoan Servicing to MOHELA* (Dec. 14, 2022).[31] Borrowers interested in PSLF are directed to seek loan consolidation, which would create a "new loan [that] will be sent to MOHELA for general servicing." *Id.*

120. MOHELA faces the imminent loss of revenue in its role as a servicer of loans owned by the Federal Government. MOHELA's revenue as a servicer of those loans is a function of the number of accounts it services. "MOHELA receives an administrative fee for each of the five million federal accounts it services"—now 7.7 million loans. *See Biden*, 143 S. Ct. at 2366. The Supreme Court determined that MOHELA suffers financial harm whenever loans that it services are discharged. *Id.* So when student loan balances go to zero, as they will under the Final Rule, MOHELA will lose the revenue from servicing those loans. Thus, by accelerating the forgiveness timeline for the typical borrower by as much as 15 years, the Final Rule imposes financial harm on MOHELA, and thus the State of Missouri, by depriving MOHELA of up to 15 years in servicing fees.

121. MOHELA also faces past loss and imminent future loss of revenue in its role as owner or holder of loans—specifically, legacy FFELP loans. Unlike the current loan program,

[30] https://www.warren.senate.gov/imo/media/doc/Servicers%20Responses.pdf#page=43
[31] https://fsapartners.ed.gov/knowledge-center/library/electronic-announcements/2022-06-03/public-service-loan-forgiveness-program-transitioning-fedloan-servicing-mohela-updated-dec-14-2022

where the Federal Government owns and issues loans, FFELP loans were commonly issued by private lenders and commercially owned. As of MOHELA's most recent financial statement, it owns $874 million in outstanding FFELP loans.

122. But the Final Rule drastically reduces the value of those assets by providing borrowers an enormous incentive to consolidate FFELP loans into loans owned by the government and eligible for the new cancellation plan. The Federal Government is even permitting consolidation of FFELP loans *ineligible* for consolidation and is, for the first time ever, conferring benefits retroactively so that forgiveness arrives sooner. Before the Final Rule, consolidated loans had always been considered new loans, with the clock for forgiveness beginning at the time of consolidation. Now, Defendants are permitting borrowers to consolidate loans into new loans and immediately shave off years from forgiveness. This dramatically encourages borrowers to consolidate their FFELP loans into Defendants' new plan.

123. The Federal Government in fact expressly tells borrowers to do so. *E.g.*, Federal Student Aid, Department of Education, *What to Know About Federal Family Education Loan (FFEL) Program Loans* (last visited April 4, 2024)[32] (encouraging borrowers to consolidate because "if your loan isn't held by ED [Department of Education], you won't be able to qualify for some federal student loan relief programs unless you consolidate into a Direct Consolidation Loan"); Federal Student Aid, Department of Education, *Which Federal Student Loans Qualify for the Saving on a Valuable Education (SAVE) Plan?* (last visited April 4, 2024)[33] ("FFEL Program loans and Perkins Loans are not eligible for this plan but can become eligible through loan consolidation.").

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[32] https://studentaid.gov/articles/what-to-know-about-ffel-loans/
[33] https://studentaid.gov/help-center/answers/article/federal-student-loan-qualifications-for-repaye-plan

124. By making consolidation of FFELP loans much more likely, the Final Rule harms MOHELA with respect to the loans it owns in several ways.

125. First, if a borrower consolidates a FFELP loan to take advantage of the SAVE Plan, MOHELA will no longer own that loan. MOHELA will thus lose its ability to earn interest income generated by the FFELP assets that it owned.

126. Second, MOHELA will lose the ability to service most of these loans. Because MOHELA is a smaller participant in the servicing industry, it is allocated only a minority percentage of all direct loans to service. Even if MOHELA were able to service every consolidated loan, the service fee is less than the interest income MOHELA would otherwise earn.

127. Third, the SAVE Plan makes it much less likely that a borrower will pay off a FFELP loan in full. Many borrowers will instead consolidate. That decreases the expected return on investment for owners of FFELP loans and thus decreases the value for selling those loans on the tradeable market.

128. The Final Rule impairs MOHELA's ability to provide services to Missouri residents, and harms Missouri's interest in ensuring its citizens receive an education. *See* Mo. Const. art. IX, § 9(b) ("The general assembly shall adequately maintain the state university and such other educational institutions as it may deem necessary.").

ii. The Final Rule impairs the ability of public-service employers to recruit employees

129. The Final Rule also injures all Plaintiff States' interests in recruiting and retaining employees.

130. For example, the Final Rule harms Missouri's interest in hiring and retaining employees across state and local government who use PSLF program for undergraduate and graduate student loans. Missouri relies upon a robust and dedicated public workforce. As a matter

of statute, and the reality of public budgets, the State cannot always offer salaries on par with that of private employers around the state. To bridge the gap and make public employment more attractive, the State of Missouri and its political subdivisions, as employers, rely on the PSLF to recruit and retain employees who would otherwise seek private employment but for the benefits of the PSLF program.

131. The Missouri Attorney General's Office ("AGO") heavily emphasizes PSLF benefits when recruiting employees. *See* Declaration of Rachael Houser ¶¶ 5–7 ("Houser Decl."), attached hereto as Exhibit #4. The Office tells potential recruits this information at "career fairs" and "in interviews with potential employees." *Id.* ¶ 5. "[A]t every single one" of the Office's ten recruiting events each year, "students have asked about whether the AGO is a qualifying employer for PSLF." *Id.* The program is so popular that, of the 13 law school graduates hired by the Office last year, "[a]lmost every one of these attorneys indicated that their decision to work for the AGO was informed, in part, due to the fact that employees in the public sector are eligible for PSLF." *Id.* AGO employees commonly are "attracted to public service . . . because of the rewarding and valuable work," but it is much easier for them to accept much lower salaries by the availability of "eventual public-service loan forgiveness." *See* Declaration of Jason Lewis ¶ 14 ("Lewis Decl."), attached hereto as Exhibit #2.

132. Part of what makes the program so valuable is that it is *comparatively* much more generous than other repayment programs. "[I]f programs were rolled out that would have reduced my lower monthly payments or allowed my loans to be forgiven earlier, it would have been less likely that I would have chosen to advance my career in public service and the AGO." *Id.* ¶ 17; *see also id.* ¶ 22 ("If my monthly student loan payments were reduced significantly enough without

needing to work in qualifying public service employment, then there would also be less financial reason for me to continue employment with the AGO or public service more generally.").

133. The program is also valuable for retaining employees. "In the last 18 months, 2 attorneys in the labor division completed their PSLF requirements, and quickly left the AGO for jobs that pay substantially more. These attorneys stayed with the AGO for 10 years in pursuit of PSLF, and would otherwise have left much sooner. An employee leaving the office after satisfying PSLF often tells the office they stayed only because of PSLF." Houser Decl. ¶ 8. "Another attorney in the labor division was seeking new career opportunities, but limited her job search to other public sector employers because she was only 3 years away from PSLF, and its benefits far outweighed the higher salaries available to her in the private sector. This attorney had determined that the benefits of PLSF meant that she would rather continue working in the public sector than seek private employment." *Id.* ¶ 9. PSLF becomes especially valuable the longer a person stays in public service because forgiveness grows nearer. Lewis Decl. ¶ 16 (PSLF "has been critical to my decision to continue to work in public service").

134. PSLF is so important for government agencies because, before the Final Rule, PSLF was comparatively much more generous than any other federal loan repayment program. That gave borrowers a sizeable incentive to work for public service employers. Borrowers in the program could receive loan forgiveness after just 10 years rather than the 25 years under the other programs. In addition, PSLF borrowers do not face tax liability on the amount forgiven, unlike borrowers under other programs. In exchange for these generous benefits, borrowers make a commitment to work for public service organizations, such as state or local governments and agencies.

135. Once the Final Rule takes effect, however, PSLF will not be nearly as attractive compared to other income-driven repayment programs. Its comparative advantage will shrink or disappear entirely. Under the SAVE Plan, most individuals on an income-contingent repayment plan will have monthly payments that equal $0 per month. Other individuals with $12,000 or less in loans will have them forgiven after ten years of repayment—the same amount of time required for public service loan forgiveness. And because of the American Rescue Plan Act of 2021, individuals who receive accelerated loan forgiveness through a program outside PSLF before 2026 will be exempt from tax liability for the amount forgiven.

136. All these factors make PSLF much less attractive. Because many borrowers will no longer need PSLF to obtain accelerated loan forgiveness and to obtain a tax exemption on the amount of loans forgiven, those borrowers will be unlikely to commit themselves to the PSLF program. The same is true even for borrowers who will not receive substantial accelerated forgiveness. Because the repayment on a typical loan under the SAVE Plan is so much less than previous plans, many borrowers will choose to accept that plan rather than limit their employment options to public service for the next 10 years. Fewer borrowers will enter the PSLF program, and many in the program will leave their jobs because the program no longer carries the comparative benefits it once did.

137. The Final Rule impairs Missouri's interests by discharging the debt held by public employees, harming the ability of the State and its political subdivisions to recruit and retain employees. *See*, *e.g.*, *Louisiana Energy & Power Auth. v. FERC*, 141 F.3d 364, 367 (D.C. Cir. 1998) (A party "suffer[s] constitutional injury in fact when agencies lift regulatory restrictions on their competitors or otherwise allow increased competition" against them).

138. The same is true for Arkansas. The challenged rule will impair and hamper Arkansas's ability to recruit and retain employees with educational debt. Like many public sector employers, Arkansas's state agencies, constitutional offices, and various political subdivisions typically cannot offer compensation on par with private sector employers. As a result, Arkansas's state agencies, constitutional offices, and various political subdivisions rely upon the public sector student loan forgiveness program to help attract and retain talent. By waiving away undergraduate and graduate debt, the challenged rule will weaken that incentive and make it more difficult for Arkansas to fill public sector jobs.

139. For instance, the Office of the Arkansas Attorney General currently relies upon the public sector student loan forgiveness program to attract and retain legal talent. Many of the office's current employees participate in that program to obtain relief for undergraduate and graduate loans, and potential employees consider that program in evaluating whether to accept public sector employment. Indeed, that is particularly true for lawyers, who often incur substantial debts.

140. PSLF is an important recruitment and retention tool for Arkansas. "The Arkansas Attorney General's Office actively advertises its participation in the PSLF program on its website to attract potential applications for employment." *See* Declaration of Dawnetta Calhoun ¶ 8 ("Calhoun Decl."), attached hereto as Exhibit #3. "The State of Arkansas also advertises the participation of state agencies in the PSLF program on its websites to attract potential employees." *Id.* Currently, 23 out of 159 employees rely on the program. *Id.* ¶¶ 6, 12. Other current employees have participated in the program, as have past employees. *Id.*

141. "A reduction in student loan obligations otherwise eligible for relief under the PSLF program will make participation in that program less attractive to current and potential employees.

Thus, if the published rule takes effect, the Arkansas Attorney General's Office will lose a valuable tool for recruiting potential employees and retaining existing employees because the PSLF program will no longer carry the same comparative benefit that it once did." *Id.* ¶ 13.

142. The challenged rule's blanket forgiveness waters down the PSLF incentive, makes public sector employment less attractive, and will make it more difficult for the office to retain and attract legal talent.

143. Indeed, recognizing the importance of the public sector student loan forgiveness program to attracting and retaining employees, Arkansas does not tax debt forgiven pursuant to the public sector student loan forgiveness program. See Ark. Code Ann. 26-51-404(b)(10). That contrasts with cancellation pursuant to other federal programs and statutes—including cancellation pursuant to the challenged rule. See Ark. Code Ann. 26-51-404(a)(1)(E).

144. Arkansas likewise faces financial harm. As detailed above, Arkansas currently relies upon the public sector student loan forgiveness program to attract and retain employees. Employees and potential employees consider that forgiveness in calculating overall compensation. Absent that financial incentive, Arkansas will have to increase other forms of compensation to attract and retain employees. Those additional expenses will reduce Arkansas's ability to fund other state expenses and programs.

145. For similar reasons to the above, Florida, Georgia, North Dakota, Ohio, and Oklahoma are also harmed by the Final Rule.

146. For example, the State of Florida relies on public sector loan forgiveness to recruit employees. In general, Florida's state agencies do not offer compensation at the same level as private employers, and the prospect of public sector loan forgiveness is an important tool to recruit

and retain qualified employees. By removing the need for such programs, the challenged rule impairs Florida's ability to recruit top talent to serve the people of the State of Florida.

147. The Office of the Florida Attorney General relies on public sector loan forgiveness as a recruiting tool. *See, e.g.*, John R. *Justice Grant Program, Florida Attorney General's Office* (last visited April 5, 2024) (providing information on grant programs available to public sector attorneys).[34] The availability of such programs is particularly important for employees like lawyers who may have debt incurred from both graduate and undergraduate degrees.

148. Similarly, for the State of Ohio, public sector loan forgiveness has a significant, positive impact on recruitment and retention efforts. In general, Ohio state agencies do not always offer compensation at the same level as private employers, and the prospect of public sector loan forgiveness is an important tool to recruit and retain qualified employees. *See, e.g.*, *Why Work for The State of Ohio*, Education and Development (last visited April 5, 2024)[35] ("Working for the state government gives employees the unique opportunity to apply for student loan forgiveness after making 10 years of qualifying payment while working for the state government."). Such programs are particularly important for employees like lawyers who may have incurred student debt from both graduate and undergraduate degrees.

149. Indeed, Ohio law generally does not tax student loan debt that has been forgiven. *See Income – General Information, Does Ohio Tax Student Loan Debt That Has Been Forgiven?* (last visited April 5, 2024).[36] By removing the comparative advantages for public sector loan forgiveness programs, the challenged rule impairs Ohio's ability to recruit top talent to serve the People of the State of Ohio.

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[34] https://www.myfloridalegal.com/home-page/john-r-justice-grant-program
[35] https://careers.ohio.gov/why-work-for-state-of-ohio/education-and-development/03-education-and-development
[36] https://dam.assets.ohio.gov/image/upload/tax.ohio.gov/documents/studenloan.pdf

iii. The Final Rule Harms State Revenue

150. Missouri will face financial harm from the Final Rule. Under Missouri tax law, an individual's taxable state income is based on their federal adjusted gross income ("AGI") as a baseline. *See* Mo. Rev. Stat. § 143.121. While the federal AGI normally includes student loan discharge, *see* 26 U.S.C. § 61(a)(11), that input was removed under the American Rescue Plan Act of 2021 for student loan debt discharged before January 1, 2026, *see* 26 U.S.C. § 108(f)(5). Thus, the student loan debts that will receive accelerated forgiveness under Final Rule and be forgiven before 2026 will not be considered taxable income under Missouri law. This will reduce the State's tax revenues until 2026.

151. Specifically, under the plans in existence before the Final Rule, the Government Accountability Office (GAO) estimated that by 2030, "about 1.5 million loans held by about 600,000 borrowers" would be eligible for loan cancellation. *Federal Student Aid: Education Needs to Take Steps to Ensure Eligible Loans Receive Income-Driven Repayment Forgiveness* 15, U.S. Gov't Accountability Office (Mar. 2022).[37] Of those loans, just 0.3 million would be forgiven before 2026. *See id.* at 16 fig. 3.

152. But for the Final Rule, significant numbers of federal loan cancellations would occur after 2026 for residents of Missouri and would result in taxable income being recognized from the loan forgiveness and thus increased payments of income taxes to Missouri.

153. The Final Rule's income and payment threshold numbers make the harm from early cancellation even worse. By increasing the income exemption to 225% and decreasing the payment amount to 5%, the unpaid loan balances will be even higher through 2025, meaning Missouri and similar States will lose out on even more taxation revenue.

[37] https://www.gao.gov/assets/gao-22-103720.pdf

154. The challenged Final Rule, however, will reduce that tax revenue by accelerating some debt forgiveness that would otherwise occur in a period in which it would be taxable income (*i.e.*, 2026 and on) into a period where it is not taxable (*i.e.*, through December 31, 2025). As a result, the Defendants' actions will reduce Plaintiff Missouri's tax revenue.

155. Missouri also faces a separate sovereign injury from the Final Rule, as a result of having to either accept the lost tax revenues identified above or change state tax law for the determination of an individual's taxable state income.

156. Most other Plaintiff States will likewise face similar sovereign and financial harm from the rule. For example, under Georgia and Oklahoma tax law (like under Missouri law), an individual's taxable state income is based on adjustments to their federal AGI. *See* O.C.G.A. § 48-7-27(a); OKLA. STAT. tit. 68, §§ 2353, 2358.

iv. The Final Rule Directly Harms the Business of the State of North Dakota

157. The State of North Dakota is engaged in the business of banking "[f]or the purpose of encouraging and promoting agriculture, commerce, and industry." N.D.C.C. § 6-09-01. For that purpose, North Dakota "maintain[s] a system of banking owned, controlled, and operated by it, under the name of the Bank of North Dakota." *Id.*

158. In this capacity, the Bank of North Dakota funds and administers a state-sponsored student loan program and a student loan consolidation program. *See* N.D.C.C. ch. 15-62.1. The Bank of North Dakota's student loan offerings include the "Dakota Education Alternative Loan" or "DEAL" program for eligible borrowers attending institutions of higher education in North Dakota. *See* Bank of North Dakota, *DEAL Student Loan* (last visited Apr. 8, 2024).[38] Interest

[38] https://bnd.nd.gov/education-funding/apply-for-student-loan/deal-student-loan/

earned by the Bank of North Dakota from student loans is used to implement, maintain, and administer state programs. *See* N.D.C.C. §§ 15-62.1-01; 15-62.1-05.

159. Student loan recipients that received or consolidated their student loans through the Bank of North Dakota will not be eligible to have their loans absolved under the Final Rule. Consequently, despite the convenience of the Bank of North Dakota working directly with in-state post-secondary institutions, the Final Rule will foreseeably cause many would-be student loan borrowers to forego borrowing from the Bank of North Dakota in the future if loans issued by the federal government may systematically not require repayment under their terms, if at all.

160. Since the Bank of North Dakota's student loan program is the State of North Dakota engaged in business, harms to the Bank of North Dakota or its student loan programs are direct harms to the State of North Dakota itself. *See Louisiana Energy & Power Auth. v. FERC*, 141 F.3d 364, 367 (D.C. Cir. 1998) (a party "suffer[s] constitutional injury in fact when agencies lift regulatory restrictions on their competitors").

CLAIMS FOR RELIEF

COUNT I – Violation of Administrative Procedures Act
Agency Action in Excess of Statutory Jurisdiction and in Violation of Separation of Powers
U.S. Const. art. I, § 1

Major Questions Doctrine

161. Plaintiffs re-allege all the above paragraphs as if fully set out herein.

162. The APA requires courts to "hold unlawful and set aside agency action, findings, and conclusions found to be . . . (A) arbitrary, capricious, an abuse of discretion, or otherwise not in accordance with law; (B) contrary to constitutional right, power, privilege, or immunity; (C) in excess of statutory jurisdiction, authority, or limitations, or short of statutory right; [or] (D) without observance of procedure required by law." 5 U.S.C. § 706(2)(A)-(D).

163. The Department is an "agency" under the APA. *Id.* § 701(b)(1).

164. The Final Rule is a "rule[]" under the APA. *Id.* § 701(b)(2).

165. The Final Rule is final agency action subject to judicial review. *Id.* § 704.

166. Separation-of-powers principles prohibit an agency from deciding an issue of great economic or political significance, or issues traditionally governed by state or local law, absent clear authorization from Congress to do so, under what Courts have recognized as the "major questions doctrine." *West Virginia*, 597 U.S. at 724 (discussing the "major questions doctrine").

167. The major questions doctrine is triggered when an agency attempts to seize broad authority over matters of great economic and political significance. *See id.* at 721-22.

168. The Final Rule concerns matters of vast political significance and salience because its provisions and outcomes relate to issues subject to earnest and profound debate in the American body politic for several decades where Congress has actively legislated. *See* Ian Krietzberg, *Key events on the path to student loan forgiveness, from Occupy Wall Street to the 2020 presidential primaries*, CNBC (Aug. 24, 2022);[39] *see also Biden*, 143 S. Ct. at 2374 ("A decision of such magnitude and consequence on a matter of earnest and profound debate across the country must rest with Congress itself, or an agency acting pursuant to a clear delegation from that representative body.") (citing *West Virginia*, 597 U.S. at 735) (cleaned up).

169. The Final Rule also concerns matters of great economic significance because the net updated cost of its provisions are projected to be at least $475 billion over a ten-year period, and maybe over $1.1 trillion according to some estimates. That is more than the $430 billion at issue in *Biden v. Nebraska*. Even under the Department's calculation of $156 billion—which is patently arbitrary because the calculation assumed the Department would prevail in *Biden v. Nebraska* even though the Department had already lost—that number is still sufficient to trigger

[39] https://www.cnbc.com/2022/08/24/timeline-key-events-on-the-path-to-student-loan-forgiveness.html

the major questions doctrine. *See Alabama Ass'n of Realtors*, 141 S. Ct. at 2489 ($50 billion triggered major questions doctrine). Nothing in the HEA nor its amendments give the Department of Education clear authorization to unilaterally spend between $475 billion and $1.1 trillion.

170. Moreover, departure from longstanding practice without new authorization from Congress is strong evidence the agency is acting without Congressional authorization. *See Nat'l Fed'n Indp. Bus. v. Dep't of Labor*, 595 U.S. 109, 117 (2022).

171. The Final Rule departs from the Department's nearly thirty-year definition of "income contingent repayment plan" by effectively turning a repayment plan into a grant for the typical borrower. Nothing in the HEA and its amendments gives the Department of Education the authority to resolve this debate by turning the terms of income-contingent loan repayment into a grant. The Final Rule's suggestion that the Secretary's authority on these plans is unlimited unless Congress acts to stop him has it exactly backward.

172. In addition, the Department has never once attempted to use rulemaking authority to use the ICR program to subsidize interest.

173. Nor has the Department ever sought to use its authority to permit forgiveness sooner than 20 years—which is the statutory term of years created for forgiveness by the IBR program. 20 U.S.C. 1098e(e).

174. The Final Rule triggers the major questions doctrine and violates principles of separation-of power by seizing broad authority over matters of great economic and political significance without clear congressional authorization.

175. Even if the Final Rule does not implicate the major questions doctrine, it still violates separation of powers. Congress only gave the Department authority to cancel student

loans in very "limited circumstances." *See Biden*, 143 S. Ct. at 2362–63. As the Supreme Court put it last year, the Department may only cancel loans held by:

i. "some public servants … who work in their professions for a minimum number of years;"

ii. "borrowers who have died or been 'permanently and totally disabled;'"

iii. "[b]ankrupt borrowers;" or

iv. "borrowers falsely certified by their schools, borrowers whose schools close down, and borrowers whose schools fail to pay loan proceeds they owe to lenders." *Id.*

176. And while Congress is no doubt aware of the issue, it has chosen not to rewrite the HEA by adding a new category of loan forgiveness as the Department has unilaterally done. By doing so unilaterally, Defendants have "seiz[ed] the power of the Legislature." *Id.* at 2373.

177. Members of Congress have introduced legislation that would accomplish this, *see, e.g.*, Affordable Loans for Any Student Act, S.R. 3953, 117th Cong. (2022);[40] Student Loan Borrowers' Bill of Rights Act of 2019, H.R. 3027, 116th Cong. (2019),[41] but that legislation did not become law.

178. The Department therefore has no authorization to forgive student loans in this context, and the Department exceeded its authority when it issued the Final Rule. Because the Final Rule violates separation of powers, it should be set aside.

COUNT II – Violation of the Administrative Procedures Act
Agency Action That Is In Excess of Statutory Authority (5 U.S.C. § 706)

179. Plaintiffs re-allege all the above paragraphs as if fully set out herein.

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[40] https://www.congress.gov/bill/117th-congress/senate-bill/3953
[41] https://www.congress.gov/bill/116th-congress/house-bill/3027

180. The APA requires courts to "hold unlawful and set aside agency action, findings, and conclusions found to be . . . (A) . . . not in accordance with law; . . . [or] (C) in excess of statutory jurisdiction, authority, or limitations, or short of statutory right." 5 U.S.C. § 706(2).

181. The Final Rule is contrary to law and exceeds the Department's statutory authority.

182. *First*, the HEA does not authorize the Defendants to create a broad-based grant program or permit loan forgiveness outside the context of the IBR program. The HEA and its amendments separate grants and loans into separate chapters. The income-contingent repayment plan is in the chapter that addresses loans and anticipates actual *repayment* of the principal and interest borrowed.

183. While Defendants have *some* discretion in setting the terms of loan repayment under the statute and there are circumstances where someone on this program might pay less than they would otherwise owe, the broad nature of the Department's actions in the Final Rule make it so that the *typical* undergraduate borrower only repays $6,121, including interest, for every $10,000 borrowed.

184. Further, more than half the participants currently enrolled in the plan are expected to pay nothing.

185. At this point, the loan is *at least* a partial or full grant because most borrowers will pay back significantly less than the principal they borrowed, and will be freed from their interest obligations.

186. Congress already spoke in a separate chapter of the HEA and its amendments about what qualifies as a grant. There is no authority for the proposition that Congress intended to turn the terms of a loan into a grant.

187. *Second*, the HEA does not authorize Defendants to reduce the extended payment term to ten years. The HEA states that the standard term of loan repayment is ten years. The statute that authorizes income-driven repayment plan requires payment to occur over a period of time that is "extended" beyond the standard repayment period. 20 U.S.C. §1087e(d)(1)(D). Yet the Final Rule allows borrowers to have their loans canceled after only ten years, the same amount of time as the standard repayment plan.

188. This erases any meaningful difference between a standard repayment plan and an extended repayment plan because an extended repayment plan necessarily envisions a longer repayment period than the standard repayment plan.

189. *Third*, the HEA does not authorize Defendants to completely nullify repayment limits set by Congress. When Congress created the IBR program, Congress statutorily defined the terms of repayment for someone facing financial hardship as payments capped at 10% of income above 150% of the federal poverty line over the course of 20 years. Congress also statutorily authorized the Secretary to subsidize interest for these financial hardship borrowers, but only "for a period of not more than 3 years." 20 U.S. Code § 1098e(b)(3).

190. The Final Rule evades these limits without statutory authority. The ICR program—which is the authority the Secretary attempts to rely on here—does not include *any* authorization to cancel loans. Congress knows how to authorize forgiveness and expressly did so in the IBR program. "When Congress includes particular language in one section of a statute but omits it from a neighbor, we normally understand that difference in language to convey a difference in meaning." *Bittner v. United States*, 598 U.S. 85, 94 (2023). Here, Congress expressly included forgiveness in the income-based repayment section of the Higher Education Act but excluded it

from the income-contingent repayment section—the section the Secretary purports to rely on for authority.

191. The Secretary is trying to use the ICR program to skirt the limits Congress placed in the IBR program. The Final Rule would render the IBR limits pure surplusage. The Secretary cannot use ICR authority to cancel loans at all, but at the very least, the Secretary cannot promulgate rules under the ICR program that are more forgiving than the statutorily promulgated limits in the IBR program.

192. Congress has already given Defendants limited ability to "waive" FFELP loans. *See* 20 U.S.C.§ 1082(a)(6). This provision shows the limits of what Congress authorized the Secretary to do with respect to "waiving" student loans. Defendants disclaim reliance on this provision. 88 Fed. Reg. 43,834. By cancelling loan debt on a mass basis through the income-driven loan repayment plan, Defendants are sidestepping those limits and flouting their statutory authority.

193. *Fourth*, the HEA did not authorize Defendants to create new 10-year repayment plans. Congress only provided one avenue where a borrower can receive loan forgiveness after ten years of repayment: the PSLF program. *See* 20 U.S.C. § 1087e(m)(1). The timeline for that program is defined in statute as 10 years. The Final Rule renders this program pure surplusage for a substantial proportion of borrowers.

194. Debates surrounding the bill that authorized public service loan forgiveness emphasized the importance of forgiving loans through this program because of the need to gear specific relief for those who pursue a career in public service. *See* H.R. Rep. No. 110–210 at 48–49 (2007) ("the Committee is concerned with the growing number of individuals who do not choose to enter into lower paying professions, such as public service . . . . To further encourage

public service, the legislation includes revisions to the Direct Loan Income Contingent Repayment program. Individuals who choose public service will have the option to have their loans forgiven after 10 years if payments are made during that time period.")

195. This Final Rule provides forgiveness after ten years for anyone who has an original balance of $12,000 or less. In fact, the Department has already retroactively forgiven hundreds of thousands of such loans regardless of the amount of interest accumulated on the principle balance.

196. There is no authority for the proposition that anyone—regardless of career, income, or even unemployment—would have the same timeline for loan forgiveness as those who dedicated a decade of their career to public service.

197. *Fifth*, the HEA did not authorize the Defendants to establish a repayment plan with a payment threshold at 5% of discretionary income above 225% of the federal poverty guidelines. In its 2012 Final Rule, the Department provided that the changes to Pay As You Earn ("PAYE") plan payment thresholds "will be consistent with the statutory changes to IBR." 77 Fed. Reg. 66116. During the comment period for that same rule, commenters requested that the Department "[r]educ[e] the maximum IBR payment amount to five percent of adjusted gross income." *Id.* at 66099. The 2012 Final Rule responds that "[t]he Department does not have the authority to change this statutory provision." *Id.* at 66100. The 2012 Final Rule did not reduce the IBR or PAYE payment thresholds to 5% and claimed no authority to do so.

198. In the 2015 Final Rule, the Department created the Revised Pay As You Earn "REPAYE" plan, which was "modeled on the existing Pay As You Earn repayment plan," but extended eligibility to "borrowers regardless of when the borrower took out the loans." 80 Fed. Reg. 67204. The 2015 Final Rule adopted the same 10% payment threshold for REPAYE that was used in PAYE. *Id.* at 67205. While the commenter suggested that the REPAYE plan use a

5% payment threshold, the Department dismissed the idea. *Id.* at 67213. Separately, certain commenters "expressed support for streamlining the multiple IDR plans into one improved IDR plan that would cap monthly payments at 10 percent of income[and] provide loan forgiveness after 20 years of payments" and suggested the Department use REPAYE as a model. *Id.* at 67209. The Department responded, without caveat, that "such a change would require congressional action." *Id.* at 67210. The 2015 Final Rule did not reduce the IBR or REPAYE payment thresholds to 5% and disclaimed authority to do so.

199. There has been no congressional action since the 2012 and 2015 Final Rules. The Defendants have not gained discretionary authority to reduce the 10% payment threshold prescribed by the HEA to 5%. The Final Rule's purported goal of "streamlin[ing] the number of IDR options available to borrowers" through the REPAYE/SAVE plan, with a 5% payment threshold is directly contrary to the discretionary limits that the Department itself expressed in 2015. The Final Rule's amendment of this threshold to 5% is contrary to the HEA.

200. *Finally*, the HEA did not authorize the Defendants "to establish a structure for a repayment option for borrowers who fail to recertify their income information on REPAYE" under Section 455(d)(4). *See* 88 Fed. Reg. 43827. The Final Rule asserts that "Sec. 455(d)(4) of the HEA provides the Secretary with discretion to craft 'an alternate repayment plan,' under certain circumstances." *Id.* (quoting 20 U.S.C. § 1087e(d)(4)). But the Final Rule omits necessary and relevant portions of that section. The full section reads: "[t]he Secretary may provide, *on a case by case basis*, an alternative repayment plan *to a borrower of a loan made under this part who demonstrates to the satisfaction of the Secretary that the terms and conditions of the repayment plans available under paragraph (1) are not adequate to accommodate the borrower's exceptional circumstances*." 20 U.S.C. § 1087e(d)(4) (emphasis added).

201. The Final Rule's reliance on the section is improper because the establishment of "a structure" for a group of borrowers is antithetical to the HEA's requirement that this subsection be applied "on a case by case basis." Moreover, the reliance is improper where the section dictates that its application requires any borrower make a personalized showing that "the terms and conditions of the repayment plans available under paragraph (1) are not adequate to accommodate the borrower's exceptional circumstances." 20 U.S.C. § 1087e(d)(4). Section 455(d)(4) of the HEA does not provide the Secretary with the discretion he now claims.

202. Additionally, the Final Rule provides no evidence or argument that section 455(d)(4) is being used with respect to borrowers in "exceptional circumstances." To the contrary, the Final Rule admits that "large numbers of borrowers currently fail to recertify" their information for their loans. 88 Fed. Reg. 43882. Failure to meet this minimum requirement, which apparently many borrowers do, is by its own terms not an exceptional circumstance and thus cannot serve as the basis for invocation of this section.

203. In all respects, Defendants' interpretation of the relevant statutory law is inferior. But even if their interpretations made sense, they would create grave constitutional concerns that Congress has violated the nondelegation doctrine by giving the Secretary unbounded authority without an intelligible principle and that Congress has violated the Appropriations Clause by giving the Secretary authority to appropriate hundreds of billions of dollars in perpetuity. At the very least, the canon of constitutional avoidance cautions strongly against adopting Defendants' position.

204. The Final Rule is contrary to the HEA and its amendments. It should be set aside.

COUNT III – Violation of the Administrative Procedures Act
Arbitrary and Capricious Agency Action (5 U.S.C. § 706)

205. Plaintiffs re-allege all paragraphs above as if fully set out herein.

206. The APA requires courts to "hold unlawful and set aside agency action, findings, and conclusions found to be . . . (A) arbitrary, capricious, [or] an abuse of discretion" 5 U.S.C. § 706(2)(A).

207. "The APA's arbitrary-and-capricious standard requires that agency action be reasonable and reasonably explained." *Fed. Commun. Comm'n v. Prometheus Radio Project*, 592 U.S. 414, 423 (2021).

208. The Final Rule is arbitrary and capricious for a number of independent reasons, including that Defendants failed to consider numerous important factors, including the full cost of the rule and important reliance interests. Despite being aware of the shortcomings, Defendants declined to address them in the Final Rule or provided wholly inadequate explanations, brushing off concerns. Elsewhere, the Final Rule's explanation is internally inconsistent.

209. The Final Rule is unlawful even measured on its own. It is even worse when measured against the cumulative effect it would have with the President's other mass loan cancellation policies, one of which was struck down and one of which was announced just last week.

210. *First*, the Final Rule fails to capture, account for, or report the full cost of its implementation. The Proposed Rule estimated the provisions would cost $137.9 billion over ten years. That total was increased to $156 billion in the Final Rule.

211. The Final Rule cost estimates, however, are based on the assumption that Defendants would prevail in *Biden v. Nebraska*. Even though a commenter highlighted this limitation and offered a suggestion for avoiding a (likely) pitfall, the Department refused to produce a secondary estimate that reflected that possibility.

212. That would have been bad enough, and arbitrary enough, had the Final Rule been released before the Supreme Court's decision. It is even worse that the Department adopted this assumption *after* the Supreme Court had already ruled against the Department.

213. By relying on an assumption that had already been publicly and saliently proven false, the Department's cost calculation was by definition unreasonable. This is a violation of Defendants' statutory duty to "reasonably explain" the Rule, including by responding to "significant points" raised by the comments. *See Carlson v. Postal Regul. Comm'n*, 938 F.3d 337, 343-344 (D.C. Cir. 2019).

214. When the Supreme Court rejected the Departments' mass debt cancellation plan, the Final Rule's estimated costs calculation became entirely untethered to reality. According to the CBO, a rejection of the mass debt cancellation plan would increase the estimated cost by nearly $50 billion *in the first year alone*. That does not even include the concomitant increases over the remaining nine years of the estimated period.

215. Separately, independent reviews have found the estimated cost identified in the Final Rule discounts the true cost of by a factor of three to seven over ten years.

216. Further, the Final Rule is does not have a ten year sunset provision. Thus, future borrowers will also be able to have their loans forgiven under this plan. The Department has acknowledged as much. *See* 88 Fed. Reg. 43823–33. The total cost of forgiving those loans and any other loans forgiven after 2033 are not calculated, or accounted for, as part of the Final Rule. They are sure to be staggering as the number of borrowers increase.

217. Though the number of future borrowers (and the amount of loans they will have forgiven) is currently unknown and unknowable, it is certain that future forgiveness under the Final Rule will drive up the total cost of its implementation. And Defendants forced it through anyway.

218. Additionally, drastically reducing or eliminating the PSLF incentive will cause Plaintiff States to incur additional compensation expenses to recruit and retain employees. The Final Rule does not consider this.

219. *Second*, the Final Rule is arbitrary and capricious because it did not consider States' financial interest on tax revenue from loan forgiveness.

220. Normally, "forgiveness" through income-contingent repayment is considered taxable income under by the Internal Revenue service. The exception is for borrowers in the PSLF program.

221. Many States, including Missouri, follow the federal definitions when defining income tax for state purposes, which normally includes student loan discharge. Therefore, income-contingent repayment "forgiveness" is taxable income at the tate level for borrowers in many States.

222. The American Rescue Plan Act of 2021, however, removed student loan discharge as an income for purposes of federal AGI through December 31, 2025. *See* 26 U.S.C. § 108(f)(5).

223. Despite being aware of this law, *see* 88 Fed. Reg. 43836 (referencing "American Rescue Plan"), the Department still unilaterally forgave hundreds of thousands of loans retroactively as they roll out this program. Many of those loans would have been forgiven after December 31, 2025. This accelerated forgiveness timeline deprives States of tax revenue.

224. The Final Rule disregards this concern despite acknowledging comment raising concerns about the effect of the rule on "State tax revenue from loans that have been forgiven." *Id.* at 43877.

225. *Third*, the Final Rule is arbitrary and capricious because it fails to consider the reliance interests of the Plaintiffs and their entities. *See*, *e.g.*, *DHS v. Regents of the Univ. of Calif.*,

140 S. Ct. 1891, 1913 (2020) ("When an agency changes course . . . it must 'be cognizant that longstanding policies may have engendered serious reliance interests that must be taken into account.'" (cleaned up) (citation omitted)).

226. The Final Rule fails to consider the Plaintiff States' interest in using PSLF to recruit talent and remain competitive. State and local government employers cannot pay as much as private sector employers because they are primarily funded by taxpayer dollars and operate on yearly, limited budgets.

227. One of the tools they rely on to recruit and retain talent is the PSLF program.

228. The Final Rule drastically reduces the power of that incentive by a) reducing the monthly payments of most borrowers to $0, regardless of loan size, and b) drastically accelerating the forgiveness timeline up to and including the same timeline that Congress reserved for public service borrowers.

229. Commenters on the Proposed Rule also warned of this issue, but Defendant Department brushed aside these concerns despite noting "the benefits discussed in this regulation would also be available to those seeking PSL[F]." 88 Fed. Reg. 43,880. This ignores Congress's explicit intent of creating a benefit specific to the PSLF program that would encourage young American to choose employment in the public sector.

230. The Final Rule did not consider the Plaintiff States' reliance interest in this important program and therefore it is arbitrary and capricious.

231. *Fourth*, the Final Rule is arbitrary and capricious because it changes course from nearly 30 years of Department practice on loan forgiveness. Never before have the terms of loan repayment been unilaterally changed into loan forgiveness such that the *typical* undergraduate borrower repays *less* than what they took out: only $6,121 for every $10,000 borrowed. These

borrowers no longer have to repay the full principal of their debts, not to mention the accumulated interest on those. This is a huge change of course.

232. The Department has not only changed course without explanation but is wrongly denying changing course at all. The Department states that it has taken actions similar to this in the past through the PAYE and REPAYE programs, but was never challenged on it.

233. The absence of a challenge of course does not excuse the unlawful action.

234. Regardless of the legality of past actions, their own data demonstrate this is not true. Prior to this change, the average undergraduate borrower paid *more* than what they owed. This makes sense as they are loans that collect interest.

235. This is the first time that the Department has tried to redefine the loan programs so that the *typical* borrower pays back *less* than the principal borrowed, with the remainder of the tab picked up by the American public. This is a huge change of course that the Department refuses to acknowledge.

236. In addition, the Department also changed course on the timing of loan forgiveness. Previously, all income-contingent loans would only be forgiven after 20-25 years. Only public service loan forgiveness had a 10-year repayment timeline.

237. The Final Rule now allows many borrowers outside the PSLF program to receive forgiveness after as few as 10 years. This is a significant change of course from past practice.

238. The Department refuses to acknowledge this change of course and instead tries to state that always had this authority.

239. The Department also refuses to acknowledge its previous interpretations. "[U]nexplained inconsistency in agency policy is a reason for holding an interpretation to be an arbitrary and capricious change from agency practice." *Encino Motorcars, LLC v. Navarro*, 579

U.S. 211, 222 (2016) (internal quotation marks omitted). The Department previously disclaimed legal authority to reduce the 10% payment threshold prescribed by the HEA to 5% but now claims that authority. *See* ¶¶ 198–199.

240. *Fifth*, the Final Rule is arbitrary and capricious because it contains numerous internal contradictions. As an example, the Final Rule repeatedly states that it is designed to avoid delinquencies and defaults by offering a more lenient income-contingent repayment plan.

241. However, the Final Rule also states that the last change to the income-contingent repayment plan that lowered payments for individuals resulted in an increase is delinquencies and defaults.

242. *Sixth*, the Final Rule is arbitrary and capricious because it failed to consider meaningfully the inflationary effects of the Final Rule, both specifically in the secondary education market and more generally for the entire U.S. economy. The enormous inflationary pressures are an "important aspect of the problem" that Defendants were obliged to evaluate. *Michigan v. EPA*, 576 U.S. 743, 750-52 (2015)) (cleaned up). They failed to do so and thereby violated the APA.

243. *Seventh*, the Final Rule is arbitrary and capricious because it insists that the provisions do not offer a grant when they plainly do just that. The Final Rules' statement is belied by the Department's own data demonstrating that most undergraduate borrowers would pay back significantly less than what they borrowed, regardless of whether the borrowers are suffering financial hardship, are at risk of default, or have undertaken a decade of valuable public service employment.

244. This only makes sense when viewed through the lens of the Defendants using these justifications as a pretext and post hoc justification for improper ends.

245. This Final Rule is not the product of a well-reasoned decision. It is a pretext to evade a Supreme Court decision.

246. The Final Rule was published ten days after the Supreme Court in *Biden v. Nebraska* struck down the Defendants' last ill-considered attempt at unlawful loan forgiveness. Just in February, Defendant Biden said, "The Supreme Court blocked it. They blocked it. But that didn't stop me," and, Defendant Cardona stated that if the Final Rule was not challenged in court "that means I'm not pushing hard enough."

247. *Eighth*, the Department's income-exemption threshold (an increase from 150% to 225%) and the payment threshold (down to 5% from 10%) are arbitrary and capricious

248. The Department justifies the 225% threshold, for example, by arguing that persons at that income threshold are "statistically indistinguishable from those with incomes below 100 percent of the FPL [federal poverty line]." 88 Fed. Reg. 43839. The Department arrived at this unlikely conclusion by relying on data where persons self reported experiencing financial hardship. *Id.* at 43840.

249. But the idea that certain individuals are "indistinguishable" financially from others making more than *twice* their income is self-refuting. Americans of many different income levels experience financial difficulties, but the financial difficulties of a person with twice the income of another are qualitatively and quantitatively different.

250. For all these reasons, the Final Rule is arbitrary and capricious.

COUNT IV – Violation of the Administrative Procedures Act
Agency Action in Violation of Statutory Procedures (5 U.S.C. § 706(2)(D))

251. Plaintiffs re-allege all the above paragraphs as if fully set out herein.

252. The APA provides that courts must "hold unlawful and set aside agency action" that is "without observance of procedure required by law." 5 U.S.C. § 706(2)(D).

253. The APA requires agencies to publish notice of all "proposed rule making" in the Federal Register, *id.* § 553(b), and to "give interested persons an opportunity to participate in the rule making through submission of written data, views, or arguments," *id.* § 553(c). The Final Rule, therefore, only can be issued, if at all, pursuant to notice-and-comment rulemaking under the APA. 5 U.S.C. § 553.

254. Here, when the Proposed Rule was issued, the comment period was limited to the minimum thirty days. Defendants rejected requests to extend this period to 60 days, which would have allowed additional participation in the rule-making process. This limited time period violated the APA.

255. The Final Rule is not an interpretive rule, general statement of policy, nor is it a rule of agency organization, procedure, or practice otherwise exempt from notice-and-comment rulemaking. Instead, the Final Rule is a substantive rule for APA purposes. *See* 5 U.S.C. § 551(4)–(5). Further, it is a final rule because it represents the culmination of the agency's consideration and affects rights and obligations. *See Bennett v. Spear*, 520 U.S. 154, 177–78 (1997).

256. "[A] thirty-day period is, in the Administrative Conference's view, 'an inadequate time to allow people to respond to proposals *that are complex* or based on scientific or technical data.' The Administrative Conference itself thus suggests 'a sixty-day period as a more reasonable *minimum* time for comment.'" *Petry v. Block*, 737 F.2d 1193, 1201 (D.C. Cir. 1984) (cleaned up) (emphasis added) (citation omitted).

257. Executive Orders 12866 and 13563 both state that comment periods should generally be at least 60 days. *See* 58 Fed. Reg. 51735 (Sept. 30, 1995) ("[E]ach agency should afford the public a meaningful opportunity to comment on any proposed regulation, which in most

cases should include a comment period of *not less than* 60 days." (emphasis added)); 76 Fed. Reg. 3821-22 (Jan. 21, 2011) ("To the extent feasible and permitted by law, each agency shall afford the public a meaningful opportunity to comment through the Internet on any proposed regulation, with a comment period that should generally be at least 60 days." (emphasis added)). The proposed rule asks for the public's help in "complying with the specific requirements of Executive Orders 12866 and 13563 and their overall requirement of reducing regulatory burden that might result from these proposed regulations." 88 Fed. Reg. 1895.

258. For these reasons, most other agencies routinely provide at least sixty days of commenting for major rules.

259. Providing only thirty days for commenting on a major rule such as this one is an outlier—and one for which the Department offered no meaningful explanation.

260. Here the Final Rule is both complex and enormously impactful—tens or hundreds of billions of dollars turn on each of its major parameters

261. In these circumstances, Defendants violated the APA by only providing thirty days for comment.

262. This error was prejudicial and denied the public (including Plaintiffs) an adequate opportunity to comment on the proposed rule.

COUNT V – Violation of the Administrative Procedures Act
Arbitrary and Capricious Agency Action (5 U.S.C. § 706)

263. Plaintiffs re-allege all paragraphs above as if fully set out herein.

264. The APA requires courts to "hold unlawful and set aside agency action, findings, and conclusions found to be . . . (A) arbitrary, capricious, an abuse of discretion, or otherwise not in accordance with law; . . . (C) in excess of statutory jurisdiction, authority, or limitations, or short

of statutory right; [or] (D) without observance of procedure required by law." 5 U.S.C. § 706(2)(A), (C), & (D).

265. The HEA requires that regulations affecting programs under title IV of the HEA be published in final form by November 1 prior to the start of the award year—July 1—to which they will apply. *See* 20 U.S.C. § 1089(c)(1). The HEA provides the Secretary with discretion to "designate any regulatory provision that affects the programs under this subchapter and is published in final form after November one as one that an entity subject to the provision may . . . choose to implement prior to the effective date in [section 1089(c)(1)]." *Id.* § 1089(c)(2)(A). Even with that discretion, however, the statute requires the Secretary to "publish any designation under this subparagraph in the Federal Register." *Id.*

266. The Final Rule was published on July 10, 2023, and under 20 U.S.C. § 1089(c)(1), it was required to have an effective date of July 1, 2024.

267. Though Defendant Cardona designated certain provisions for early implementation in the Final Rule, no designation was made at that time for the implementation of 34 C.F.R. § 685.209(k)(3) before July 1, 2024.

268. Defendant Cardona did not make a designation until January 16, 2024, and announced that loan cancellation would begin commencing just 5 days later. Defendants never made any comment to explain why they were shifting position.

269. Defendants implemented 34 C.F.R. § 685.209(k)(3), in whole or in part, between January 21 and February 21, 2024.

270. The implementation of 34 C.F.R. § 685.209(k)(3) occurred prior to its originally announced effective date under the Final Rule.

271. Defendants implementation of 34 C.F.R. § 685.209(k)(3) resulted in the "approval of $1.2 billion in student debt cancellation for almost 153,000 borrowers."

272. This early implementation was arbitrary and capricious because it resulted in a substantial effect on the public treasury without any reasoned explanation for why Defendants were accelerating loan cancellation by nearly 6 months.

PRAYER FOR RELIEF AND DEMAND FOR JUDGMENT

Plaintiff States respectfully request this Court:

a. issue an order and judgment declaring that the Final Rule violates the separation of powers established by the U.S. Constitution;

b. issue an order and judgment declaring that the Final Rule violates the APA because it is contrary to law, is in excess of statutory authority, is arbitrary and capricious, is an abuse of discretion, and is without observance of procedure required by law;

c. issue an order and judgment declaring that the early implementation of 20 U.S.C. § 1089(c)(2) violates the APA because it is contrary to law, is in excess of statutory authority, and is without observance of procedure required by law;

d. temporarily restrain and preliminarily and permanently enjoin implementation and enforcement of the Final Rule;

e. vacate and set aside the Final Rule;

f. award Plaintiff States reasonable fees, costs, expenses, and disbursements, including attorney's fees, associated with this litigation; and

g. grant any additional and further relief as the Court may deem just and appropriate.

Date: April 09, 2024

Respectfully Submitted,

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JS 44 (Rev. 04/21)

CIVIL COVER SHEET

The JS 44 civil cover sheet and the information contained herein neither replace nor supplement the filing and service of pleadings or other papers as required by law, except as provided by local rules of court. This form, approved by the Judicial Conference of the United States in September 1974, is required for the use of the Clerk of Court for the purpose of initiating the civil docket sheet. *(SEE INSTRUCTIONS ON NEXT PAGE OF THIS FORM.)*

I. (a) PLAINTIFFS

(b) County of Residence of First Listed Plaintiff
(EXCEPT IN U.S. PLAINTIFF CASES)

(c) Attorneys *(Firm Name, Address, and Telephone Number)*

DEFENDANTS

County of Residence of First Listed Defendant
(IN U.S. PLAINTIFF CASES ONLY)

NOTE: IN LAND CONDEMNATION CASES, USE THE LOCATION OF THE TRACT OF LAND INVOLVED.

Attorneys *(If Known)*

II. BASIS OF JURISDICTION *(Place an "X" in One Box Only)*

- ☐ 1 U.S. Government Plaintiff
- ☐ 3 Federal Question *(U.S. Government Not a Party)*
- ☐ 2 U.S. Government Defendant
- ☐ 4 Diversity *(Indicate Citizenship of Parties in Item III)*

III. CITIZENSHIP OF PRINCIPAL PARTIES *(Place an "X" in One Box for Plaintiff and One Box for Defendant)*

(For Diversity Cases Only)

	PTF	DEF		PTF	DEF
Citizen of This State	☐ 1	☐ 1	Incorporated *or* Principal Place of Business In This State	☐ 4	☐ 4
Citizen of Another State	☐ 2	☐ 2	Incorporated *and* Principal Place of Business In Another State	☐ 5	☐ 5
Citizen or Subject of a Foreign Country	☐ 3	☐ 3	Foreign Nation	☐ 6	☐ 6

IV. NATURE OF SUIT *(Place an "X" in One Box Only)*

Click here for: Nature of Suit Code Descriptions.

CONTRACT
- ☐ 110 Insurance
- ☐ 120 Marine
- ☐ 130 Miller Act
- ☐ 140 Negotiable Instrument
- ☐ 150 Recovery of Overpayment & Enforcement of Judgment
- ☐ 151 Medicare Act
- ☐ 152 Recovery of Defaulted Student Loans (Excludes Veterans)
- ☐ 153 Recovery of Overpayment of Veteran's Benefits
- ☐ 160 Stockholders' Suits
- ☐ 190 Other Contract
- ☐ 195 Contract Product Liability
- ☐ 196 Franchise

REAL PROPERTY
- ☐ 210 Land Condemnation
- ☐ 220 Foreclosure
- ☐ 230 Rent Lease & Ejectment
- ☐ 240 Torts to Land
- ☐ 245 Tort Product Liability
- ☐ 290 All Other Real Property

TORTS

PERSONAL INJURY
- ☐ 310 Airplane
- ☐ 315 Airplane Product Liability
- ☐ 320 Assault, Libel & Slander
- ☐ 330 Federal Employers' Liability
- ☐ 340 Marine
- ☐ 345 Marine Product Liability
- ☐ 350 Motor Vehicle
- ☐ 355 Motor Vehicle Product Liability
- ☐ 360 Other Personal Injury
- ☐ 362 Personal Injury - Medical Malpractice

PERSONAL INJURY
- ☐ 365 Personal Injury - Product Liability
- ☐ 367 Health Care/ Pharmaceutical Personal Injury Product Liability
- ☐ 368 Asbestos Personal Injury Product Liability

PERSONAL PROPERTY
- ☐ 370 Other Fraud
- ☐ 371 Truth in Lending
- ☐ 380 Other Personal Property Damage
- ☐ 385 Property Damage Product Liability

CIVIL RIGHTS
- ☐ 440 Other Civil Rights
- ☐ 441 Voting
- ☐ 442 Employment
- ☐ 443 Housing/ Accommodations
- ☐ 445 Amer. w/Disabilities - Employment
- ☐ 446 Amer. w/Disabilities - Other
- ☐ 448 Education

PRISONER PETITIONS

Habeas Corpus:
- ☐ 463 Alien Detainee
- ☐ 510 Motions to Vacate Sentence
- ☐ 530 General
- ☐ 535 Death Penalty

Other:
- ☐ 540 Mandamus & Other
- ☐ 550 Civil Rights
- ☐ 555 Prison Condition
- ☐ 560 Civil Detainee - Conditions of Confinement

FORFEITURE/PENALTY
- ☐ 625 Drug Related Seizure of Property 21 USC 881
- ☐ 690 Other

LABOR
- ☐ 710 Fair Labor Standards Act
- ☐ 720 Labor/Management Relations
- ☐ 740 Railway Labor Act
- ☐ 751 Family and Medical Leave Act
- ☐ 790 Other Labor Litigation
- ☐ 791 Employee Retirement Income Security Act

IMMIGRATION
- ☐ 462 Naturalization Application
- ☐ 465 Other Immigration Actions

BANKRUPTCY
- ☐ 422 Appeal 28 USC 158
- ☐ 423 Withdrawal 28 USC 157

INTELLECTUAL PROPERTY RIGHTS
- ☐ 820 Copyrights
- ☐ 830 Patent
- ☐ 835 Patent - Abbreviated New Drug Application
- ☐ 840 Trademark
- ☐ 880 Defend Trade Secrets Act of 2016

SOCIAL SECURITY
- ☐ 861 HIA (1395ff)
- ☐ 862 Black Lung (923)
- ☐ 863 DIWC/DIWW (405(g))
- ☐ 864 SSID Title XVI
- ☐ 865 RSI (405(g))

FEDERAL TAX SUITS
- ☐ 870 Taxes (U.S. Plaintiff or Defendant)
- ☐ 871 IRS—Third Party 26 USC 7609

OTHER STATUTES
- ☐ 375 False Claims Act
- ☐ 376 Qui Tam (31 USC 3729(a))
- ☐ 400 State Reapportionment
- ☐ 410 Antitrust
- ☐ 430 Banks and Banking
- ☐ 450 Commerce
- ☐ 460 Deportation
- ☐ 470 Racketeer Influenced and Corrupt Organizations
- ☐ 480 Consumer Credit (15 USC 1681 or 1692)
- ☐ 485 Telephone Consumer Protection Act
- ☐ 490 Cable/Sat TV
- ☐ 850 Securities/Commodities/ Exchange
- ☐ 890 Other Statutory Actions
- ☐ 891 Agricultural Acts
- ☐ 893 Environmental Matters
- ☐ 895 Freedom of Information Act
- ☐ 896 Arbitration
- ☐ 899 Administrative Procedure Act/Review or Appeal of Agency Decision
- ☐ 950 Constitutionality of State Statutes

V. ORIGIN *(Place an "X" in One Box Only)*

- ☐ 1 Original Proceeding
- ☐ 2 Removed from State Court
- ☐ 3 Remanded from Appellate Court
- ☐ 4 Reinstated or Reopened
- ☐ 5 Transferred from Another District *(specify)*
- ☐ 6 Multidistrict Litigation - Transfer
- ☐ 8 Multidistrict Litigation - Direct File

VI. CAUSE OF ACTION

Cite the U.S. Civil Statute under which you are filing ***(Do not cite jurisdictional statutes unless diversity)***:

Brief description of cause:

VII. REQUESTED IN COMPLAINT:

☐ CHECK IF THIS IS A **CLASS ACTION** UNDER RULE 23, F.R.Cv.P.

DEMAND $

CHECK YES only if demanded in complaint:
JURY DEMAND: ☐ Yes ☐ No

VIII. RELATED CASE(S) IF ANY

(See instructions): JUDGE DOCKET NUMBER

DATE

SIGNATURE OF ATTORNEY OF RECORD
Josh Divine

FOR OFFICE USE ONLY

RECEIPT # AMOUNT APPLYING IFP JUDGE MAG. JUDGE

INSTRUCTIONS FOR ATTORNEYS COMPLETING CIVIL COVER SHEET FORM JS 44

Authority For Civil Cover Sheet

The JS 44 civil cover sheet and the information contained herein neither replaces nor supplements the filings and service of pleading or other papers as required by law, except as provided by local rules of court. This form, approved by the Judicial Conference of the United States in September 1974, is required for the use of the Clerk of Court for the purpose of initiating the civil docket sheet. Consequently, a civil cover sheet is submitted to the Clerk of Court for each civil complaint filed. The attorney filing a case should complete the form as follows:

I.(a) Plaintiffs-Defendants. Enter names (last, first, middle initial) of plaintiff and defendant. If the plaintiff or defendant is a government agency, use only the full name or standard abbreviations. If the plaintiff or defendant is an official within a government agency, identify first the agency and then the official, giving both name and title.

(b) County of Residence. For each civil case filed, except U.S. plaintiff cases, enter the name of the county where the first listed plaintiff resides at the time of filing. In U.S. plaintiff cases, enter the name of the county in which the first listed defendant resides at the time of filing. (NOTE: In land condemnation cases, the county of residence of the "defendant" is the location of the tract of land involved.)

(c) Attorneys. Enter the firm name, address, telephone number, and attorney of record. If there are several attorneys, list them on an attachment, noting in this section "(see attachment)".

II. Jurisdiction. The basis of jurisdiction is set forth under Rule 8(a), F.R.Cv.P., which requires that jurisdictions be shown in pleadings. Place an "X" in one of the boxes. If there is more than one basis of jurisdiction, precedence is given in the order shown below.
United States plaintiff. (1) Jurisdiction based on 28 U.S.C. 1345 and 1348. Suits by agencies and officers of the United States are included here.
United States defendant. (2) When the plaintiff is suing the United States, its officers or agencies, place an "X" in this box.
Federal question. (3) This refers to suits under 28 U.S.C. 1331, where jurisdiction arises under the Constitution of the United States, an amendment to the Constitution, an act of Congress or a treaty of the United States. In cases where the U.S. is a party, the U.S. plaintiff or defendant code takes precedence, and box 1 or 2 should be marked.
Diversity of citizenship. (4) This refers to suits under 28 U.S.C. 1332, where parties are citizens of different states. When Box 4 is checked, the citizenship of the different parties must be checked**.** (See Section III below**; NOTE: federal question actions take precedence over diversity cases.**)

III. Residence (citizenship) of Principal Parties. This section of the JS 44 is to be completed if diversity of citizenship was indicated above. Mark this section for each principal party.

IV. Nature of Suit. Place an "X" in the appropriate box. If there are multiple nature of suit codes associated with the case, pick the nature of suit code that is most applicable. Click here for: Nature of Suit Code Descriptions.

V. Origin. Place an "X" in one of the seven boxes.
Original Proceedings. (1) Cases which originate in the United States district courts.
Removed from State Court. (2) Proceedings initiated in state courts may be removed to the district courts under Title 28 U.S.C., Section 1441.
Remanded from Appellate Court. (3) Check this box for cases remanded to the district court for further action. Use the date of remand as the filing date.
Reinstated or Reopened. (4) Check this box for cases reinstated or reopened in the district court. Use the reopening date as the filing date.
Transferred from Another District. (5) For cases transferred under Title 28 U.S.C. Section 1404(a). Do not use this for within district transfers or multidistrict litigation transfers.
Multidistrict Litigation – Transfer. (6) Check this box when a multidistrict case is transferred into the district under authority of Title 28 U.S.C. Section 1407.
Multidistrict Litigation – Direct File. (8) Check this box when a multidistrict case is filed in the same district as the Master MDL docket.
PLEASE NOTE THAT THERE IS NOT AN ORIGIN CODE 7. Origin Code 7 was used for historical records and is no longer relevant due to changes in statute.

VI. Cause of Action. Report the civil statute directly related to the cause of action and give a brief description of the cause. **Do not cite jurisdictional statutes unless diversity.** Example: U.S. Civil Statute: 47 USC 553 Brief Description: Unauthorized reception of cable service.

VII. Requested in Complaint. Class Action. Place an "X" in this box if you are filing a class action under Rule 23, F.R.Cv.P.
Demand. In this space enter the actual dollar amount being demanded or indicate other demand, such as a preliminary injunction.
Jury Demand. Check the appropriate box to indicate whether or not a jury is being demanded.

VIII. Related Cases. This section of the JS 44 is used to reference related pending cases, if any. If there are related pending cases, insert the docket numbers and the corresponding judge names for such cases.

Date and Attorney Signature. Date and sign the civil cover sheet.

UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF MISSOURI

,	)	
Plaintiff,	)	
v.	)	Case No.
,	)	
Defendant,	)	

ORIGINAL FILING FORM

THIS FORM MUST BE COMPLETED AND VERIFIED BY THE FILING PARTY WHEN INITIATING A NEW CASE.

☐ THIS SAME CAUSE, OR A SUBSTANTIALLY EQUIVALENT COMPLAINT, WAS PREVIOUSLY FILED IN THIS COURT AS CASE NUMBER ________________ AND ASSIGNED TO THE HONORABLE JUDGE ________________________.

☐ THIS CAUSE IS RELATED, BUT IS NOT SUBSTANTIALLY EQUIVALENT TO ANY PREVIOUSLY FILED COMPLAINT. THE RELATED CASE NUMBER IS ________________ AND THAT CASE WAS ASSIGNED TO THE HONORABLE ____________________. THIS CASE MAY, THEREFORE, BE OPENED AS AN ORIGINAL PROCEEDING.

☐ NEITHER THIS SAME CAUSE, NOR A SUBSTANTIALLY EQUIVALENT COMPLAINT, HAS BEEN PREVIOUSLY FILED IN THIS COURT, AND THEREFORE MAY BE OPENED AS AN ORIGINAL PROCEEDING.

The undersigned affirms that the information provided above is true and correct.

Date: ____________________

Josh Divine
Signature of Filing Party

EXHIBIT 1

DEPARTMENT OF EDUCATION

34 CFR Parts 682 and 685

RIN 1840–AD81

Improving Income Driven Repayment for the William D. Ford Federal Direct Loan Program and the Federal Family Education Loan (FFEL) Program

AGENCY: Office of Postsecondary Education, Department of Education.

ACTION: Final regulations.

SUMMARY: The U.S. Department of Education issues final regulations governing income-contingent repayment plans by amending the Revised Pay as You Earn (REPAYE) repayment plan and restructuring and renaming the repayment plan regulations under the William D. Ford Federal Direct Loan (Direct Loan) Program, including combining the Income Contingent Repayment (ICR) and the Income-Based Repayment (IBR) plans under the umbrella term of ''Income-Driven Repayment'' (IDR) plans, and providing conforming edits to the FFEL Program.

DATES: These regulations are effective July 1, 2024. For the implementation dates of the regulatory provisions, see the Implementation Date of These Regulations in **SUPPLEMENTARY INFORMATION**.

FOR FURTHER INFORMATION CONTACT: Bruce Honer, U.S. Department of Education, 400 Maryland Avenue SW, 5th Floor, Washington, DC 20202. Telephone: (202) 987–0750. Email: *Bruce.Honer@ed.gov.*

If you are deaf, hard of hearing, or have a speech disability and wish to access telecommunications relay services, please dial 7–1–1.

SUPPLEMENTARY INFORMATION:

Executive Summary

The Secretary amends the regulations governing the income contingent repayment (ICR) and income-based repayment (IBR) plans and renames the categories of repayment plans available in the Department's Direct Loan Program. These regulations streamline and standardize the Direct Loan Program repayment regulations by categorizing existing repayment plans into three types: (1) fixed payment repayment plans, which establish monthly payment amounts based on the scheduled repayment period, loan debt, and interest rate; (2) income-driven repayment (IDR) plans, which establish monthly payment amounts based in whole or in part on the borrower's income and family size; and (3) the alternative repayment plan, which we use on a case-by-case basis when a borrower has exceptional circumstances or has failed to recertify the information needed to calculate an IDR payment as outlined in § 685.221. We also make conforming edits to the FFEL program in § 682.215.

Purpose of This Regulatory Action

These regulations create a stronger safety net for Federal student loan borrowers, helping more borrowers avert delinquency and default and the significant negative consequences associated with those events. They will also help low- and middle-income borrowers better afford their Federal loan payments, while also increasing homeownership, retirement savings, and small business formulation. Additionally, they simplify the process of selecting a repayment plan.

Summary of the Major Provisions of This Regulatory Action

The final regulations—

- Expand access to affordable monthly Direct Loan payments through changes to the Revised Pay-As-You-Earn (REPAYE) repayment plan, which may also be referred to as the Saving on a Valuable Education (SAVE) plan;
- Align the definition of ''family size'' in the FFEL Program with the definition of ''family size'' in the Direct Loan Program;
- Increase the amount of income exempted from the calculation of the borrower's payment amount from 150 percent of the Federal poverty guideline or level (FPL) to 225 percent of FPL for borrowers on the REPAYE plan;
- Lower the share of discretionary income used to calculate the borrower's monthly payment for outstanding loans under REPAYE to 5 percent of discretionary income for loans for the borrower's undergraduate study and 10 percent of discretionary income for other outstanding loans; and an amount between 5 and 10 percent of discretionary income based upon the weighted average of the original principal balances for those with outstanding loans in both categories;
- Provide a shorter maximum repayment period for borrowers with low original loan principal balances;
- Eliminate burdensome and confusing regulations for borrowers using IDR plans;
- Provide that the borrower will not be charged any remaining accrued interest each month after the borrower's payment is applied under the REPAYE plan;
- Credit certain periods of deferment or forbearance toward time needed to receive loan forgiveness;
- Permit borrowers to receive credit toward forgiveness for payments made prior to consolidating their loans; and
- Reduce complexity by prohibiting or restricting new enrollment in certain existing IDR plans starting on July 1, 2024, to the extent that the law allows.

Costs and Benefits: As further detailed in the *Regulatory Impact Analysis* (RIA), these final regulations will significantly impact borrowers, taxpayers, and the Department.

Benefits for borrowers include more affordable and streamlined IDR plans, as well as a path to avoid delinquency and default. The streamlined repayment plans also benefit the Department due to simplified administration of the repayment plans and decreases in rates of delinquency and default.

This rule will reduce negative amortization, which will be a benefit to student loan borrowers, making it easier for individuals to successfully manage their debt. As a result, borrowers will be able to devote more resources to cover necessary expenses such as food and housing, provide for their families, invest in a home, or save for retirement.

Costs associated with the changes to the IDR plans include paying contracted student loan servicers to update their computer systems and their borrower communications. Taxpayers will incur additional costs in the form of transfers from borrowers who will pay less on their loans than under currently available repayment plans. As detailed in the RIA, the changes are estimated to have a net budget impact of $156.0 billion over 10 years across all loan cohorts through 2033.

Implementation Date of These Regulations

Section 482(c)(1) [1] of the Higher Education Act of 1965, as amended (HEA), requires that regulations affecting programs under title IV of the HEA be published in final form by November 1 prior to the start of the award year (July 1) to which they apply. HEA section 482(c)(2) [2] also permits the Secretary to designate any regulation as one that an entity subject to the regulations may choose to implement earlier and outline the conditions for early implementation.

The Secretary is exercising his authority under HEA section 482(c) to designate certain regulatory changes to part 685 in this document for early implementation beginning on July 30, 2023. The Secretary has designated the following provisions under REPAYE for early implementation:

[1] 20 U.S.C. 1089(c)(1).

[2] 20 U.S.C. 1089(c)(2).

• Adjusting the treatment of spousal income in the REPAYE plan for married borrowers who file separately as described in § 685.209(e)(1)(i)(A) and (B);

• Increasing the income exemption to 225 percent of the applicable poverty guideline in the REPAYE plan as described in § 685.209(f);

• Not charging accrued interest to the borrower after the borrower's payment on REPAYE is applied as described in § 685.209(h); and

• Designating in § 685.209(a)(1) that REPAYE may also be referred to as the Saving on a Valuable Education (SAVE) plan.

The Secretary also designates the changes to the definition of family size for Direct Loan borrowers in IBR, ICR, PAYE, and REPAYE in § 685.209(a) to exclude the spouse when a borrower is married and files a separate tax return for early implementation on July 30, 2023.

The Secretary also designates the provision awarding credit toward forgiveness for certain periods of loan deferment prior to the effective date of July 1, 2024, as described in § 685.209(k)(4) for early implementation. The Department will implement this regulation as soon as possible after the publication date and will publish a separate notice announcing the timing of the implementation.

With the exception noted below and except for those regulations designated as available for early implementation, the final regulations in this notice are effective July 1, 2024.

Section 685.209(c)(5)(iii), which relates to eligibility for IDR plans by borrowers with Consolidation loans, will be effective for Direct Consolidation loans disbursed on or after July 1, 2025.

Public Comment: In response to our invitation in the Notice of Proposed Rulemaking on Improving IDR for the Direct Loan Program, published on January 11, 2023 (IDR NPRM), the Department received 13,621 comments on the proposed regulations. In this preamble, we respond to those comments.

Analysis of Comments and Changes

We developed these regulations through negotiated rulemaking. Section 492 of the HEA [3] requires that, before publishing any proposed regulations to implement programs under title IV of the HEA, the Secretary must obtain public involvement in the development of the proposed regulations. After obtaining advice and recommendations, the Secretary must conduct a negotiated rulemaking process to develop the proposed regulations. The Department negotiated in good faith with all parties with the goal of reaching consensus. The Committee did not reach consensus on the issue of IDR.

We group issues according to subject, with appropriate sections of the regulations referenced in parentheses. We discuss other substantive issues under the sections of the regulations to which they pertain. Generally, we do not address minor, non-substantive changes (such as renumbering paragraphs, adding a word, or typographical errors). Additionally, we generally do not address changes recommended by commenters that the statute does not authorize the Secretary to make or comments pertaining to operational processes. We generally do not address comments pertaining to issues that were not within the scope of the IDR NPRM. In particular, we note that we received many comments supporting or opposing one-time debt relief. As this topic is outside the scope of this rule, we do not discuss those comments further in this document.

An analysis of the public comments received and the changes to the regulations since publication of the IDR NPRM follows.

Public Comment Period

Comment: Several commenters requested that we extend the comment period on the IDR NPRM. Some of these commenters asserted that under the principles of Executive Orders 12866 and 13563, the Department must adhere to at least a 60-day comment period.

Discussion: The Department believes the comment period provided sufficient time for the public to submit feedback. As noted above, we received over 13,600 written comments and considered each one that addressed the issues in the IDR NPRM. Moreover, the negotiated rulemaking process provided significantly more opportunity for public engagement and feedback than notice-and-comment rulemaking without multiple negotiation sessions. The Department began the rulemaking process by inviting public input through a series of public hearings in June 2021. We received more than 5,300 public comments as part of the public hearing process. After the hearings, the Department sought non-Federal negotiators for the negotiated rulemaking committee who represented constituencies that would be affected by our rules.[4] As part of these non-Federal negotiators' work on the rulemaking committee, the Department asked that they reach out to the broader constituencies for feedback during the negotiation process. During each of the three negotiated rulemaking sessions, we provided opportunities for the public to comment, including after seeing draft regulatory text, which was available prior to the second and third sessions. The Department and the non-Federal negotiators considered those comments to inform further discussion at the negotiating sessions, and we used the information to create our proposed rule. The Department also first announced elements of the proposed plan in August 2022, giving stakeholders additional time to consider the merits of major elements of the regulation. Given these efforts, the Department believes that the 30-day public comment period provided sufficient time for interested parties to submit comments. The 30-day comment period on the IDR NPRM is not unique; we have used this amount of time for numerous other rules. The Department has fully complied with the appropriate Executive Orders regarding public comments. While the Executive Orders cited by the commenters direct each agency to afford the public a meaningful opportunity to comment, those Executive Orders do not require a 60-day comment period.

Changes: None.

General Support for Regulations

Comments: Many commenters supported the Department's proposed rule to modify the IDR plans. These commenters supported the proposed revisions to § 685.209(f), which would result in lower monthly payments for borrowers on the REPAYE plan. One commenter noted that lower monthly payments are often a primary factor when borrowers select a repayment plan. Another commenter mentioned that while current IDR plans offer lower payments than the standard 10-year plan, payments under an IDR plan may still be unaffordable for some borrowers. They expressed strong support for this updated plan in hopes that it will provide much needed relief to many borrowers and would allow borrowers the flexibility to buy homes or start families. Several commenters pointed out that the new IDR plans would allow borrowers to pay down their student loans without being trapped under exorbitant monthly payments. Several commenters felt it was important that the Department commit to fully implementing this process as soon as possible to allow borrowers to benefit from the proposed regulations.

[3] 20 U.S.C. 1098a.

[4] See 86 FR 43609.

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One commenter stated that efforts to model the effects of increasing the discretionary income threshold have demonstrated that changing the threshold of protected income had the most pronounced effect on the monthly payment amounts of low- and moderate-income borrowers over the course of their repayment term. This commenter believed that making all monthly payments under REPAYE more affordable will enable more low-income borrowers to qualify for $0 payments, help prevent defaults, protect vulnerable borrowers from the severe economic consequences of default, and alleviate the stress that student loans place on fragile budgets.

Discussion: We agree with the commenters' assertions that this rule will allow borrowers to pay down their student loans without being trapped under exorbitant monthly payments and that it will help many borrowers avoid delinquency, default, and their associated consequences. We understand the urgency expressed by commenters related to our implementation plans. The Department has outlined the implementation schedule in the *Implementation Date of These Regulations* section of this document.

Changes: None.

Comments: Many commenters thanked the Department for proposing to modify the REPAYE plan rather than creating another IDR plan. Commenters cited borrower confusion about the features of the different repayment plans. Commenters urged us to revise the terms and conditions of REPAYE to make them easier to understand.

Discussion: The Department initially contemplated creating another repayment plan. After considering concerns about the complexity of the student loan repayment system and the challenges of navigating multiple IDR plans, we instead decided to reform the current REPAYE plan to provide greater benefits to borrowers. However, given the extensive improvements being made to REPAYE, we have decided to rename REPAYE as the Saving on a Valuable Education (SAVE) plan. This new name will reduce confusion for borrowers as we transition from the existing terms of the REPAYE plan. Borrowers currently enrolled on the REPAYE plan will not have to do anything to receive the benefits of the SAVE plan, and the new name will be reflected on written and electronic forms and records over time.

The Department will work to implement this naming update and borrowers may see the plan still referred to as REPAYE until the updates are complete. To reduce confusion for readers and to recognize that all the public comments would have been discussing the REPAYE plan, the Department will refer to the SAVE plan as REPAYE throughout this final rule.

These regulations are intended to address the challenges borrowers have in navigating the complexity of the student loan repayment system by ensuring access to a more generous, streamlined IDR plan, as well as to revise the terms and conditions of the REPAYE plan to make it easier to understand.

Changes: We have updated § 685.209(a)(1) to note that the REPAYE plan will also now be known as the Saving on a Valuable Education (SAVE) plan.

General Opposition to Regulations

Comments: Several commenters suggested that the Department delay implementation of the rule and work with Congress to develop a final rule that would be cost neutral. Relatedly, other commenters requested that we delay implementation and wait for Congress to review our proposals as part of a broader reform or reauthorization of the HEA. Several commenters asserted that the Administration has not discussed these repayment plan proposals with Congress.

Discussion: We disagree with the commenters and choose not to delay the implementation of this rule. The Department is promulgating this rule under the legal authority granted to it by the HEA, and we believe these steps are necessary to achieve the goals of making the student loan repayment system work better for borrowers, including by helping to prevent borrowers from falling into delinquency or default. Furthermore, the Department took the proper steps to develop these rules to help make the repayment plans more affordable. As prescribed in section 492 of the HEA, the Department requested public involvement in the development of the proposed regulations. We followed the appropriate process and obtained and considered extensive input and recommendations from those representing affected groups. The Department also participated in three negotiated rulemaking sessions with committee members that consisted of a variety of stakeholders representing public and private institutions, financial aid administrators, veterans, borrowers, students, and other affected constituencies. Following careful consideration of the feedback received during three week-long negotiation sessions, we published proposed regulations in the **Federal Register**. We explain the rulemaking process in more detail at *www2.ed.gov/policy/highered/reg/hearulemaking/2021/index.html.*

Regarding the suggestion that the rule be cost neutral, we believe the overall benefits outweigh the costs as discussed in the Costs and Benefits section within the RIA section of this document. There is no requirement that regulations such as this one be cost neutral.

The Department respects its relationship with Congress and has worked and will continue to work with the legislative branch on improvements to the Federal student aid programs, including making improvements to repayment plans.

Changes: None.

Comments: Many commenters disagreed with the Department's proposed modifications to the IDR plans, particularly the amendments to REPAYE. These commenters believed that borrowers knowingly entered into an agreement to fully repay their loans and should pay the full amount due. One commenter suggested that advising borrowers that they need only repay a fraction of what they borrowed undercuts the purpose of the signed promissory note. Many of these commenters expressed concern that the REPAYE changes were unfair to those who opted not to obtain a postsecondary education due to the cost, as well as to those who obtained a postsecondary education and repaid their loans in full.

Discussion: The IDR plans assist borrowers who are in situations in which their post-school earnings do not put them in a situation to afford their monthly student loan payments. In some cases, this might mean helping borrowers manage their loans while entering the workforce at their initial salary. It could also mean helping borrowers through periods of unanticipated financial struggle. And in some cases, there are borrowers who experience prolonged periods of low earnings. We reference the IDR plans on the master promissory note (MPN) that borrowers sign to obtain a student loan and describe them in detail on the Borrower's Rights and Responsibilities Statement that accompanies the MPN. The changes in this final rule do not remove the obligation to make required payments. They simply set those required payments at a level the Department believes is reasonable to avoid large numbers of delinquencies and defaults, as well as to help low- and middle-income borrowers manage their payments.

We disagree with the claim that the IDR plan changes do not benefit individuals who have not attended a postsecondary institution. The new REPAYE plan will be available to both

current and future borrowers. That means an individual who has not attended a postsecondary institution in the past but now chooses to do so, could avail themselves of the benefits of this plan. Moreover, allowing borrowers to choose a repayment plan based on their income and family size will result in more affordable payments and allow those individuals to avoid default which imposes additional costs on taxpayers as well as borrowers.

Changes: None.

Comments: A few commenters argued that REPAYE is intended to be a plan for borrowers who have trouble repaying the full amount of their debt; and that REPAYE should not be what a majority of borrowers choose, but rather, an alternate plan that borrowers may choose. These commenters further argued that Congress designed the IDR plans to be for exceptional circumstances where borrowers have a partial financial hardship [5] and that it is clear that a very large proportion of borrowers who could otherwise afford their full payments would instead choose REPAYE to reduce their payments.

Discussion: We believe that the new REPAYE plan will provide an affordable path to repayment for most borrowers. There is nothing in the HEA that specifies or limits how many borrowers should be using a given type of student loan repayment plan. And in fact, as discussed in the RIA, a majority of recent graduate borrowers are already using IDR plans. The Department is concerned that far too many student loan borrowers are at risk of delinquency and default because they cannot afford their payments on non-IDR plans. We are concerned that returning to a situation in which more than 1 million borrowers default on loans each year is not in the best interests of borrowers or taxpayers.

Defaults have negative consequences for borrowers, including reductions in their credit scores and resulting negative effects on access to housing and employment.[6] They may also lose significant portions of key anti-poverty benefits, such as the Earned Income Tax Credit (EITC), to annual offsets. Additionally, many of these borrowers never finished postsecondary education and are unlikely to re-enroll while in default. As a result, they likely will not receive the earning gains one would expect from completing a postsecondary credential.

We believe the changes in this final rule will create a strong safety net for student borrowers and help more borrowers successfully manage their loans. At the same time, the taxpayers and Federal Government will also receive significant benefits. For example, avoiding default could spur some borrowers to continue their postsecondary journeys and complete their programs, which will help boost wages, tax receipts, and lower dependency on the broader safety net. Overall, we think these benefits of the final rule far outweigh the costs to taxpayers.

We also do not share the commenters' concerns about borrowers who could otherwise repay their loans on an existing plan, such as the standard 10-year plan, choosing to use this plan instead. If a borrower's income is particularly high compared to their debt, their payments under REPAYE will be higher than their payments on the standard 10-year plan, which would result in them paying their loan off faster. This has an effect similar to what occurs when borrowers voluntarily choose to prepay their loans—the government receives payments sooner than expected. Prepayments without penalty have been a longstanding feature of the Federal student loan programs. On the other hand, many high-income, high-balance borrowers may not want to choose an IDR plan because it could result in a longer period of repayment. While the monthly payment amount may be lower than the standard repayment plan for some high-income, high-balance borrowers, the term for an IDR plan spans 20 to 25 years as opposed to the standard 10-year term that is the default option for borrowers. Using this plan could result in high-income, high-balance borrowers paying back for a longer period and paying back a larger total amount, given that the borrower may be making interest-only payments for some time.

Changes: None.

Comments: A few commenters raised concerns that the proposed rules would recklessly expand the qualifications for IDR plans without providing sufficient accountability measures. These commenters argued that the regulations would undermine accountability in higher education. More specifically, these commenters believed that the IDR proposals must be coupled with an aggressive accountability measure that roots out programs where borrowers do not earn an adequate return on investment. Until such accountability measure is in effect, these commenters called on the Department to delay the IDR proposals.

Discussion: We discuss considerations regarding accountability in greater detail in the RIA section of this regulation. This rule is part of a larger Department effort that focuses on improving the student loan system and includes creating a robust accountability infrastructure through regulation and enforcement. Those enforcement efforts are ongoing; the regulations on borrower defense to repayment, closed school loan discharges, false certification loan discharges, and others will go into effect on July 1, 2023; and the Department has other regulatory efforts in progress. The new IDR regulations benefit borrowers and do not interfere with those accountability measures. Therefore, a delay in the implementation date is unnecessary.

Changes: None.

Comment: One commenter suggested that borrowers have difficulty repaying their debts because underprepared students enter schools with poor graduation rates.

Discussion: The Department works together with States and accrediting agencies as part of the regulatory triad to provide for student success upon entry into postsecondary education. The issue raised by the commenter is best addressed through the combined efforts of the triad to improve educational results for students, as well as overall improvements to the K–12 education system before entry into a postsecondary institution.

Changes: None.

Comment: One commenter argued that the Department created an overly complex ICR plan that is not contingent on income; but instead focuses on factors such as educational attainment, marital status, and tax filing method, as well as past delinquency or default.

Discussion: We disagree with the commenter's claim that the REPAYE plan is overly complex and not contingent on income. As with the ICR or PAYE repayment plans, repayment is based on income and family size, which affects how much discretionary income a person has available. Other changes will streamline processes for easier access, recertification, and a path to forgiveness. Because of these benefits, REPAYE will be the best plan for most borrowers. Having one plan that is clearly the best option for most borrowers will address the most concerning sources of complexity during repayment, which is that borrowers are unsure whether to use an IDR plan or which one to choose. The most complicated elements of the

[5] See 88 FR 1896 and 20 U.S.C. 1098e.

[6] Kiviat, B. (2019). The art of deciding with data: evidence from how employers translate credit reports into hiring decisions. Socio-Economic Review, 17(2), 283–309. So, W. (2022). Which Information Matters? Measuring Landlord Assessment of Tenant Screening Reports. Housing Policy Debate, 1–27.

REPAYE plan will be carried out by the Department, including provisions to calculate the share of discretionary income a borrower must pay on their loans based upon the relative balances of loans they took out for their undergraduate education versus other loans. We believe this plan adequately and appropriately addresses borrowers' individual and unique circumstances.

Changes: None.

Comments: Several commenters argued that the proposed regulations could challenge the primacy of the Federal Pell Grant as the Federal government's primary strategy for college affordability and lead to the increased federalization of our higher education system. They further suggested that a heavily subsidized loan repayment plan could incentivize increased borrowing, which would increase the Federal role in the governance of higher education, particularly on issues of institutional accountability, which are historically and currently a matter of State policy. Commenters asserted that the proposed rule could correspondingly discourage State spending on higher education.

Discussion: The Department does not agree that the new IDR rules will challenge the Federal Pell Grant as the primary Federal student aid program for college affordability. The Pell Grant continues to serve its critical purpose of reducing the cost of, and expanding access to, higher education for students from low- and moderate-income backgrounds. The Department's long-standing guidance has been that Pell Grants are the first source of aid to students and packaging Title IV funds begins with Pell Grant eligibility.[7] However, many students still rely upon student loans and so we seek to make them more affordable for borrowers to repay.

We also disagree that these regulations will incentivize increased borrowing or discourage State spending on higher education. One central goal of the final rule is to make student loans more affordable for undergraduates. However, as discussed in the RIA, the rule does not change the total amount of Federal aid available to undergraduate students. Undergraduate borrowers, who receive the greatest benefit from the rule, have strict loan limits as laid out in Section 455 of the HEA. This rule does not and cannot amend those limits. Currently, undergraduate programs are subsidized most heavily by States, and States will continue to be incentivized to support public higher education to meet unmet need.

The rule also does not amend the underlying structure of loans for graduate students. As set by Congress in the HEA, graduate borrowers have higher loan limits than undergraduate borrowers, including the ability to take on Grad PLUS loans up to the cost of attendance. As discussed in the RIA of this final rule, about half of recent graduate borrowers are already using IDR plans. The increased amount of income protected from payments will provide a benefit to someone who borrowed only for graduate school, however borrowers with only graduate debt will not see a reduction in their payment rate as a percentage of discretionary income relative to existing plans. Someone with undergraduate and graduate debt will receive a lower payment rate only in proportion to the share of their loans that were borrowed to attend an undergraduate program. We note the existing structure of the IDR plans and the terms of the graduate loan programs set by Congress already provide incentives for graduate borrowers to repay using an IDR plan, as evidenced by existing data on IDR plan usage. We think the added incentive effects provided by this rule for graduate borrowers are incremental and smaller than the current policies established by statute.

Finally, we note that the Department is engaged in separate efforts aimed at addressing debt at programs that do not provide sufficient financial value. In particular, an NPRM issued in May 2023 (88 FR 32300) proposes to terminate aid eligibility for career training programs whose debt outcomes show they do not prepare students for gainful employment in a recognized occupation. That same regulation also proposes to enhance the transparency of debt outcomes across all programs and to require students to acknowledge key program-level information, including debt outcomes, before receiving Federal student aid for programs with high ratios of annual debt payments to earnings. Separately, the Department is also working to produce a list of the least financially valuable programs nationwide and to ask the institutions that operate those programs to generate a proposal for improving their debt outcomes.

Overall, we believe these regulations will improve the affordability of monthly payments by increasing the amount of income exempt from payments, lowering the share of discretionary income factored into the monthly payment amount for most borrowers, providing for a shorter maximum repayment period and earlier forgiveness for some borrowers, and eliminating the imposition of unpaid monthly interest, allowing borrowers to pay less over their repayment terms.

We also disagree with the commenters that the rule increases the Federal role in the governance of higher education. We believe that we found the right balance of improving affordability and holding institutions accountable as part of our role in the triad.

Changes: None.

Comments: Several commenters suggested that the overall generosity of the program is likely to drive many non-borrowers to take out student debt, as well as encourage current borrowers to increase their marginal borrowing and elicit unscrupulous institutions to raise their tuition.

One commenter believed that our proposal to forgive loan debt creates a moral hazard for borrowers, institutions of higher learning, and taxpayers. Another commenter suggested that since IDR is paid on a debt-to-income ratio, schools that generate the worst outcomes are the most rewarded in this system. The commenter believed this was problematic even for the borrowers who ultimately receive generous forgiveness, since it will lead many to use their limited Federal Pell Grant and Direct Loan dollars to attend a school that does little to improve their earning potential.

Discussion: The Department believes that borrowers are seeking relief from unaffordable payments, not to increase their debt-load. As with any new regulations, we employed a cost-benefit analysis and determined that the benefits greatly outweigh the costs. Borrowers will benefit from a more affordable REPAYE plan, and the changes we are making will help borrowers avoid delinquency and default.

The Department disagrees that this plan is likely to result in significant increases in borrowing among non-borrowers or additional borrowing by those already taking on debt. For one, this plan emphasizes the benefits for undergraduate borrowers and those individuals will still be subject to the strict loan limits that are established in Sec. 455 of the HEA[8] and have not been changed since 2008. For instance, a first-year dependent student cannot borrow more than $5,500, while a first-year independent student's loan is capped at $9,500. Especially for dependent students, these amounts are far below the listed tuition price for most institutions of higher education

[7] See Federal Student Aid Handbook, Volume 3, Chapter 7: Packaging Aid.

[8] 20 U.S.C. 1087e.

outside of community colleges. Data from the 2017–18 National Postsecondary Student Aid Study (NPSAS) show that a majority of dependent undergraduate borrowers already borrow at the maximum.[9] So, too, do most student loan borrowers at public and private nonprofit four-year institutions. Community college borrowers are the least likely to take out the maximum amount of loan debt, which likely reflects the lower prices charged. Community colleges generally offer tuition and fee prices that can be covered entirely by the maximum Pell Grant and enroll many students that exhibit signs of being averse to debt.[10]

We note that the shortened repayment period before forgiveness for borrowers with lower balances will also provide incentives for borrowers to keep their debt levels lower to qualify for earlier forgiveness. This may be particularly important at community colleges, where lower prices make it more feasible to complete a credential with lesser amounts of debt. We also disagree with the commenters' suggestion that this rule rewards institutions with the worst outcomes and encourages institutions to raise their prices. There is no indication that institutions increased tuition prices as a direct result of the creation of the original REPAYE plan, and we do not have evidence that institutions will increase prices as a result of the changes in this rule. However, the revised REPAYE plan will allow students who need to borrow to enroll in postsecondary education, earn a degree or credential, and increase their lifetime earnings while repaying their loan without being burdened by unaffordable payments.

Another reason to doubt these commenters' assertions that this rule will result in additional borrowing is that evidence shows that borrowers generally have low knowledge or awareness of the IDR plans, suggesting that borrowers are not considering these options when making decisions about whether to borrow and how much.[11] For example, an analysis of the 2015–16 NPSAS data showed that only 32 percent of students reported having heard on any income-driven repayment plans.[12] Additionally, many students are debt averse and may still not wish to borrow even under more generous IDR terms established by this rule.[13]

Though we believe it is unlikely, in the RIA of this final rule we discuss alternative budget scenarios as well as the costs and benefits associated with additional borrowing were it to occur. This analysis shows that increases in borrowing will increase costs but additional borrowing and those associated costs are not always inherently problematic. While scholarships would be even more helpful to students, some evidence suggests that loans can help more borrowers pay for their tuition and living expenses, reduce their hours at work, and complete their college programs. Additional borrowing is problematic when it does not provide a return on investment, for example, when it does not help borrowers complete a high-quality program, but our goal with this regulation is to make certain that borrowers have affordable debts that they are able to successfully repay, not to minimize borrowing at all costs.

We also note that the Department is engaged in separate efforts related to accountability, which are already described above. This includes the gainful employment rule NPRM released on May 19, 2023.[14]

Changes: None.

Comment: One commenter observed that our proposals lacked a discussion of monthly payments versus total payments. The commenter believed that, while there is the potential for borrowers to make lower monthly payments, the extended period of payments could result in higher total payments. In contrast, the commenter noted that a higher monthly payment in a shorter time frame could result in lower total payments. This commenter believed that we must consider the impact on both monthly and total payments—and that any meaningful discussion must include this analysis.

Discussion: Varied amounts of payments due and time to satisfy the loan obligation have been part of the Direct Loan program since its inception. The possibility of a higher total amount repaid over the life of the loan may be a reasonable trade-off for borrowers who struggle to repay their loans. In developing this rule, we conducted analyses both in terms of monthly and total payments. Discussions of monthly payments help the public understand the most immediate effects on what a borrower will owe in a given period. The total payments were thoroughly assessed in the RIA of the IDR NPRM and that discussion considered broad questions about which types of borrowers were most likely to receive the greatest benefits. The Department modeled the change in lifetime payments under the new plan relative to the current REPAYE plan for future cohorts of borrowers, assuming full participation and considering projected earnings, nonemployment, marriage, and childbearing. These analyses suggest that on average, borrowers' lifetime total payments would fall under the new REPAYE plan. The RIA presents this analysis. It shows projected total payments for future repayment cohorts, discounted back to their present value if future borrowers were to choose the new REPAYE plan. These are broken down by quintile of lifetime income and include separate breakdowns of estimates for whether a borrower has graduate loans. Reductions in lifetime payments are largest for low- and middle-lifetime income borrowers but, on average, all quintiles see reductions in lifetime payments.

We continue to enhance the tools on the *StudentAid.gov* website that allow borrowers to compare the different repayment plans available to them. These tools show the monthly and total payment amounts over the life of the loan as this commenter requested, as well as the date on which the borrower would satisfy their loan obligation under each different plan and any amount of the borrower's loan balance that may be forgiven at the end of the repayment period. As an example, borrowers can use the ''Loan Simulator'' on the site to assist them in selecting a repayment plan tailored to their needs. To use the simulator, borrowers enter their anticipated or actual salary, the amount of their estimated or actual loan debt, and other data to perform the calculation needed to achieve goals listed. These goals include paying off their loans as quickly as possible, having a low monthly payment, paying the lowest amount over time, and

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[9] Analysis from NPSAS 2017–18 via PowerStats, table reference wrfzjv.

[10] Boatman, A., Evans, B.J., & Soliz, A. (2017). Understanding Loan Aversion in Education: Evidence from High School Seniors, Community College Students, and Adults. AERA Open, 3(1). *https://doi.org/10.1177/2332858416683649.*

[11] For example, some estimates suggest that more than 40 percent of low-income borrowers did not know about IDR, and other research demonstrates confusion or lack of awareness about borrowing more generally (*e.g.,* Akers & Chingos (2014). Are College Students Borrowing Blindly? Washington, DC: Brookings Institution; Darolia & Harper (2018). Information Use and Attention Deferment in College Student Loan Decisions: Evidence From a Debt Letter Experiment. *Educational Evaluation and Policy Analysis,* 40(1); Sattelmeyer, Caldwell & Nguyen (2023). *Best Laid (Repayment) Plans.* Washington, DC: New America).

[12] Anderson, Drew M., Johnathan G. Conzelmann, and T. Austin Lacy, The state of financial knowledge in college: New evidence from a national survey. Santa Monica, CA: RAND Corporation, 2018. *https://www.rand.org/pubs/working_papers/WR1256.html.*

[13] Boatman, A., Evans, B.J., & Soliz, A. (2017). Understanding Loan Aversion in Education: Evidence from High School Seniors, Community College Students, and Adults.

[14] 88 FR 32300.

paying off their loans by a certain date. We believe that the tools on the *StudentAid.gov* website are user-friendly and readily available to borrowers for customized calculations that we could not provide in this rule.

Changes: None.

Comments: Several commenters raised concerns about the interaction between REPAYE payments and the SECURE 2.0 Act of 2022.[15] According to one commenter, the SECURE 2.0 Act incentivizes retirement contributions related to student loan payments. This provision allows companies to provide employees with a match on their retirement contributions for making student loan payments. This commenter was concerned that borrowers may make costly mistakes by not taking advantage of matching funds.

Discussion: Under section 110 of the SECURE 2.0 Act, Congress permits—but does not require—employers to treat a borrower's student loan payments as elective deferrals for purposes of matching contributions toward that borrower's retirement plan. Although commenters hypothesize that borrowers could potentially miss out on retirement matching if a borrower is on a $0 IDR monthly payment, this specific provision of the SECURE 2.0 Act will take effect for contributions for plan years beginning on or after December 31, 2023.[16] We see no basis for holding our regulations for a provision that employers have not yet—and may not—use. Even if an employer were to adopt the Sec. 110(h) provision of the SECURE 2.0 Act to treat a borrower's student loan payments as elective deferrals for purposes of retirement matching contributions, borrowers always have the opportunity to prepay or make additional payments on their loans without penalty. Such additional payments could receive the matched contribution from their employer. Finally, as we stated in the IDR NPRM, student loan debt has become a major obstacle to meeting financial goals, and we believe saving for retirement is one of those goals for many. Contrary to the commenters' belief that these regulations could result in borrowers potentially missing out on matching funds, or make other costly mistakes, we believe that these repayment plans will facilitate and result in more borrowers achieving broad financial goals such as saving for a home or, in this case, retirement.

Changes: None.

Comment: One commenter believed that our proposed changes to the IDR plan give undergraduate borrowers a grant instead of a loan. This commenter asserted that it would be better to provide the funds upfront as grants, which may positively impact access, affordability, and success. This commenter further believed that providing grants upfront could reduce the amount of overall loan debt. The commenter further cites researchers who had similar conclusions.

Discussion: For almost 30 years, the Department has allowed borrowers to repay their loans as a share of their earnings under IDR plans, but it has never considered these programs to be grant or scholarship programs. These student loan repayment plans are different in important respects from grants or scholarships. Many borrowers will repay their debt in full under the new plan. Only borrowers who experience persistently low incomes, relative to their debt burdens, over years will not repay their debt. Moreover, because borrowers cannot predict their future earnings, they will face significant uncertainty over what their payments will be over the full length of the repayment period. While some borrowers will receive forgiveness, many borrowers will repay their balances with interest. The IDR plans are repayment plans for Federal student loans that will provide student loan borrowers greater access to affordable repayment terms based upon their income, reduce negative amortization, and result in lower monthly payments, as well as help borrowers to avoid delinquency and defaults.

Changes: None.

Comments: Many commenters expressed the view that it is unacceptable that people who never attended a postsecondary institution or who paid their own way to attend should be expected to pay for others who took out loans to attend a postsecondary institution.

Discussion: We disagree with the commenters' position that the IDR plan changes do not benefit individuals who have not attended a postsecondary institution. This plan will be available to current and future borrowers, including individuals who have not yet attended a postsecondary institution but may in the future.

As outlined in the RIA, just because someone has not yet pursued postsecondary education also does not mean they never will. There are many students who first borrow for postsecondary education as older adults well past the age of those who go to college straight from high school. Similarly, there are many borrowers who re-enroll in postsecondary education after having already repaid their past loans. In both cases these borrowers may take on this debt because they are looking to make a career switch, gain new skills to compete in the labor force, or for other reasons. This plan would be available for both these current and future borrowers.

We also note that investments in postsecondary education provide broader societal benefits. Increases in postsecondary attainment have spillover benefits to a broader population, including individuals who have not attended college. For instance, there is evidence that increases in college attainment increases productivity for both college-educated and non-college educated workers.[17] Increases in education levels have also been shown to increase civic participation and improve health and well-being for the next generation.[18]

Changes: None.

Legal Authority

General

Comment: A group of commenters argued that the proposed rule would violate statute and exceed the Department's authority which could result in additional confusion to borrowers, increase delinquencies, or increase defaults.

Discussion: Congress has granted the Department clear authority to create income-contingent repayment plans under the HEA. Specifically, Sec. 455(e)(4)[19] of the HEA provides that the Secretary shall issue regulations to establish income-contingent repayment schedules that require payments that vary in relation to the borrowers' annual income. The statute further states that loans on an ICR plan shall be ''paid over an extended period of time prescribed by the Secretary,'' and that ''[t]he Secretary shall establish procedures for determining the borrower's repayment obligation on that loan for such year, and such other procedures as are necessary to effectively implement income contingent repayment.'' These provisions intentionally grant discretion to the Secretary around how to construct the specific parameters of ICR plans. This includes discretion as to how long a borrower must pay (except that it cannot exceed 25 years). In other words, the statute sets an explicit upper

[15] Public Law 117–328, Division T of the Consolidated Appropriations Act of 2023.

[16] See section 110(h) of Public Law 117–328, Division T of the Consolidated Appropriations Act of 2023.

[17] Public Law 117–328, Division T of the Consolidated Appropriations Act of 2023.

[18] See section 110(h) of Public Law 117–328, Division T of the Consolidation Appropriations Act of 2023.

[19] 20 U.S.C. 1087e(e)(4).

limit, but no lower limit for the "extended period" time that a borrower must spend in repayment. The statute also gives the Secretary discretion as to how much a borrower must pay, specifying only that payments must be set based upon the borrower's annual adjusted gross income and that the payment calculation must account for the spouse's income if the borrower is married and files a joint tax return.

This statutory language clearly grants the Secretary authority to make the changes in this rule related to the amount of income protected from payments, the amount of income above the income protection threshold that goes toward loan payments, and the amount of time borrowers must pay before repayment ends. Each of those parameters has been determined independently through the rulemaking process and related analyses and will be established in regulation through this final rule, as authorized by the HEA.

The same authority governs many of the more technical elements of this rule as well. For instance, the treatment of awarding a weighted average of pre-consolidation payments and the catch-up period are the Department's implementation of requirements in Sec. 455(e)(7) of the HEA, which lays out the periods that may count toward the maximum repayment period established by the Secretary. We have crafted the regulatory language to comply with the statutory requirements while recognizing the myriad ways a borrower progresses through the range of repayment options available to them.

ED has used its authority under Sec. 455 of the HEA three times in the past: to create the first ICR plan in 1995 (59 FR 61664) (FR Doc No: 94–29260), to create PAYE in 2012 (77 FR 66087), and to create REPAYE in 2015 (80 FR 67203).[20] In each instance, the Department provided a reasoned basis for the parameters it chose, just as we have in this final rule. Congress has made minimal changes to the Department's authority relating to ICR in the intervening years, even as it has acted to create and then amend the IBR plan, first in 2007 in the College Cost Reduction and Access Act (CCRAA) (Pub. L. 110–84) and then in 2010 in the Health Care and Education Reconciliation Act of 2010 (Pub. L. 111–152). The 2007 CCRAA that created IBR also expanded the types of time periods that can count toward the maximum repayment period on ICR. Congress also left the underlying terms of ICR plans in place when it improved access to automatic sharing of Federal tax information for the purposes of calculating payments on IDR in 2019.

Sec. 455(d)(1) through (4) of the HEA also provide authority for other elements of this rule. These provisions grant the Secretary the authority to choose which plans are offered to borrowers, which we are leveraging to sunset future enrollments in the PAYE and ICR plan for student borrowers. Similarly, Sec. 455(d)(4) of the HEA provides the Secretary with discretion to craft "an alternative repayment plan," under certain circumstances. Through this rule, the Secretary is using that discretion to establish a structure for a repayment option for borrowers who fail to recertify their income information on REPAYE. For most borrowers, the alternative plan payments will be based upon how much that borrower would have to pay each month to pay off the debt with 10 years of equally sized monthly payments. This amount will be specific to each borrower, as balances and interest rates vary for each individual. This approach is necessary to design a functioning alternative repayment plan for borrowers.

The treatment of interest in this plan is authorized by a combination of authorities. Congress has granted the Secretary broad authority to promulgate regulations to administer the Direct Loan Program and to carry out his duties under Title IV. *See, e.g.,* including 20 U.S.C. 1221e–3, 1082, 3441, 3474, 3471. *See, e.g.,* 20 U.S.C. 1221e–3 ("The Secretary . . . is authorized to make, promulgate, issue, rescind, and amend rules and regulations governing the manner of operation of, and governing the applicable programs administered by, the Department"). The Secretary has determined that the regulations addressing interest will improve the Direct Loan Program and make it more equitable for borrowers. More specifically, Sec. 455(e)(5) of the HEA specifies how to calculate the amounts due on monthly payments; but allows the Secretary discretion in calculating the borrower's balance, which is exercised here to manage the accrual of interest above and beyond the interest that the borrower pays each month.

The interest benefit in this final rule is a modification of the existing interest benefit provided on the REPAYE plan. That provision has been in place since the plan's creation in 2015. It includes the statutory requirement that the Department does not charge any interest that is not covered by a borrower's monthly payment during the first three years of repayment on a subsidized loan and the Department does not charge half of all remaining interest that is not covered by the borrower's monthly payment for all other periods in REPAYE. For unsubsidized loans, the Department does not charge half of all remaining interest that is not covered by the borrower's monthly payment as long as the loan is in REPAYE. That benefit has been part of the program for more than 7 years and the Department's authority for providing that protection has not been challenged, nor has Congress passed any legislation to change or eliminate that benefit. Though the size of the benefit in this final rule is different, the underlying rationale and authority are the same. The REPAYE plan was originally created in response to a June 2014 Presidential Memorandum directing the Department to take steps to give more borrowers access to affordable loan payments, with a focus on borrowers who would otherwise struggle to repay their loans. At that time, the Department thought the changes in REPAYE would be sufficient to accomplish this goal. However, the concerns described in that memorandum persist today, as the number of borrowers who default on their Federal loans has not appreciably declined since the REPAYE plan was created in 2015. In fact, the number of defaults in the 2019 Federal fiscal year were higher than in 2015, even as the number of annual borrowers declined over that period.[21]

Part of the Department's responsibilities in operating the Federal financial aid programs is to make certain that borrowers have available clear information on how to navigate repayment. In some cases, that means addressing tensions and ambiguity that exist in the law. For instance, under Sec. 428(c)(3) of the HEA (20 U.S.C. 1078(c)(3)) we exercised our authority to promulgate regulations to allow borrowers participating in AmeriCorps to receive a forbearance on repayment of their loans during the period they are serving in those positions.[22] At the same time, Congress has established that borrowers may pursue Public Service Loan Forgiveness if they meet certain requirements related to employment and their loan repayment plan. That confuses borrowers who must choose between pausing their payments entirely versus making progress toward forgiveness with a monthly payment that could be far less than what they owe on the standard 10-year plan, potentially as low as $0. Similarly, a borrower who is unemployed may have

[20] *https://www.govinfo.gov/content/pkg/FR-1994-12-01/html/94-29260.htm*

[21] *https://studentaid.gov/sites/default/files/DLEnteringDefaults.xls*

[22] See 34 CFR 685.205(a)(4).

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a $0 payment on their IDR plan but may also be able to obtain an unemployment deferment. The Department is using its broad authority under section 410 of the General Education Provisions Act (GEPA), (20 U.S.C 1221e–3), HEA section 432,[23] and sections 301, 411, and 414 of the Department of Education Authorization Act[24] to promulgate regulations to govern the student loan programs and address such areas of inconsistency and to award credit in situations where a borrower uses certain types of deferments and forbearances that indicate a high risk of confusion or tension when choosing from among the potential for a $0 payment on an IDR plan, repayment statuses that provide credit for PSLF, and the ability to pause payments.

Some provisions in this rule derive from changes made by the 2019 Fostering Undergraduate Talent by Unlocking Resources for Education (FUTURE) Act (Pub. L. 116–91). That legislation amended Sec. 6103 of the Internal Revenue Code (IRC)[25] to allow the Department to obtain Federal tax information from the Internal Revenue Service (IRS) if the borrower provided approval for the disclosure of such information. That authority is being used to automatically calculate a borrower's IDR payment if they have gone 75 days without making a payment or are in default and they have provided the necessary approvals to us.

Within all these authorities are implicit and explicit limiting principles. The Secretary must issue regulations that follow the requirements in the HEA. When the language grants specific discretion to the Secretary or is otherwise allows for more than one interpretation, the Department must provide a reasoned basis for the choices it makes, as we have done in this rule. For instance, the amount of income protected from payments is the greatest amount that we believe can be justified on a reasoned basis at this time. Similarly, the amount of discretionary income paid on loans for a borrower's undergraduate study reflects our analysis of the comparative benefits accrued by undergraduate and graduate borrowers under different payment calculations. We have developed this rule with the goal of getting more undergraduate borrowers, particularly those at risk of delinquency and default, to enroll in IDR plans at rates closer to the higher levels of existing graduate borrower enrollment.

[23] 20 U.S.C. 1082.

[24] 20 U.S.C. 3441, 3471, and 3474.

[25] 26 U.S.C. 6103, *et. seq.*

As explained, the Department has the authority to promulgate this final rule. The changes made in this rule will ultimately reduce confusion and make it easier for borrowers to navigate repayment, choose whether to use an IDR plan, and avoid delinquency and default.

Changes: None.

Comments: Commenters raised a series of individual concerns about the legality of every significant proposed change in the IDR NPRM, especially increasing the income protection threshold to 225 percent of FPL, reducing payments to 5 percent of discretionary income on undergraduate loans, the treatment of unpaid monthly interest, counting periods of deferment and forbearance toward forgiveness, and providing a faster path to forgiveness for borrowers with lower original principal balances.

Discussion: The response to the prior comment summary discusses the overarching legal authority for the final rule. We also discuss the legality of specific provisions for individual components throughout this section. However, the Department highlights the independent nature of each of these components. This regulation is composed of a series of distinct and significant improvements to the REPAYE plan that individually provide borrowers with critical benefits. Here we identify the ones that received the greatest public attention through comments; but the same would be true for items that did not generate the highest amount of public interest, such as the treatment of pre-consolidation payments, access to IBR in default, automatic enrollment, and other parameters. Increasing the amount of income protected from 150 percent to 225 percent of the FPL will help more low-income borrowers receive a $0 payment and reduced payment amounts for borrowers above that income level that will also help middle-income borrowers. Those steps will help reduce rates of default and delinquency and help make loans more manageable for borrowers. Reducing to 5 percent the share of discretionary income put toward payments on undergraduate loans will also target reductions for borrowers with a non-zero-dollar payment. As noted in the IDR NPRM and again in this final rule, undergraduate borrowers represent the overwhelming majority of borrowers in default. These changes target the reduction in payments to undergraduate borrowers to make their payments more affordable and help them avoid delinquency and default. Ceasing the charging of interest that is not covered by a borrower's monthly payment addresses concerns commonly raised by borrowers that quickly accruing interest can leave borrowers feeling like IDR is not working for them as their loan balances grow and they become discouraged about the possibility of repaying their loan. Providing borrowers with lower loan balances a path to forgiveness after as few as 120 monthly payments will help make IDR a more attractive option for borrowers who traditionally are at a high risk of delinquency and default. It will also provide incentives to keep borrowing low.

Each of these new provisions standing independently is clearly superior to the current terms of REPAYE or any other IDR plan. That is critical because one of the Department's goals in issuing this final rule is to create a plan that is clearly the best option for the vast majority of borrowers, which will help simplify and streamline the process for borrowers to choose whether to go onto an IDR plan as well as which plan to pick. That simplicity will help all borrowers but can particularly matter for at-risk borrowers trying to navigate the system. Each of these provisions, standing on its own, contributes significantly to that goal.

The result is that each of the components of this final rule can operate in a manner that is independent and severable of each other. The analyses used to justify their inclusion are all different. And while they help accomplish similar goals, they can contribute to those goals on their own.

Examples highlight how this is the case. Were the Department to only maintain the interest benefit in the existing REPAYE plan while still increasing the income protection, borrowers would still see significant benefits by more borrowers having a $0 payment and those above that 225 percent of FPL threshold seeing payment reductions. Their total payments over the life of the loan would change, but the most immediate concern about borrowers being unable to afford monthly obligations and slipping into default and delinquency would be preserved. Or consider the reduction in payments without the increased income protection. That would still assist borrowers with undergraduate loans and incomes between 150 and 225 percent of FPL to drive their payments down, which could help them avoid default. Similarly, the increased income protection by itself would help keep many borrowers out of default by giving more low-income borrowers a $0 payment, even if there was not additional help for borrowers above that

225 percent FPL threshold through a reduction in the share of discretionary income that goes toward payments.

Providing forgiveness after as few as 120 payments for the lowest balance borrowers can also operate independently of other provisions. As discussed, both in the IDR NPRM and this final rule, although borrowers with lower balances have among the highest default rates, they are generally not enrolling in IDR in large numbers. A shortened period until forgiveness, even without other reductions in payments, would still make this plan more attractive for these borrowers, as a repayment term of up to 20 years provides a disincentive to enrolling in REPAYE even if that plan otherwise provides significant benefits to the borrower.

The same type of separate analysis applies to the awarding of credit toward forgiveness for periods spent in different types of deferments and forbearances. The Department considered each of the deferments and forbearances separately. For each one, we considered whether a borrower was likely to have a $0 payment, whether the borrower would be put in a situation where there would be a conflict that would be hard to understand for the borrower (such as engaging in military service and choosing between time in IDR and pausing payments), and whether that pause on payments was under the borrower's control or not (such as when they are placed in certain mandatory administrative forbearances). Moreover, a loan cannot be in two different statuses in any given month. That means it is impossible for a borrower to have two different deferments or forbearances on the same loan. Therefore, the awarding of credit toward forgiveness for any given deferment or forbearance is separate and independent of the awarding for any other. These deferments and forbearances also operate separately from the other payment benefits. A month in a deferment or forbearance is not affected by a month at any of the other provisions that affect payment amounts, including the higher FPL, reduction in discretionary income, or treatment of interest.

Changes: None.

Comments: Several commenters asserted that through this regulation the Department is advising student loan borrowers that they can expect to repay only a fraction of what they owe, which, they argue, undercuts the legislative intent of the Direct Loan program as well as the basic social contract of borrowing. Additionally, these commenters alleged that having current borrowers fail to repay their student loans jeopardizes the entire Federal loan program.

Discussion: The Department has not and will not advise borrowers that they can expect to repay a fraction of what they owe. The purpose of these regulations, which implement a statutory directive to provide for repayment based on income, is to make it easier for borrowers to repay their loans while ensuring that borrowers who do not have the financial resources to repay do not suffer the lasting and harmful consequences of delinquency and default. We also note that forgiveness of remaining loan balances has long been a possibility for borrowers under different circumstances (such as Public Service Loan Forgiveness and disability discharges)[26] and under other IDR repayment plans.[27]

Changes: None.

Historical Authority

Comments: Several commenters argued that the underlying statutory authority in sections 455(d) and (e) of the HEA cited by the Department did not establish the authority for the Department to make the proposed changes to the REPAYE plan.

Commenters argued this position in several ways. Commenters cited comments by a former Deputy Secretary of Education during debates over the passage of the 1993 HEA amendments that there would not be a long-term cost of these plans because of the interest borrowers would pay. Commenters cited that same former official as noting that any forgiveness at the end would be for some limited amounts remaining after a long period. As further support for this argument, the commenters argued that Congress did not explicitly authorize the forgiveness of loans in the statute, nor did it appropriate any funds for loan forgiveness when it created this authority.

Using this historical analysis, commenters argued that Congress never intended for the Department to create changes to REPAYE that would result in at least partial forgiveness for most student loan borrowers. Many commenters referred to this situation as turning the loan into a grant. Several commenters argued that Congress established the ICR program as revenue-neutral without authorizing cancellation of borrowers' debt.

Discussion: Nothing in the HEA requires ICR plans or Department regulations to be cost neutral. Congress included the authority for ICR plans when it enacted the Direct Loan Program and left it to the Department to establish the specific provisions of the plans through regulations. Forgiveness of the remaining loan balance after an established time has been a part of the IDR plans since the creation of the Direct Loan Program in 1993–1994.[28] Over the past 30 years, Congress has not reduced opportunities for loan forgiveness, but instead has expanded them, including through IBR and Public Service Loan Forgiveness. We also note that in 1993, Congress appropriated funds to cover all cost elements of the Direct Loan Program, including the ICR authority. Therefore, there was no need to have a separate appropriation.[29] However, the Department has always thoughtfully considered the costs and benefits of our rules as reflected in the RIA.

Changes: None.

History of Subsequent Congressional Action

Comments: Several commenters argued that the history of Congressional action with respect to IDR plans in the years since the ICR authority was created show that the proposed changes are contrary to Congressional intent. Commenters noted that since the 1993 HEA reauthorization, Congress has only made three amendments to the ICR language: (1) to allow Graduate PLUS borrowers to participate and prevent parent PLUS borrowers from doing so; (2) to allow more loan statuses to count toward the maximum repayment period; and (3) to give the Department the ability to obtain approval from a borrower to assist in the sharing of Federal tax information from the IRS. These commenters argued that if Congress had wanted the Department to make changes of the sort proposed in the IDR NPRM it would have done so during those reauthorizations.

Other commenters argued along similar lines by pointing to other statutory changes to student loan repayment options since 1993. They cited the creation of the IBR plan and Public Service Loan Forgiveness in the 2007 CCRAA, as well as subsequent amendments to the IBR plan in 2010, as proof that Congress had considered the parameters of Federal student loan repayment and forgiveness programs and created a strong presumption that Congress did not delegate that authority to the Department. In recounting this

[26] See *www.studentaid.gov/manage-loans/forgiveness-cancellation.*

[27] Secs. 455(d)(1)(D) and (E) and 493C of the HEA.

[28] See HEA section 455(e).

[29] Hearing of the Committee on Labor and Human Resources to Amend the Higher Education Act of 1965, 103rd Cong. (1993), 48, available at: *www.files.eric.ed.gov/fulltext/ED363187.pdf.*

history, commenters also argued that changes made in 2012 to create PAYE and in 2014 to create REPAYE were unlawful.

Other commenters cited unsuccessful attempts by Congress to pass legislation to change the repayment plans as further proof that the Department does not have the legal authority to take these actions. They mentioned attempts to pass legislation that would adjust the terms of IDR plans, forgive a set amount of outstanding debt right away, and other similar legislative efforts that did not become law as proof that had Congress wanted to act in this space it would have done so.

Discussion: The commenters have mischaracterized the legislative and regulatory history of the Direct Loan Program. As previously discussed, the Secretary has broad authority to develop and promulgate regulations for programs he administers, including the Direct Loan Program under section 410 of GEPA.[30] Section 455(d)(1)(D) of the HEA gives the Secretary the authority to determine the repayment period under an ICR plan with a maximum of 25 years. Congress did not specify a minimum repayment period and did not limit the Secretary's authority to do so. We also note that, over the past decades in which these plans have been available, Congress has not taken any action to eliminate the PAYE and REPAYE plans or to change their terms. ED has used this authority three times in the past: to create the first ICR plan in 1995, to create PAYE in 2012, and to create REPAYE in 2015. The only time Congress acted to constrain or adjust the Department's authority relating to ICR was in 2007 legislation when it provided more specificity over the periods that can be counted toward the maximum repayment period. Even then, it did not adjust language related to how much borrowers would pay each month. Congress also did not address these provisions when it improved access to automatic sharing of Federal tax information for the purposes of calculating payments on ICR in 2019.

Congress has also not included any language related to these plans in annual appropriations bills even as it has opined extensively on a number of other issues related to student loan servicing. For instance, appropriations bills for multiple years in a row have consistently laid out expectations for the construction of new contracts for the companies hired by the Department to service student loans. Appropriations language also created the Temporary Expanded Public Service Loan Forgiveness Program.

Changes: None.

Major Questions and Separation of Powers

Comments: Several commenters argued that the changes to REPAYE violate the major questions doctrine and would violate the constitutional principal of separation of powers. They pointed to the ruling in *West Virginia* v. *EPA* to argue that courts need not defer to agency interpretations of vague statutory language and there must be ''clear Congressional authorization'' for the contemplated action. They argued that the cost of the proposed rule showed that the regulation was a matter of economic significance without Congressional authorization. They also noted that the higher education economy affects a significant share of the U.S. economy.

Commenters also argued that the changes had political significance since they were mentioned during the Presidential campaign and as part of a larger plan laid out in August 2022 that included the announcement of one-time student debt relief. To further that argument, they pointed to additional legislative efforts by Congress to make a range of changes to the loan programs over the last several years. These include changes to make IDR more generous, cancel loan debt, create new accountability systems, make programs more targeted, make programs more flexible for workforce education, and others. Some commenters took arguments related to one-time debt relief even further, saying that because some parameters of the proposed changes to REPAYE and one-time debt relief were announced at the same time that they are inextricably linked.

The commenters then argued that neither of the two cited sources of general statutory authority—Sections 410 and 414 of GEPA—provides sufficient statutory basis for the proposed changes.

A different set of commenters said the ''colorable textual basis'' in the vague statutory language was not enough to authorize changes of the magnitude proposed in the IDR NPRM.

Given these considerations, commenters said that the Department must explain how the underlying statute could possibly allow changes of the magnitude contemplated in the proposed rule.

Discussion: The rule falls comfortably within Congress's clear and explicit statutory grant of authority to the Department to design a repayment plan based on income. *See* HEA section 455(d)–(e).[31] This is discussed in greater detail in response to the first comment summary in this subsection of the preamble.

The Department disagrees that the Supreme Court's *West Virginia* decision undermines the Department's authority to promulgate the improvements to IDR. That decision described ''extraordinary cases'' in which an agency asserts authority of an ''unprecedented nature'' to take ''remarkable measures'' for which it ''had never relied on its authority to take,'' with only a ''vague'' statutory basis that goes ''beyond what Congress could reasonably be understood to have granted.'' [32] The rule here does not resemble the rare circumstances described in *West Virginia.* There is nothing unprecedented or novel about the Department relying on section 455 of the HEA as statutory authority for designing and administering repayment plans based on income. In addition, under Section 493C(b) of the HEA,[33] the Secretary is authorized to carry out the income-based repayment program plan. Indeed, as previously discussed, the Code of Federal Regulations has included multiple versions of regulations governing income-driven repayment for decades.[34] Yet Congress has taken no action to limit the Secretary's discretion to develop ICR plans that protect taxpayers and best serve borrowers and their families.

As such, the rule is consistent with the Secretary's clear statutory authority to design and administer repayment plans based on income.

Changes: None.

Administrative Procedure Act

Comments: Commenters argued that the extent of the changes proposed in the IDR NPRM exceed the Department's statutory authority and violate the Administrative Procedure Act (APA). They argued that converting loans into grants was not statutorily authorized and this proposal is instead providing what they considered to be ''free college.''

Discussion: The Department does not agree with the claim that the REPAYE plan turns a loan into a grant. Borrowers who have incomes that are above 225 percent of FPL and are high relative to their debt will repay their debt in full under the new plan. Borrowers with incomes consistently below 225 percent of FPL or with incomes that are low

[30] 20 U.S.C. 1221e–3.

[31] 20 U.S.C. 1087e(d)–(e).

[32] 142 S. Ct. at 2609.

[33] 20 U.S.C. 1098e(b).

[34] *See, e.g.,* 60 FR 61820 (Dec. 1, 1995); 73 FR 63258 (Oct. 23, 2008).

relative to their debt will receive some loan cancellation. In many cases, loan cancellation will come after borrowers have made interest and principal payments on the loan and, as a result, the amount cancelled will be smaller than the original loan. Many borrowers default under the current system because they cannot afford to repay their loans, and even the more aggressive collection efforts available to the Department once a borrower defaults frequently do not result in full repayment. The IDR plans are repayment plans for Federal student loans that will provide student loan borrowers greater access to affordable repayment terms based upon their income, reduce negative amortization, and result in lower monthly payments, as well help borrowers to avoid delinquency and default.

Changes: None.

Comments: Commenters argued that the rule violates the APA, because it was promulgated on a contrived reason. In making this argument, they cited *Department of Commerce* v. *New York,* in which the Supreme Court overruled attempts to add a question related to citizenship on the 2020 census because the actual reason for the change did not match the goals stated in the administrative record. The commenters argued that if the Department's goals for this rule were truly to address delinquency and default, or to make effective and affordable loan plans, we would have tailored the parameters more clearly. The commenters pointed to the fact that borrowers with incomes at what they calculated to be the 98th percentile would be the point at which it does not make sense to choose this plan, as well as protecting an amount of income at the 78th percentile for a single person between the ages of 22 to 25 as proof that it is not targeted.

The commenters argued that this lack of targeting shows that the actual goal of the plan is unstated. The commenters theorized that an unstated goal must be to create a ''free college'' plan by another name. They argued that the Department must more explicitly state that its goal is to replace some loans with grants or explain why it is providing such extensive untargeted subsidies.

Discussion: In the IDR NPRM and in this preamble, the Department provides a full explanation of the rationale for and purpose of these final rules. These final rules are consistent with, and, in fact, effectuate, Congress' intent to provide income-driven repayment plans that provide borrowers with terms that put them in a position to repay their loans without undue burden. Contrary to the claims made by these commenters, these rules do not turn loans into grants and have no connection to legislative proposals made for free community college.

Changes: None.

Vesting Clause

Comments: Commenters argued that the changes to REPAYE would violate the vesting clause by creating an unconstitutional delegation of legislative power to the Department. They claimed that the Department's reading of the authority granted by the 1993 HEA provision is overly broad and lacks any sort of limiting principle to what the commenters described as unfettered and unilateral discretion of the Secretary. They argued that such an expansive view of this authority was untenable.

Discussion: In this rule, the Department is exercising the authority given to it by Congress in Section 455(d) and (e) of the HEA (20 U.S.C. 1087e(d) and (e)) to establish regulations for income contingent repayment plans, as it has done several times previously. The Department is further exercising its rulemaking authority under Sec. 414 of the Department of Education Organization Act (20 U.S.C. 3474) to prescribe rules and regulations as the Secretary determines necessary or appropriate to administer and manage the functions of the Department. Finally, under Sec. 410 of GEPA (20 U.S.C. 1221e–3), the Secretary is authorized to make, promulgate, issue, rescind, and amend rules and regulations governing the manner of operation of, and governing the applicable programs administered by, the Department. These rules further improve the IDR plans and are consistent with the Secretary's authority to administer the Direct Loan program.

Contrary to the claims by the commenters, these regulations reflect and are consistent with statutory limits on the Secretary's authority to establish rules for ICR plans under Sec. 455 of the HEA. For instance, the HEA provides that a borrower's payments must be based upon their adjusted gross income, that it must include the spouse's income if the borrower is married and files a joint tax return, and that repayment cannot last beyond 25 years. Similarly, the statutory language does not provide for partial forgiveness over a period of years as it does in other parts of the HEA. For example, under the Teacher Loan Forgiveness Program, borrowers may be eligible for forgiveness of up to $17,500 on their Federal student loans if they teach full time for 5 complete and consecutive academic years in a low-income school or educational service agency, and meet other qualifications. *See,* HEA section 460 (20 U.S.C. 1087j).

Other limitations arise from the interaction between the HEA and the Administrative Procedure Act. When crafting a regulation, the Department must have a reasoned basis for the changes it pursues and they must be allowable under the statute. For instance, we do not believe there is a reasonable basis at this time for a regulation that protects 400 percent of FPL. We have reviewed available research, looked into signs of material distress from borrowers, and see nothing that gives us a reasoned basis to protect that level of income.

The final rule is therefore operating within the Secretary's statutory authority. We developed these regulations based upon a reasoned basis for action.

Changes: None.

Appropriations Clause

Comments: Commenters argued that because Congress did not specifically authorize the spending of funds for the proposed changes to REPAYE, the proposed rules would violate the appropriations clause. They argued, in particular, that cancellation of debt requires specific Congressional appropriation, and that the Department has not identified such a Congressional authorization. They argued that the treatment of unpaid monthly interest, the protection of more income, the reductions of the share of discretionary income put toward payments, and forgiveness sooner on small balances are all forms of cancellation that are not paid for. Along similar lines, other commenters argued that the proposed changes would turn the loan program into a grant and such a grant is not paid for under the HEA. These commenters pointed to language used by the Department about creating a safety net for borrowers as proof that these changes would make loans into grants. They argued that such grants would result in spending that is neither reasonable nor accountable since there is no clear expectation that amounts would be repaid.

Discussion: These commenters mischaracterize the Department's rules. These rules modify the REPAYE payment plan to better serve borrowers and make it easier for them to satisfy their repayment obligation. They do not change the loan to a grant. In section 455 of the HEA, Congress provided that borrowers who could not repay their loans over a period of time established by the Secretary would have the

remaining balance on the loans forgiven. That has been a part of the Direct Loan Program since its original implementation in 1994. The new rules are a modification of the prior rules to reflect changing economic conditions regarding the cost of higher education and the burden of student loan repayment on lower income borrowers. Over the years, Congress has provided for loan forgiveness or discharge in several different circumstances and, in the great majority of situations, including loan forgiveness resulting from an IDR repayment plan, the costs are paid through mandatory expenditures. The new rules simply modify the terms of an existing loan repayment plan, established under Congressional authority, and will be paid for through the same process.

The commenters similarly misunderstand the goal in highlighting this plan as a safety net for borrowers. The idea of a safety net is not to provide an upfront grant, it is to provide a protection for borrowers who are unable to repay their debt because they do not make enough money.

Changes: None.

225 Percent Income Protection Threshold

Comments: Commenters argued that nothing in the 1993 HEA amendments authorized the Department to protect as much as 225 percent of FPL. Along those lines, other commenters argued that Congress took action to set the income protection threshold at 100 percent of FPL in 1993, then raised it to 150 percent in 2007, and Congress did not intend to raise it higher.

Discussion: Section 455(e)(4) of the HEA authorizes the Secretary to establish ICR plan procedures and repayment schedules through regulations based on the appropriate portion of annual income of the borrower and the borrower's spouse, if applicable. Contrary to the assertion of the commenter, the HEA did not establish the threshold of 100 percent of FPL for ICR.

The Student Loan Reform Act of 1993 provided that loans paid under an income contingent repayment plan would have required payments measured as a percentage of the appropriate portion of the annual income of the borrower as determined by the Secretary. The decision to set that portion of income at a borrower's income minus the FPL was a choice made by the Department when it promulgated regulations for the Direct Loan Program in 1994.

In 2007, Congress passed the CCRAA, which created the IBR plan and set the income protection threshold at 150 percent of the FPL for purposes of IBR. However, Congress did not apply the same threshold to ICR. The HEA prescribes no income protection threshold for ICR. Instead, Congress retained the language in Sec. 455(e)(4) of the HEA (20 U.S.C. 1087e(e)(4)) that gives the Secretary the discretion to establish the rules for ICR repayment schedules. The Secretary is exercising that discretion here. In 2012, when we created PAYE, we raised the income protection threshold, among other provisions, to 150 percent to align with IBR.

For this rule, the Department has recognized that the economy, as well as student borrowers' debt loads and the extent to which they are able to repay have changed substantially and the Department has conducted a new analysis to establish the appropriate amount of protected income. This analysis is based upon more recent data and reflects the current situation of the student loan portfolio and the circumstances for individual student borrowers, which is unquestionably different than it was three decades ago and has even shifted in the 11 years since the Department increased the income protection threshold for an ICR plan when we created PAYE. Since 2012, the total amount of outstanding Federal student loan debt and the number of borrowers has grown by over 70 percent and 14 percent, respectively.[35] This increase in outstanding loan debt has left borrowers with fewer resources for their other expenses and impacts their ability to buy a house, save for retirement, and more. We reconsidered the threshold to provide more affordable loan payments to student borrowers. The Department chose the 225 percent threshold based on an analysis of data from the U.S. Census Bureau's Survey of Income and Program Participation (SIPP) for individuals aged 18–65 who attended postsecondary institutions and who have outstanding student loan debt. The Department looked for the point at which the share of those who report material hardship—either being food insecure or behind on their utility bills—is statistically different from those whose family incomes are at or below the FPL.

Changes: None.

Interest Benefits

Comments: Commenters argued that the underlying statutory authority does not allow for the Department's proposal to not charge unpaid monthly interest to borrowers. They argued that the ICR statutory language requires the Secretary to charge the borrower the balance due, which includes accrued interest. Similarly, they argue that the statute requires the Secretary to establish plans for repaying principal and interest of Federal loans. They also noted that the statutory text discusses how the Department may choose when to not capitalize interest, which shows that Congress considered what flexibilities to provide to the Secretary and that does not include the treatment of interest accrual. They also pointed to changes made to the HEA in the CCRAA that changed the treatment of interest accrual on subsidized loans as proof that Congress considered whether to give the Secretary more flexibility on the treatment of interest and chose not to do so. Some commenters also pointed to the fact that the previous most generous interpretation of this authority for interest benefits—the current REPAYE plan—did not go as far on not charging unpaid monthly interest as the proposed rule.

Discussion: Sec. 455(e)(5) of the HEA (20 U.S.C. 1087e(e)(5)) defines how to calculate the balance due on a loan repaid under an ICR plan. However, it does not restrict the Secretary's discretion to define or limit the amounts used in calculating that balance. Beyond that, section 410 of GEPA,[36] provides that ''The Secretary . . . is authorized to make, promulgate, issue, rescind, and amend rules and regulations governing the manner of operation of, and governing the applicable programs administered by, the Department,'' which includes the Direct Loan program. Similarly, section 414 of the Department of Education Organization Act[37] authorizes the Secretary to ''prescribe such rules and regulations as the Secretary determines are necessary or appropriate to administer and manage the functions of the Secretary or the Department.'' We also note that while section 455(e)(5) of the HEA defines how to calculate the balance due on a loan repaid under an ICR plan, it does not restrict the Secretary's discretion to define or limit the amounts used in calculating that balance. These regulations reflect the Secretary's judgment as to how that balance should be calculated.

The interest benefit provided in these regulations is one aspect of the many distinct, independent, and severable changes to the REPAYE plan included

[35] Federal Student Aid Portfolio Summary, available at: *studentaid.gov/data-center/student/portfolio.*

[36] 20 U.S.C. 1221e–3.

[37] 20 U.S.C. 3474.

in these rules that will allow borrowers to be in a better position to repay more of their loan debt, which is in the best interests of the taxpayers. Defaults do not benefit taxpayers or borrowers.

Changes: None.

Comment: Commenters argued that since Congress has passed laws setting the interest rate on student loans that the Department lacks the authority to not charge unpaid monthly interest because doing so is akin to setting a zero percent interest rate for some borrowers.

Discussion: The HEA has numerous provisions establishing different interest rates and different interest rate formulas on Federal student loans during different periods as well as limiting the amount of unpaid monthly interest that may be capitalized. See, for example, HEA sections 427A [38] and 455(e)(5).[39] Those provisions do not require that the maximum interest rate be charged to borrowers at all times during the life of the loan. The HEA and the Department's regulations [40] have long included different provisions providing that interest will not be charged in a variety of circumstances, including under income-driven repayment plans. See, for example, Sec. 428(b)(1)(M) of the HEA [41] and 34 CFR 685.204(a) (interest not charged during periods of deferment on subsidized loans); 34 CFR 685.209(a)(2)(iii) (unpaid interest not charged for first three years under PAYE); Sec. 455(a)(8) of the HEA [42] and 34 CFR 685.211(b) (interest rate can be reduced as repayment incentive); and 34 CFR 685.213(b)(7)(ii)(C) (if borrower's loan is reinstated after initial disability discharge, interest not charged during period in which payments not required). Congress has never taken action to reverse those provisions. Therefore, there is no support for the commenters' suggestion that the statutory provisions regarding the maximum interest rate are determinative of when that rate must be charged.

Changes: None.

Comments: Commenters argued that the Department did not specify whether interest that is not charged will be treated as a canceled debt or as revenue that the Secretary decided to forego. In the latter situation, the commenters argued that the Department has not established how unilaterally forgoing interest is not an abrogation of amounts owed to the U.S. Treasury, as established in the Master Promissory Note.

Discussion: The determination of the accounting treatment of interest that is not charged as cancelled debt or foregone interest is not determinative of the Secretary's authority to set the terms of IDR plans.

Changes: None.

Deferment and Forbearance

Comments: Commenters argued that the Department lacked the statutory authority to award credit toward forgiveness for a month spent in a deferment or forbearance beyond the economic hardship deferment already identified in section 455(e)(7) of the HEA. They argued that the 2007 changes to include economic hardship deferments in ICR showed that Congress did not intend to include other statuses. They also pointed to the underlying statutory language that provides that the only periods that can count toward forgiveness are times when a borrower is not in default, is in an economic hardship deferment period, or made payments under certain repayment plans. They asserted that the Department cannot otherwise count a month toward forgiveness when a monetary payment is not made. Commenters also noted that this approach toward deferments and forbearances is inconsistent with how the Department has viewed similar language under sections 428(b)(1)(M) [43] and 493C(b)(7) [44] of the HEA.

Discussion: The provisions in Sec. 455(e)(7) of the HEA are not exclusive and do not restrict the Secretary's authority to establish the terms of ICR plans. That section of the HEA prescribes the rules for calculating the maximum repayment period for which an ICR plan may be in effect for the borrower and the time periods and circumstances that are used to calculate that maximum repayment period. It is not intended to define the periods under which a borrower may receive credit toward forgiveness. The commenters did not specify what they meant in terms of inconsistent treatment, but the Department is not proposing to make underlying changes to the terms and conditions related to borrower eligibility for a given deferment or forbearance or how the borrower's loans are treated during those periods in terms of the amount of interest that accumulates. Rather, we are concerned that, despite the existence of the IDR plans, borrowers are ending up in deferments or forbearances when they would have had a $0 payment on IDR and would be gaining credit toward ultimate loan forgiveness. This concern has become more pronounced over time as the Department has taken a closer look at how payment counts toward IDR are being tracked and how successful borrowers are at navigating forgiveness programs as the first cohorts of borrowers are reaching the point when they would be eligible for relief. These problems would not have been as immediately pressing in past instances of rulemaking since borrowers would not yet have been eligible for forgiveness so the effect on borrowers getting relief would not have been readily observable. This change reflects updated information available to the Department about how to make repayment work better. Finally, we note that these changes would not be applied to FFEL loans held by lenders.

Changes: None.

10-Year Cancellation

Comments: Commenters argued that the creation of PSLF in 2007 showed that Congress did not intend for the Department to authorize forgiveness as soon as 10 years for borrowers not eligible for that benefit.

Other commenters argued that HEA section 455(e)(5), which states that payments must be made for "an extended period of time" implies that the time to forgiveness must be longer than 10 years' worth of monthly payments but less than 25 years.

Discussion: HEA section 455(d)(1)(D) requires the Secretary to offer borrowers an ICR plan that varies annual repayment amounts based upon the borrower's income and that is paid over an extended period of time, not to exceed 25 years.

For the lowest balance borrowers, we believe that 10 years of monthly payments represents an extended period of time. Borrowers with low balances are most commonly those who enrolled in postsecondary education for one academic year or less. This provision, therefore, requires that a borrower repay their loan for a period that can be 10 times longer than the duration of their enrollment in postsecondary education. The Department agrees that as balances increase, the amount of time to repay should be extended. We, therefore, used a slope that increases the amount of time to repay as balances grow, up to the maximum of 25 years' worth of monthly payments as provided in the HEA.

In response to the commenters who asserted that the proposed rule violated Congressional intent because of the varying payment caps for PSLF and

[38] 20 U.S.C. 1077a.

[39] 20 U.S.C. 1087(e)(5).

[40] See, for example, §§ 685.202(a), 685.209(a)(2)(iii), 685.209(c)(2)(iii)(A) and 685.221(b)(3).

[41] 20 U.S.C. 1078(b)(1)(M).

[42] 20 U.S.C. 1087e(a)(8).

[43] 20 U.S.C. 1078(b)(1)(M).

[44] 20 U.S.C. 1098e(b)(7).

non-PSLF borrowers, we disagree. PSLF is a separate program created by Congress. For most borrowers, PSLF will offer them forgiveness over a much shorter period than what they would otherwise have, even under the more generous terms created by this rule.

Changes: None.

Federal Claims Collections Standards

Comments: A few commenters argued that the proposed rule violated the Federal Claims Collection Standards (FCCS). They pointed to 31 U.S.C. 3711(a), which requires the heads of Federal agencies to try to collect debts owed to the United States and cited regulations stemming from that provision that also require agencies to ''aggressively'' collect debts owed to agencies. They argued that since the statute does not grant the Department the authority to waive, modify, or cancel these debts, that it must abide by these financial management duties. In particular, they argued that choosing not to charge unpaid monthly interest would violate those obligations.

Several commenters also argued that granting forgiveness after as few as 10 years' worth of payments violated the FCCS because those borrowers would be the ones most likely able to repay their debts due to their small loan balances. Shortened time to forgiveness would mean the Department is failing to aggressively collect debt due.

Discussion: The Department disagrees with these commenters. The FCCS requires agencies to try to collect money owed to them and provides guidance to agencies that functions alongside the agencies' own regulations addressing when an agency should compromise claims. The Department has broad authority to settle and compromise claims under the FCCS and as reflected in 34 CFR 30.70. The HEA also grants the Secretary authority to settle and compromise claims in Section 432(a)(6)[45] of the HEA. This IDR plan, however, is not the implementation of the Department's authority to compromise claims, it is an implementation of the Department's authority to prescribe income-contingent repayment plans under Sec. 455 of the HEA.

The Department also disagrees that low-balance borrowers are most likely to be able to repay their debts. In fact, multiple studies as well as Department administrative data establish that lower balance borrowers are at a far greater likelihood of defaulting on their loan than those with larger balances. As noted in the IDR NPRM, 63 percent of borrowers in default had original loan balances of $12,000 or below. While it is true that lower balances equate to lower loan payments, the commenter fails to consider that many borrowers with lower balances either did not complete a postsecondary program or obtained only a certificate. They likely received lower financial returns and demonstrably are more likely to struggle with repaying their loans. For borrowers with persistently low income, requiring payments for 20 years would not result in substantial increases in payments. In other words, reducing the time to forgiveness for such borrowers would not lead to large amounts of forgone payments.

Changes: None.

Definitions (§ 685.209(b))

Comments: Several commenters suggested modifying the definition of ''family size'' to simplify and clarify language in the proposed regulations. One commenter suggested that we revise the definition of ''family size'' to better align it with the definition of a dependent or exemption on Federal income tax returns, similar to changes made to simplify the Free Application for Federal Student Aid (FAFSA) that begin in the 2024–2025 cycle. Another commenter stated that changing the definition of ''family size'' in this manner will streamline the IDR process and make it easier to automatically recertify a borrower's participation without needing supplemental information from the borrower.

Discussion: We appreciate the commenters' suggestions to change the definition of ''family size'' to simplify the recertification process and make the definition for FAFSA and IDR consistent. We agree that it is important that borrowers be able to use data from their Federal tax returns to establish their household size for IDR. Doing so will make it easier for borrowers to enroll and stay enrolled in IDR. For that reason, we have added additional clarifying language noting that information from Federal tax returns can be used to establish household size.

The Department notes that in the IDR NPRM we did adopt one key change in the definition of ''family size'' that is closer to IRS treatment and is being kept in this final rule. That change is to exclude the spouse from the household size if the borrower is married filing separately. Prior to this change it was possible for a borrower on the IBR, ICR, or PAYE plans to file separately and still include the spouse in their household. (This was not possible in the REPAYE plan because it always required the inclusion of the spouse's income regardless of whether the borrower was married filing jointly or separately.) The Department believes that if the spouse's income is not being counted for the purpose of establishing payment amounts then the spouse should not be included in the household size, which has the effect of protecting more income from payments.

As noted in the Implementation Date of These Regulations section, the Department will be early implementing this change on July 30, 2023. Between that date and July 1, 2024, borrowers completing the electronic application will have their spouse automatically excluded from their household size if they are married and file a separate tax return. Those who file separately and wish to include their spouse in their household size will have to complete the separate alternative documentation of income process to include the spouse's income. This change will affect any IDR plan chosen by Direct Loan borrowers. It will not be early implemented for FFEL borrowers.

Beyond that change that was also in the IDR NPRM, the Department chose not to adjust the definition of ''family size'' to match the IRS definition because we are concerned about making the process of determining one's household size through a manual process too onerous or confusing. The family size definition we proposed in the IDR NPRM captures many of the same concepts the IRS uses in its definition of dependents. This includes considering that the individual receives more than half their support from the borrower, as well as that dependents other than children must live with the borrower. The full IRS definition includes other considerations appropriate for tax filing but that could confuse borrowers when they determine who to include in their household size for IDR. These considerations include a cap on the amount of income an individual could have to be considered a dependent and provisions for how to address which household a child of a divorced couple should be included within. By using a simplified, easy to understand definition of family size, borrowers will have the ability to accurately modify the family size data retrieved from the IRS. Additionally, the definition explains when the borrower is permitted to include the spouse in the family size for all IDR plans.

Changes: We added subparagraph (ii) to the definition of ''family size'' in § 685.209(b).

Comments: One commenter urged the Department to create consistent treatment for all student loan borrowers (including borrowers with Direct Loans,

[45] 20 U.S.C. 1082(a)(6).

FFELs and graduate and Parent PLUS borrowers in both programs) under our regulations. This commenter argued that the divisions between FFEL and Direct Loans frustrate borrowers and generate resentment. The commenter also believes these changes would reduce complexity in the student loan system and particularly help Black and Hispanic borrowers who need to borrow loans to pay for their education.

Discussion: The Department supports aligning program regulations for Direct Loan and FFEL borrowers where appropriate and permitted by statute and has determined it is appropriate to align the definition of ''family size'' in § 682.215(a)(3) of the FFEL program regulations with the definition in § 685.209(b), with the exception of § 685.209(b)(ii), which must be excluded because the FUTURE Act only permits the sharing of tax information from the IRS to the Department and not to private parties who hold FFEL loans. The alignment of the definition in § 682.215(a)(3) provides for the exclusion of the borrower's spouse from the family size calculation except for borrowers who file their Federal tax return as married filing jointly.

The Department will work with FFEL partners, including lenders and guaranty agencies, to make sure that borrowers repaying their FFEL loans under the IBR plan are treated consistently with Direct Loan borrowers with respect to borrowers' family size. Unlike the comparable changes to the Direct Loan program, this change will not be early implemented and will instead go into effect on July 1, 2024. We are treating FFEL loans differently in this case to make certain there is sufficient time to adjust systems and avoid a situation where some lenders voluntarily choose to implement this change and others do not.

Changes: We have revised the definition of ''family size'' in § 682.215(a)(3) to align with the definition of ''family size'' in § 685.209(b).

Comment: One commenter suggested that we include definitions and payment terms related to all of the IDR plans, not just REPAYE, because borrowers may be confused about which terms apply to which plans. This commenter recommended adding additional subsections in the regulations to eliminate confusion.

Discussion: Effective July 1, 2024, we will limit student borrowers to new enrollment in REPAYE and IBR. We do not believe that any additional changes to the other plans are necessary. Overall, we think the reorganization of the regulatory text to put all IDR plans in one place will make it easier to understand the terms of the various plans.

Changes: None.

Borrower Eligibility for IDR Plans (§ 685.209(c))

Comments: Many commenters supported our proposed changes to the borrower eligibility requirements for the IDR plans. However, many commenters expressed concern that we continued the existing exclusion of parent PLUS borrowers from the REPAYE plan. These commenters argued that parent PLUS borrowers struggle with repayment just as student borrowers do, and that including parents in these regulations would be a welcome relief.

Commenters also expressed concern that our proposed regulations excluded Direct Consolidation Loans that repaid a parent PLUS loan from the benefits that student borrowers would receive. These commenters noted that parents may have borrowed student loans to finance their own education in addition to taking out a parent PLUS loan to pay for their child's education.

One commenter alleged that the Direct Consolidation Loan repayment plan for parent PLUS borrowers is not as helpful compared to the other repayment plans. This commenter noted that the only IDR plan available to parent PLUS borrowers when they consolidate is the ICR plan, which uses an income protection calculation based on 100 percent of the applicable poverty guideline compared to 150 percent of the applicable poverty guideline for the other existing IDR plans. The commenter also noted that the only IDR plan available to borrowers with a Direct Consolidation Loan that repaid a parent PLUS loan requires parents to pay 20 percent of their discretionary income compared to 10 percent for the other existing IDR plans available to students. Together, these conditions make monthly payments unmanageable for parent PLUS borrowers according to this commenter.

One commenter noted that while society encourages students to obtain a college degree due to the long-term benefits of higher education, tuition is so expensive that oftentimes students are unable to attend a university or college without assistance from parents. In this commenter's view, the Department has structured an IDR plan for parent PLUS borrowers that is unfair and punitive to parents. The commenter also noted that parent PLUS borrowers who work an additional job to help with expenses will have an increase in AGI, which leads to higher monthly loan payments the following year.

One commenter said that excluding parent PLUS borrowers from most IDR plans, especially parents of students who also qualify for Pell Grants, suggested that the Department is not concerned that parents are extremely burdened by parent PLUS loan payments. Several commenters stated that if parents are still unable to access the REPAYE plan benefits, some or all of those repayment improvements should be implemented into the ICR plan available to parent PLUS borrowers.

One commenter asserted that students attending Historically Black Colleges and Universities (HBCUs) are more likely to rely on parent PLUS loans than students attending other institutions. The commenter further stated that given racial disparities in college affordability, the proposed REPAYE plan should be amended to include Direct Consolidation loans that repaid Direct or FFEL parent PLUS Loans.

Discussion: While we understand that some parent PLUS borrowers may struggle to repay their debts, parent PLUS loans and Direct Consolidation loans that repaid a parent PLUS loan will not be eligible for REPAYE under these final regulations. The HEA has long distinguished between parent PLUS loans and loans made to students. In fact, section 455(d)(1)(D) and (E) of the HEA prohibit the repayment of parent PLUS loans through either ICR or IBR plans.

Following changes made to the HEA by the Higher Education Reconciliation Act of 2005, the Department determined that a Direct Consolidation Loan that repaid a parent PLUS loan first disbursed on or after July 1, 2006, could be eligible for ICR.[46] The determination was partly due to data limitations that made it difficult to track the loans underlying a consolidation loan, as well as recognition of the fact that a Direct Consolidation Loan is a new loan. In granting access to ICR, the Department balanced our goal of allowing the lowest-income borrowers who took out loans for their dependents to have a path to low or $0 payments without making benefits so generous that the program would fail to acknowledge the foundational differences established by Congress between a parent who borrows for a student's education and a student who borrows for their own education. The income-driven repayment plans provide a safety net for student borrowers by allowing them to repay their loans as a share of their earnings over a number of years. Many Parent

[46] *fsapartners.ed.gov/sites/default/files/attachments/dpcletters/GEN0602.pdf.*

PLUS borrowers are more likely to have a clear picture of whether their loan is affordable when they borrow because they are older than student borrowers, on average, and their long-term earnings trajectory is both more known due to increased time in the labor force and more likely to be stable compared to a recent graduate starting their career. Further, because parent PLUS borrowers do not directly benefit from the educational attainment of the degree or credential achieved, the parent PLUS loan will not facilitate investments that increase the parent's own earnings. The parent's payment amounts are not likely to change significantly over the repayment period for the IDR plan. Moreover, parents can take out loans at any age, and some parent PLUS borrowers may be more likely to retire during the repayment period. Based on Department administrative data, the estimated median age of a parent PLUS borrower is 56, and the estimated 75th percentile age is 62. As such, the link to a 12-year amortization calculation in ICR reflects a time period during which these borrowers are more likely to still be working.

We appreciate and agree with the commenter's concern about racial disparities in college affordability, and we recognize that students attending HBCUs often rely on parent PLUS loans. However, we do not agree that making Direct Consolidation Loans that repaid a parent PLUS loan eligible for REPAYE is the appropriate way to address that issue. The Department supports numerous ways to improve affordability for all borrowers, including parent PLUS borrowers, and address resource inequities faced by HBCUs and the students they serve. Parent PLUS loans have benefited from the pause on payments and interest, and they are eligible for President Biden's plan to cancel to up to $20,000 in student debt. The Department delivered approximately $3 billion of additional American Rescue Plan funding to HBCUs, Tribally Controlled Colleges and Universities (TCCUs), Minority Serving Institutions (MSIs), and Strengthening Institutions Program (SIP) institutions. Additionally, the Department's proposed budget for Fiscal Year 2024 would increase investments in capacity building and student success efforts at these institutions and provide up to $4,500 in tuition assistance to students at HBCUs, TCCUs, and MSIs. The Department will continue to explore ways to make college affordable for all students and address racial disparities. We will also continue to explore all available options, including legislative recommendations, regulatory amendments, and other means to identify ways to make certain that parent PLUS borrowers are able to successfully manage and repay their loans.

Changes: None.

Comment: One commenter emphatically stated that the Department should not under any circumstances expand this proposed rule to make parent PLUS loans eligible for REPAYE. The commenter further stated that while earnings are uncertain but likely to grow for most borrowers, parent PLUS borrowers' earnings are more established and consistent. Allowing these loans to be eligible for REPAYE would make the proposed rule far more expensive and regressive.

Discussion: We agree with the commenter that parents borrowing for their children are different than student borrowers and have more established and consistent earnings. As discussed previously, we know that many parent PLUS borrowers do struggle to repay their loans, but we do not believe that including consolidation loans that repaid a parent PLUS loan in REPAYE is the appropriate way to address that problem given the difference between students and parents borrowing for their child's education.

The Department is taking some additional steps in this final rule to affirm our position about the treatment of parent PLUS loans or Direct consolidation loans that repaid a parent PLUS loan being only eligible for the ICR plan In the past, limitations in Department data may have enabled a parent PLUS loan that was consolidated and then re-consolidated to enroll in any IDR plan, despite the Department's position that such loans are only eligible for the ICR plan. The Department will not adopt this clarification for borrowers in this situation currently on an IDR plan because we do not think it would be appropriate to take such a benefit away. At the same time, the Department is aware that a number of borrowers have consolidated or are in the process of consolidating in response to recent administrative actions, including the limited PSLF waiver and the one-time payment count adjustment. Because some of these borrowers may be including parent PLUS loans in those consolidations without understanding that they would need to exclude that loan type to avoid complicating their future IDR eligibility, we will be applying this clarification for any Direct Consolidation loan made on or after July 1, 2025.

Changes: We added § 685.209(c)(5)(iii) to provide that a Direct Consolidation loan made on or after July 1, 2025, that repaid a parent PLUS loan or repaid a consolidation loan that at any point paid off a parent PLUS loan is not eligible for any IDR plan except ICR.

Limitation on New Enrollments in Certain IDR Plans (§ 685.209(c)(2), (3), and (4))

Comments: Several commenters raised concerns about the Department's proposal in the IDR NPRM to prevent new enrollments in PAYE and ICR for student borrowers after the effective date of the regulations. They noted that these plans are included in the MPN that borrowers signed. Several commenters pointed out that the Department has not previously eliminated access to a repayment plan for borrowers even if they are not currently enrolled on such plan. These commenters also argued that some of the plans being limited might provide lower total payments for borrowers than REPAYE, especially for graduate borrowers who could receive forgiveness after 20 years on PAYE.

One commenter suggested that we consider ceasing enrollment in IBR for new borrowers—other than borrowers in default—to simplify repayment options and possibly reduce the cost of the plan if high-income graduate borrowers use REPAYE before switching back into IBR to receive forgiveness.

Discussion: The MPN specifically provides that the terms and conditions of the loan are subject to change based on any changes in the Act or regulations. This provides us with the legal authority to prohibit new enrollment in PAYE and ICR. However, we do not believe it is appropriate to end a repayment plan option for borrowers currently using that plan who wish to continue to use it. Therefore, no borrower will be forced to switch from a plan they are currently using. For example, a borrower already enrolled in PAYE will be able to continue repaying under that plan after July 1, 2024.

The Department also does not think limiting new enrollment in PAYE or ICR creates an unfair limitation for student borrowers not currently enrolled in those plans. Borrowers in repayment will have a year to decide whether to enroll in PAYE. This provides them with time to decide how they want to navigate repayment. The overwhelming majority of borrowers not currently in repayment have loans that should be eligible for the version of IBR that is available to new borrowers on or after July 1, 2014. That plan has terms that are essentially identical to PAYE. Given that borrowers will have time to choose

their plan, have access to REPAYE, and most likely have access to IBR if they are not currently in repayment, the simplification benefits far exceed the size of this population.

Accordingly, the Department has retained the structure in the IDR NPRM. Student borrowers will not be eligible to access PAYE or ICR after July 1, 2024, although consolidation loans that repaid a parent PLUS loan will maintain access to ICR. Any borrower on PAYE or ICR as of July 1, 2024 will maintain access to those plans so long as they do not switch off those plans, and the limitation only applies to those not enrolled in those plans on that date.

In response to the commenter's suggestion to consider sunsetting new enrollment in IBR, we do not believe that sunsetting the IBR plan is permitted by section 493C(b) of the HEA which authorized the IBR plan. For the PAYE and ICR plans, both of which are authorized by the same statutory provisions that are distinct from those that establish IBR, we believe it is appropriate to limit new enrollment and to prevent re-enrollment in those plans for borrowers who choose to leave REPAYE.

In the IDR NPRM, we proposed limitations on switching plans out of concern that a borrower with graduate loans may pay for 20 years on REPAYE to receive lower payments, then switch to IBR and receive forgiveness immediately. We proposed limiting such a switch after the equivalent of 10 years of monthly payments (120 payments) so that borrowers would have adequate time to choose and not feel suddenly stuck in one plan.

However, we are changing the way the limitation on switching from REPAYE to IBR will work in this final rule. Instead of applying a cumulative payment limit, which could include time prior to July 1, 2024, we are prohibiting borrowers from switching to IBR after making the equivalent of 5 years of payments (60 months) on REPAYE starting after July 1, 2024. Applying this requirement prospectively makes certain that no borrower is inadvertently excluded from the plan and that we can properly enforce this requirement. This is especially important as the Department works to award IDR credit through the one-time payment count adjustment. However, because we are restricting this prospectively, we agree with the commenter that a shorter amount of allowable time on REPAYE is appropriate. Accordingly, we reduced the amount of time a borrower can spend on REPAYE and still change plans to half of the time we proposed in the IDR NPRM.

Changes: We have clarified that only borrowers who are repaying a loan on the PAYE or ICR plan as of July 1, 2024, may continue to use those plans and that if such a borrower switches from those plans they would not be able to return to them. We maintain the exception for borrowers with a Direct Consolidation Loan that repaid a Parent PLUS loan. These borrowers will still be able to access ICR after July 1, 2024. We have amended § 685.209(c)(3)(ii) to stipulate that a borrower who makes 60 monthly payments on REPAYE after July 1, 2024, may no longer switch from REPAYE to IBR.

Income Protection Threshold (§ 685.209(f))

General Support for Income Protection Threshold

Comments: Many commenters supported the Department's proposal to set the income protection threshold at 225 percent of the FPL. As one commenter noted, the economic hardship caused by a global pandemic and the steady rise in the cost of living over the last 40 years have left many borrowers struggling to make ends meet resulting in less money to put toward student loans. The commenter noted that the proposed change would allow borrowers to protect a larger share of their income so that they do not have to choose between feeding their families and making student loan payments.

A few commenters agreed that providing more pathways to affordable monthly payments would reduce the overall negative impact of student debt on economic mobility. They further suggested that it would increase a borrower's ability to achieve other financial goals, such as purchasing a home or saving for emergencies. Another commenter noted that the proposed change will provide greater economic security for many borrowers and families, particularly those whose rent represents too large a share of their income,[47] and will help borrowers impacted by rising housing costs, inflation, and other living expenses.

One commenter noted that requiring payments only for those who earn more than 225 percent of FPL, as opposed to 150 percent of the FPL, will positively impact people of color attempting to thrive in the work world after completing their degree.

Another commenter considered the increased income protection a major step forward. This commenter noted that early childhood educators, paraprofessionals, and other low- to moderate-wage workers often find the current income-driven repayment system unaffordable, causing these individuals to often go in and out of deferment or forbearance.

Discussion: We thank the many commenters who supported our proposed changes. We understand that many borrowers have been struggling to make ends meet and have less money to put toward student loans. We believe these final regulations will result in more affordable monthly payments for many borrowers, particularly the borrowers who struggle the most. Providing more affordable monthly payments will in turn help reduce rates of delinquency and default among borrowers.

Changes: None.

General Opposition to Income Protection Threshold

Comments: According to one commenter, an increase in the threshold provides extensive benefits even to high-income borrowers. Notably, however, the commenter remarked that it also makes payments substantially more affordable for low-income borrowers.

Another commenter noted that changing the income protection threshold from 150 percent to 225 percent of the FPL was the single costliest provision of the proposed regulations and noted that the reason for the high cost was because both undergraduate and graduate loans would be eligible for the higher income protection threshold. This commenter recommended that we maintain the income protection threshold at 150 percent for graduate loans to strike a balance of targeting benefits to the neediest borrowers while also protecting taxpayers' investment.

Several commenters opposed the proposed revisions to the income protection threshold, saying that it would be wrong to force taxpayers to effectively cover the full cost of a postsecondary education. One commenter felt that the proposed changes were morally corrupt, noting that many borrowers would pay nothing under this plan, forcing taxpayers to cover the full amount. Others argued that it was unfair to set the amount of income protected at 225 percent of FPL because that amount would be substantially above the national median income for younger adults, including those who did not attend college.

Discussion: While it is true that the increase in the income protection threshold protects more income from

[47] *https://www.huduser.gov/portal/pdredge/pdr_edge_featd_article_092214.html.*

being included in payment calculations, the Department believes this change is necessary to provide that borrowers have sufficient income protected to afford basic necessities. Moreover, as noted in the IDR NPRM, this threshold captures the point at which reports of financial struggles are otherwise statistically indistinguishable from borrowers with incomes at or below the FPL. Additionally, this protection amount provides a fixed level of savings for borrowers that does not increase once a borrower earns more than 225 percent of FPL. For the highest income borrowers, the payment reductions from this increase could eventually be erased due to the lack of a payment cap equal to the amount the borrower would pay under the standard 10-year plan. This achieves the Department's goal of targeting this repayment plan to borrowers needing the most assistance. As the commenter remarked, and with which we concur, our increase of the income protection threshold to 225 percent of FPL would result in substantially more affordable payments for low-income borrowers.

In response to the commenter who opined that the shift from 150 percent of the FPL to 225 percent was the single costliest provision in these regulations, we discuss in greater detail the cost of this regulation in the RIA section of this document. We decline to adopt the commenter's recommendation of using a threshold of 150 percent of FPL for graduate borrowers because we believe this income protection threshold provides an important safety net for borrowers to make certain that they have a baseline level of resources. In choosing this threshold, we conducted an analysis of student loan borrowers and looked at the point at which the share of borrowers reporting a material hardship, either being food insecure or behind on their utility bills, was statistically different from those whose family incomes are at or below the FPL and found that those at 225 percent of the FPL were statistically indistinguishable from those with incomes below 100 percent of the FPL. Moreover, we are concerned about the complexity of varying both the amount of income protected and the amount of unprotected income used to calculate payments based upon loan types.

We disagree with the commenter's concerns that the income protection threshold is too high because it is higher than the median income for young adults. Borrowers who fail to complete a degree or certificate will likely have similar earnings compared to borrowers who do not go to college but will have student loan debt they need to repay, even if they did not receive a financial benefit from their additional education. In 2020, median full-time full-year income for high school graduates aged 25 to 34 was $36,600 while the discretionary income threshold at 225 FPL would have been $28,710 for a single individual.[48] Therefore, even a borrower who worked full time but did not receive any financial benefit from the education for which they borrowed would still make loan payments under the new REPAYE plan.

In response to the commenters who opposed our income protection threshold provisions on the grounds that it would be wrong to force taxpayers to pay for the borrower's education and be morally corrupt, we note that the costs associated with delinquency and default would be detrimental to both the taxpayers and the individual borrower. Moreover, we provided further discussion elsewhere in this section, *Income Protection Threshold,* as to why we remain convinced that it is appropriate set the threshold at 225 percent of the FPL.

Changes: None.

Higher Income Protection Amounts

Comment: Commenters argued that the proposed protection threshold of 225 percent was too low and was beneath what most non-Federal negotiators had suggested during the negotiated rulemaking sessions.

Discussion: As discussed during the negotiated rulemaking sessions, the Department agreed with the non-Federal negotiators that the amount of income protected under the current regulations is too low. Accordingly, in § 685.209(f)(1), the Department increased the amount of discretionary income exempted from the calculation of payments in the REPAYE plan to 225 percent of the FPL. We chose this threshold based on an analysis of data from the 2020 SIPP[49] for individuals aged 18 to 65, who attended postsecondary institutions, and had outstanding student loan debt. The Department looked for the point at which the share of those who report material hardship—either being food insecure or behind on their utility bills—was statistically different from those whose family incomes are at or below their respective FPL. The Department never proposed protecting an amount of income above 225 percent of the FPL during the negotiations, and consensus was not reached during the negotiations.

Changes: None.

Comments: Many commenters argued for protecting a larger amount of the FPL than the Department proposed. One commenter suggested that the income protection threshold be increased to 300 to 350 percent of FPL to meet basic needs, specifically for families with young children, and increased to 400 percent for those with high medical expenses. Other commenters recommended using a threshold above 400 percent. They said this amount would better reflect borrowers' true discretionary income after they pay for housing, food, child care, elder care, health insurance premiums, utilities, and transportation bills.

Other commenters argued for increasing the amount of income protected on the grounds that the borrowers most likely to benefit from the increase disproportionately include first-generation college students, as well as those who are immigrants, Black, and Latino.

Discussion: The Department disagrees with the suggestions to increase the amount of income protected. We base payments on the marginal amount of income above that threshold. As a result, we determine the payment on the amount of a borrower's income above the 225 percent FPL threshold, rather than on all of their income. For someone who earns just above 225 percent of FPL, their payments will still be minimal.

Here, we illustrate the payment amount for a single borrower earning income that is $1,500 above the 225 percent FPL threshold and who holds only undergraduate loans. The borrower's payment will be approximately $10 per month (due to the rounding of minimum payment amounts), which is only 0.2 percent of their annual income. We believe that increasing the income protection threshold and reducing the payment amount for undergraduate loans, coupled with our other regulatory efforts such as auto-enrollment into IDR for delinquent borrowers will protect low-income borrowers and reduce defaults.

Changes: None.

Comments: Some commenters suggested that we apply various incremental increases—from 250 percent to over 400 percent—so that struggling borrowers can afford the most basic and fundamental living expenses like food, housing, child care, and health care, in line with the threshold used for Affordable Care Act subsidies.

[48] *nces.ed.gov/fastfacts/display.asp?id=77.*

[49] *www.census.gov/programs-surveys/sipp/data/datasets/2020-data/2020.html.*

Discussion: The Department sought to define the level of necessary income protection by assessing where rates of financial hardship are significantly lower than the rate for those in poverty. Based upon an analysis discussed in the Income Protection Threshold section of the IDR NPRM, the Department found that point to be 225 percent of FPL.

We believe the new REPAYE plan provides an important safety net for borrowers whose income falls at a point at which repaying their student loans would become difficult. Our analysis found that borrowers between 225 percent and 250 percent of the FPL have statistically different rates of material hardship compared to those below the poverty line. As such 250 percent of FPL would not be an appropriate threshold.

The comparison to the parameters of the Affordable Care Act's Premium Tax Credits is not appropriate. Under that structure, 400 percent of FPL is the level at which eligibility for any subsidy ceases. An individual up to that point can receive a tax credit such that they will not pay more than 8.5 percent of their total income. Individuals above that point receive no additional assistance. In contrast, all borrowers—including those who have incomes above 225 percent or even 400 percent of FPL—will have income equal to 225 percent FPL protected when calculating their payment. The eligibility threshold for receiving the minimum ACA premium tax credit is, therefore, not a suitable gauge of the point below which it is unreasonable to expect a borrower to make payments on their student loans.

Changes: None.

Comment: A commenter discussed the relationship of borrowers' debt-to-income ratios to the percentage of defaulted borrowers. This commenter cited their own research, which found that default rates generally level off at a discretionary income of $35,000 and above and could reasonably justify income protection of 400 percent FPL if the goal is to reduce default rates.

Discussion: Reducing default rates is a concern for the Department. We believe that the changes made to the REPAYE plan will reduce default rates. However, we do not believe that raising the income protection from 225 percent to 400 percent would sufficiently reduce defaults in a way that would justify the added costs. Changing the income protection to 400 percent would protect up to $58,320 for a single individual and $120,000 for a four-person household. Existing evidence on default indicates that borrowers with much lower incomes are the ones most likely to struggle with loan repayment. For example, data from the 2012/17 Beginning Postsecondary Students Longitudinal Study show that around 1.4 percent of individuals who had incomes below the equivalent of $58,320 in 2017 dollars (about $47,700) defaulted in the previous year, and 5.7 percent ever defaulted by that point, compared to less than 1 percent (both in the previous year and ever defaulted) for those above $58,320.[50]

Changes: None.

Comments: One commenter noted that while material hardship is a valid determination for an income threshold, there are significantly more families experiencing financial hardship beyond the definition in the IDR NPRM. The commenter said that our estimation of a material hardship was inequitable by only looking at food insecurity and being behind on utility bills and suggested that we raise the threshold to incorporate other areas such as housing and health care.

Discussion: Our examination of the incidence of material hardship used two measures that are commonly considered in the literature on material hardship and poverty as proxies for family well-being.[51] We agree that there are other expenses that can create a financial hardship. We believe that the 225 percent threshold provides that those experiencing the greatest rates of hardship will have a $0 payment, while borrowers above that threshold will have more affordable payments.

Changes: None.

Lower Income Protection Amounts

Comments: The Department received a range of comments arguing for not increasing the amount of income protected to 225 percent of FPL. Some of these commenters argued that the threshold should remain at 150 percent of FPL. Others argued that the amount should be set at 175 to 200 percent of FPL because of concerns that 225 percent was higher than necessary and untargeted.

One commenter stated that leaving the income exemption at 150 percent of the FPL would still cut monthly payments in half for low-income undergraduate borrowers, would avoid other potential problems, and would make programs without any labor market value free or nearly free for many students, but the Federal Government and taxpayers would foot the bill.

Another commenter advised that the income limit for student loan forgiveness should be set to benefit only those who are either below the poverty level or who are making less than the poverty level for a set number of working years and only if there is evidence that they are putting in effort to improve their situations.

Discussion: According to the Department's analysis, keeping the monthly income exemption at 150 percent of the FPL or lowering it would exclude a substantial share of borrowers who are experiencing economic hardship from the benefits of a $0 or reduced payment. The Department analyzed the share of borrowers reporting a material hardship (*i.e.,* experiencing food insecurity or behind on utility bills) and found that those at 225 percent of the FPL were statistically indistinguishable from those with incomes below 100 percent of the FPL. Requiring any monthly payment from those experiencing these hardships, even if payments are small, could put these borrowers at higher risk of delinquency or default.

The Department also disagrees with suggestions from commenters to require evidence that of borrowers are trying to financially better themselves. Such an approach would be administratively burdensome with no clear benefit.

Changes: None.

Comments: A few commenters argued for phasing out the income protection threshold altogether at a level at which a household's experience of hardship diverges markedly from households living in poverty. Other commenters argued for phasing down the amount of income protected as a borrower's earnings increased. For instance, one commenter suggested phasing down the protection first to 150 percent and then phasing it out entirely for borrowers who earn more than $100,000.

Discussion: One of the Department's goals in constructing this plan is to create a repayment system that is easier for borrowers to navigate, both in terms of choosing whether to enroll in IDR or not, as well as which IDR plan to choose. This simplified decision-making process is especially important to help the borrowers at the greatest risk of delinquency or default make choices that will help them avoid those outcomes. No other IDR plan has such a phase out and to adopt one here

[50] Analysis using Beginning Postsecondary Students (BPS) 2012/2017, PowerStats reference zqelzd.

[51] See, for instance: Mayer, S.E., & Jencks, C. (1989). *Poverty and the distribution of material hardship.* The Journal of Human Resources, 24, 88–114 Ouellette, T., Burstein, N., Long, D., & Beecroft, E. (2004). Measures of material hardship final report. Prepared for U.S. Department of Health and Human Services, ASPE. Short, K.S. (2005). *Material and financial hardship and income-based poverty measures in the USA.* Journal of Social Policy, 34, 21–38.

would risk undermining the simplification goals and the benefits that come from it. While we understand the goals of the commenters, the importance of the income protection also diminishes as borrowers' income grows. All borrowers above the income protection threshold save the same amount of money as any other borrower with the same household size. But as income grows, the percentage of their total payment reduced by this change diminishes. Because there is no payment cap under this plan, high-income borrowers can have larger payments that exceed the standard 10-year repayment plan. This could include situations where the payment amount above the standard 10-year repayment plan is greater than the savings the borrower would receive from the higher income protection amount.

A phased reduction would also make the plan harder to explain to borrowers. This approach, alongside the use of a weighted average to calculate loan payments, would make it significantly harder to explain likely payment amounts to borrowers and increase confusion.

Changes: None.

Comments: One commenter asserted that the 225 percent poverty line threshold is not well justified and questioned why other means-tested Federal benefit thresholds are not sufficient. The commenter further pointed out that the Supplemental Nutrition Assistance Program (SNAP) has a maximum threshold of 200 percent of the FPL, and the Free and Reduced-Price School Lunch program, also targeted at food insecurity, has a maximum threshold of 185 percent of the poverty line.

Along similar lines, a commenter noted that the taxation threshold for Social Security benefits is $25,000 and did not see the sense in protecting a higher amount of income for purposes of REPAYE payments.

Discussion: We disagree with the commenter's assertion that the income protection threshold is not well justified and reiterate that the data and analysis we provided in the IDR NPRM is grounded with sufficient data and sound reasoning. With respect to means-tested benefits that use a lower poverty threshold, we note fundamental differences between Federal student loan repayment plans and other Federal assistance in the form of SNAP or free-reduced lunch. First, some of these means-tested benefits have an indirect way to shelter income. SNAP, for example, uses a maximum 200 percent threshold for broad-based categorical eligibility criteria that allows certain deductions from inclusion in income including: a 20 percent deduction from earned income, a standard deduction based on household size, dependent care deductions, and in some States, certain other deductions,[52] among others. Even though the Department of Agriculture's use of the maximum threshold is 200 percent of the FPL, the deductions from inclusion in income could result in a higher protection of income and assets than our use of an across-the-board 225 percent of the FPL. The Department does not allow other deductions from income or sheltering certain assets.

Second, it is inappropriate to compare the poverty thresholds used for means-tested benefits to the thresholds used for income protection under the REPAYE plan. Other agencies use the FPL as a baseline to determine eligibility for their benefits whereas we are using the 225 percent to calculate a monthly payment. A key consideration in our analysis and justification for using 225 percent of the FPL for the income protection threshold was identifying the point at which the share of those who reported material hardship was statistically different from those at or below the FPL.

Finally, with respect to the commenter who noted that the taxation threshold for Social Security benefits is $25,000, this provision is from the Social Security Amendments of 1983 under which 50 percent of an individual's Social Security benefits would be subject to the Federal income tax if that individual's income is above a specified threshold—$25,000 for individual filers and $32,000 for married couples filing jointly.[53] FPL thresholds simply do not apply to Social Security benefits and the comparison to REPAYE is therefore inappropriate.

Changes: None.

Comments: Another commenter encouraged the Department to limit the income protection threshold and all other elements of the rule, to undergraduate loans. They further asserted that, by allowing the higher disposable income exemption to apply to graduate debt, the rule is likely to eliminate or substantially reduce payments for many doctors, lawyers, individuals with MBAs, and other recent graduate students with very high earning potential who are in the first few years of working. Other commenters similarly recommended that the Department maintain the income protection threshold for graduate loans at 150 percent of FPL.

Discussion: We decline to limit the income protection to only undergraduate borrowers or to adopt a 150 percent income protection threshold for graduate borrowers. The across-the-board 225 percent of the FPL income protection threshold provides an important safety net for borrowers to make certain they have a baseline of resources. We provide our justification in detail in the IDR NPRM.[54] In addition, a differential income protection threshold in REPAYE between undergraduate and graduate borrowers would be operationally complicated and would add confusion given the other parameters of this plan. For one, it is unclear how this suggestion would work for a borrower who is making a payment on both undergraduate and graduate loans at the same time. The Department does not think a weighted average approach would work either because it would be confusing to be protecting different amounts of income and then charging varying shares of that discretionary income for payments. And we are concerned that applying the lower threshold if the borrower has any graduate debt could put the lowest-income graduate borrowers at risk of default. Moreover, it would create challenges in simplifying repayment options because other plans also protect 150 percent of FPL and might offer other benefits that would cause graduate borrowers to choose them, such as forgiveness after 20 years instead of 25 years.

Changes: None.

Cost-of-Living Adjustments

Comments: Many commenters argued for adopting regional cost-of-living adjustments to the determination of the amount of income protected. Commenters said this was necessary to address disparities in cost of living across the country. Several commenters pointed to high-cost urban areas, particularly in New York City and elsewhere, as evidence that even 225 percent of FPL was insufficient for individuals to still afford basic necessities, such as rent and groceries. Commenters also pointed to differences in local tax burdens, which also affect the availability of income for loan payments and necessities. Commenters noted that this adjustment is particularly important because so many individuals who attend college tend to live in higher-cost areas.

[52] *www.fns.usda.gov/snap/recipient/eligibility.*

[53] The 2022 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds, June 2, 2022, at *www.ssa.gov/OACT/TR/2022/tr2022.pdf.*

[54] See 88 FR 1901–1902.

Another commenter who argued in favor of regional cost-of-living adjustments suggested using Regional Price Parities available at both the State and metropolitan area levels. This commenter stated that failure to consider this alternative would be arbitrary and capricious.

Discussion: The Department declines to adjust the income protection amount based upon relative differences in the cost of living in different areas outside of the existing higher thresholds used for Alaska and Hawaii.

The FPL is a widely accepted way of assessing a family's income. Many State programs use it without regional cost of living adjustments, making it difficult to choose a regional adjustment factor that would not be arbitrary. First, we have not identified a well-established and reliable method to adjust for regional differences. Examples of State agencies that use the FPL for their benefits or programs include New York's Office of Temporary and Disability Assistance, Wisconsin's health care plans, as well many other State health agencies across the country. At the Federal level, the U.S. Citizenship and Immigration Services (USCIS) allows non-citizens to request a fee reduction [55] when filing Form N–400, an Application for Naturalization if that individual's household income is greater than 150 percent but not more than 200 percent of the FPL. This fee reduction does not account for regional cost differentials where the individual resides; rather, USCIS uses an across-the-board factor to better target that benefit to those needing the most assistance to become naturalized U.S. citizens. Moreover, Federal courts in Chapter 7 bankruptcy proceedings may waive certain administrative fees if a debtor's income is less than 150 percent of the FPL.[56] Across the various cases of these State and Federal benefits, the use of the FPL is consistent after accounting that there is no reliable method to adjust for regional differences.

Second, we think it is valuable to provide a straightforward way for borrowers to understand how much income will be protected from payments. We would lose the simplicity of such an approach if we adjusted based upon the cost of living. Relatedly, it would be operationally difficult to apply a borrower's regional cost of living adjustment such as if we used the Bureau of Economic Analysis' (BEA) Regional Price Parities by State and Metropolitan area, as the commenters suggest. It is unclear how we would determine the appropriate cost of living factor to use for income protection—whether we would use the address on file on the IDR application, where the borrower files taxes, or the State of domicile. Furthermore, use of BEA data could obligate the Department to collect data elements that would be onerous to compile and could result in borrowers failing to enroll or recertify in an IDR plan. Instead, as we have done since the inception of the ICR plans, we will use a percentage of the FPL as the baseline for income protection.

Changes: None.

Comments: Commenters suggested alternative measures that are more localized than FPL, such as State median income (SMI). They maintained that SMI better accounts for differences in cost of living and provides a more accurate reflection of an individual or family's economic condition. Commenters noted that some Federal social service programs, including the Low-Income Home Energy Assistance Program (LIHEAP) and housing programs such as Section 8 Housing Choice Vouchers, use the SMI rather than the FPL for this reason.

Discussion: It is important to calculate payments consistently and in a way that is easy to explain and understand. Using SMI to determine income protection would introduce confusion and variability that would be hard to explain to borrowers. Additionally, it would create operational challenges when borrowers move and lessen our ability to simplify payment calculations when we obtain approval to use a borrower's Federal tax information.

Changes: None.

Periodic Reassessment

Comments: Many commenters suggested that the Department reassess the income protection threshold annually or at other regular intervals. One of these commenters commended the Department for proposing these regulatory changes and asked that we periodically reassess whether the 225 percent threshold protects enough income for basic living expenses and other inflation-related expenses such as elder care.

Discussion: The Department declines to make any changes. The Department believes concerns about periodic reassessment are best addressed through subsequent negotiated rulemaking processes. Calculating the amount of income protected off the FPL means that the exact dollar amount protected from payment calculations will dynamically adjust each year to reflect inflation changes. However, if there are broader societal changes that suggest the overall level of income protected based on the percentage of the FPL is too low, it would be appropriate to conduct further rulemaking to consider input from stakeholders and the public before making any changes.

Changes: None.

Income Protection Threshold Methodological Justification

Comments: One commenter stated that the Department acknowledged that 225 percent is insufficient because we said that the payment amount for low-income borrowers on an IDR plan using that percentage may still not be affordable. The commenter also believed that our rationale for arriving at this percentage was flawed, as it used a regression analysis with a 1 percent level of significance to show that borrowers with discretionary incomes at the 225 percent threshold exhibit an amount of material hardship that is statistically distinguishable from borrowers at or below the poverty line. These commenters stated that we did not comment on the magnitude of this difference and any difference is merely fractional.

Another commenter opined that the derivation from the 225 percent FPL threshold is not well justified. This commenter questioned the confidence level and sample size used in our calculations. The commenter believed that the choice of a confidence interval is more definitional than supported by a firm analytical basis.

Discussion: We disagree with the commenters' methodological critiques. Our rationale for arriving at the discretionary income percentages was based on our statistical analysis of the differences in rates of material hardship by distance to the Federal poverty threshold using data from the SIPP. We note that our figures were published in the IDR NPRM as well as our policy rationale for arriving at 225 percent of the FPL.

As we stated in the analysis, an indicator for whether an individual experienced material hardship was regressed on a constant term and a series of indicators corresponding to mutually exclusive categories of family income relative to the poverty level. The analysis sample includes individuals aged 18 to 65 who had outstanding education debt, had previously enrolled in a postsecondary institution, and who were not currently enrolled. The SIPP is a nationally representative sample and we reported standard errors using replicate weights from the Census Bureau that takes into account sample size. The Department used these data

[55] See Form I–942, OMB Form No. 1615–0133, *www.uscis.gov/i-942.*

[56] 28 U.S.C. 1930(f).

because they are commonly used and well-established as the best source to understand the economic well-being of individuals and households. The table notes show that two stars indicate estimated coefficients which are statistically distinguishable from zero at the 1 percent level. Using a 1 percent significance level is appropriate based on current Office of Management and Budget (OMB) guidance under the Data Quality Act (also known as the Information Quality Act).[57] The point of this analysis was to start at the premise that the commenter did not challenge, which is that someone who is at or below 100 percent of FPL should not be required to make a payment. We then looked for the point above which those rates of the individuals who reported financial hardship is statistically different from those individuals in poverty. As shown in our analysis, families with incomes above 225 percent FPL have rates of material hardship that are clearly both statistically and meaningfully different than families with incomes less than 100 percent FPL. Above the 225 percent FPL, coefficients are all statistically significantly different at the 1 percent level and range from 8.8 to 24.7 percentage points depending on the group, with the size of the coefficient generally getting larger as income increases.

We also note that the IDR NPRM included a discussion of why the 225 percent threshold is meaningful in its alignment to the minimum wage in many states. This consideration is discussed further in response to another comment in this *Income Protection Threshold* section.

Changes: None.

Comments: One commenter noted that our income protection threshold proposal of 225 percent of the FPL—$30,600 using the 2022 FPL—when compared to non-Federal data would encompass about the 65th percentile of earnings for individuals aged 22–31. Other commenters made similar claims but concluded this represented different percentiles in the income distribution. The commenter believes the Department undercounted the number of borrowers who would choose REPAYE as a result of this FPL threshold. The commenter claimed that the Department underestimated the proportion of borrowers up to age 31 who would have $0 or very low payments within this time frame, which the commenter claimed was a significant number of borrowers. The commenter said the data needed to estimate that number are readily available from other Federal agencies, including the Census Bureau, the Bureau of Labor Statistics (BLS), and the Federal Reserve.

Discussion: We disagree with the commenter and affirm that our use of data from the SIPP for individuals aged 18–65 who attended college and who have outstanding student loan debt was appropriate. The commenter's analysis is incorrect in several ways: first, it presumes that the analysis should be relegated only to borrowers aged 22–31. The Department's own data[58] indicate that student loan borrowers' range in age, and we believe our use of SIPP is an appropriate data set for our analysis. Second, the reference point that the commenter proposes uses data from a non-Federal source and we cannot ascertain the validity of the survey design. In accordance with the Data Quality Act, we believe using our 225 percent income protection threshold to the data set that we used in the IDR NPRM was appropriate for the questions specific to this rule: ''at which point would the share of those who reported material hardship be statistically different from those whose family incomes are at or below the FPL?'' As a reminder, SIPP is a nationally representative longitudinal survey administered by the Census Bureau that provides comprehensive information on the dynamics of income, employment, household composition, and government program participation[59] and we do not believe we undercounted borrowers who would choose REPAYE.

Changes: None.

Comments: One commenter argued we should have used more objective data from the IRS instead of the SIPP. The commenter questioned why the Department chose to base its comparison on those with an income below 100 percent FPL, when it could have chosen to use 150 percent of the FPL established by Congress.

This same commenter believed the Department arrived at a statistical justification for a predetermined threshold by arbitrarily choosing the comparison group and arbitrarily choosing what to look at (*e.g.,* rates of food insecurity rather than something related to student loans like repayment rates).

Discussion: We reviewed various sources of data. SIPP is a longitudinal dataset administered by the Census Bureau. Information about the methodology and design are available on the Census website.[60] We believe that the SIPP data is sound and the most appropriate dataset to use for our purposes because it contains information on student loan debt, income, and measures of material hardship. Because IRS data does not have information on material hardships, it would not be possible to conduct the analysis of the point at which the likelihood of a borrower reporting material hardship is statistically different from the likelihood for someone at or below the FPL reporting material hardship.

In response to the commenter's question why we chose the reference point to be 100 percent of the FPL rather than 150 percent, our intention was to find the point under which individuals with family incomes up to a certain percentage of the FPL would have rates of material hardship statistically indistinguishable from rates for borrowers with income at or below the FPL. Using 100 percent of the FPL is demonstrably appropriate as the Census considers someone at or below the FPL to be living in poverty.

We disagree with the commenter's suggestion that our statistical analysis was done in an arbitrary manner. As we stated in the IDR NPRM, we focused on two measures as proxies for material hardship: food insecurity and being behind on utility bills.[61] These two measures are commonly used in social science to represent material hardship. As we stated in the IDR NPRM, we regressed these measures of material hardship on a constant term and a series of indicators corresponding to categories of family income relative to the FPL.

Changes: None.

Comments: One commenter noted that the annual update of the HHS Poverty Guidelines was released after the IDR NPRM was published and suggested that the Department rely on the most recent data available because the change in the HHS Poverty Guidelines is significant enough to potentially alter some of the conclusions in the IDR NPRM.

Discussion: We do not believe the inflation-based updates to the FPL since the IDR NPRM was published materially change our analyses. For one, some of the analyses conducted were already using earlier years of data to reflect the best available sample data present. For instance, the analyses for the 225 percent threshold used data from the

[57] See Section 515 of the Consolidated Appropriations Act, 2001 (Pub. L. 106–554).

[58] *studentaid.gov/data-center/student/portfolio.*

[59] *www.census.gov/programs-surveys/sipp.html.*

[60] *www.census.gov/programs-surveys/sipp/methodology.html.*

[61] This is not intended to suggest that individuals who do not report these two measures are not experiencing material hardship.

2020 SIPP. The analysis used to determine the reduction of payment amounts on undergraduate loans to 5 percent of discretionary income was based upon figures from the 2015–16 National Postsecondary Student Aid Study. The analysis of the threshold for when low-balance borrowers should receive earlier forgiveness was based upon 5-year estimates from the 2019 American Community Survey. As discussed in the NPRM, we proposed that borrowers should repay for an additional 12 months for every $1,000 in principal balance above $12,000 because such a structure means the income above which a borrower would cease benefiting from the shortened forgiveness option is roughly consistent across all shortened repayment lengths. This goal of a consistent maximum earnings threshold for shortened forgiveness would not be affected by changes in the FPL.

The biggest effect of the change in the FPL would be to alter what was Table 4 in the IDR NPRM that showed the effect of the FPL increase. That table is recreated here using updated numbers. For a single-person household, the change in FPL from 2022 to 2023 results in additional savings of $9 a month if payments are assessed at 5 percent of discretionary income and $19 if payments are assessed at 10 percent of discretionary income. For a four-person household, those numbers are $21 and $42 a month, respectively.

TABLE 1—MAXIMUM MONTHLY PAYMENT SAVINGS AT DIFFERENT LEVELS OF INCOME PROTECTION, 2023 FEDERAL POVERTY GUIDELINES (FPL)

Household Size	One		Four	
Payment as Percent of Discretionary Income	5	10	5	10
150% FPL (Current REPAYE regulations)	$91	$182	$188	$375
225% FPL (Final REPAYE regulations)	$137	$273	$281	$563
Final REPAYE minus Current REPAYE	$46	$91	$94	$188

Note: The 2023 Federal Poverty Guideline is $14,580 for a single household and $30,000 for a house of four.

The IDR NPRM also included some discussion of the implied hourly wage for someone who earns 150 percent or 225 percent of FPL on an annual basis. Under the 2023 FPL baseline for the 48 contiguous states and the District of Columbia, that amount is $10.94 an hour instead of $10.19 an hour using the 2022 guidelines for someone whose earnings are equivalent to 150 percent of FPL for a single household and $16.40 an hour instead of $15.29 an hour at 225 percent of FPL.[62] These figures assume working 2,000 hours a year.

The change in FPL also does not materially affect the Department's analysis of how 150 percent of FPL compares to State minimum wages. In the IDR NPRM we noted that a threshold of 150 percent of FPL for a single individual is an implied annual wage that is below the minimum wage in 22 States plus the District of Columbia.[63] Those 22 States plus DC represent 50 percent of individuals nationally with at least some college.[64]

While the FPL has increased, so have several State minimum wages in the interim, though not always at the same magnitude as the FPL increase. Using 2023 FPL and minimum wage laws, 20 States, plus the District of Columbia, still have minimum wages that are above the implied hourly wage at 150 percent of FPL.[65] The change in the data is the inclusion of Florida as a state whose 2023 minimum wage exceeds the implied hourly rate at 150 percent of FPL, whereas Hawaii, Minnesota, and Nevada no longer have minimum wages that exceed the implied hourly rate at 150 percent of FPL. Because of differences in the number of individuals with at least some college across States, the net result is that using the 2023 FPL and minimum wages shows that about 53 percent of adults with some colleges are in States where the minimum wage is at or just above the implied hourly wage at 150 percent of FPL. As noted above, the equivalent figure for 2022 is 50 percent. The update therefore does not materially change any of the analyses provided in the IDR NPRM.

Changes: None.

Other Issues Pertaining to Income Protection Threshold

Comments: Some commenters suggested calculating discretionary income based on the borrower's net income rather than pre-tax gross income. The commenter further stated that payment amounts should be capped at no more than 10 percent of net discretionary income instead of a borrower's gross pay. This approach would base the payment percentage on the borrower's net take-home pay available for their expenses.

Discussion: We disagree with the commenters' suggestion to calculate the discretionary income based on the borrower's net income. Net income varies based on a variety of withholdings and deductions, some of which are elective. The definition of ''income'' in § 685.209(e)(1) provides a standardized definition that we use for IDR plans. The borrower's income less any income protection threshold amount is the most uniform and operationally viable method the Department could craft to consider a borrower's discretionary income for calculating a payment amount. The FPL is a widely accepted method to assess a family's income, and we believe that using 225 percent of the FPL to allocate for basic needs when determining an affordable payment amount for borrowers in an IDR plan is a reasonable approach. Our regulations still provide that a borrower may submit alternative documentation of income or family size if they otherwise meet the requirements in § 685.209(l).

Changes: None.

Comments: Several commenters recommended that we extend the increase in the percentage of discretionary income protected to all IDR plans, not just REPAYE.

Discussion: Under this final rule, student borrowers not already on an IDR plan will have two IDR plans from which to choose in the future—REPAYE and IBR. The HEA outlines the terms for the IBR plan that the commenters are

[62] For Alaska, the implied hourly wage for someone who earns 150 percent of FPL in 2022 and 2023 is $12.74 and $13.66, respectively. For Hawaii, the implied hourly wage for someone who earns 150 percent of FPL in 2022 and 2023 is $11.73 and $12.58, respectively.

[63] The analysis uses the federal minimum wage in states where minimum wages are lower than the federal minimum wage or with no minimum wage law. For Nevada, the analysis uses the minimum wage if qualifying health insurance is not offered by the employer. Based on minimum wages as of January 1, 2023 *https://www.dol.gov/agencies/whd/state/minimum-wage/history.*

[64] Based on the American Community Survey 2021 5-year estimates *https://data.census.gov/table?q=education&g=010XX00US$0400000&tid=ACSST5Y2021.S1501&tp=true.*

[65] *www.dol.gov/agencies/whd/minimum-wage/state.*

asking to alter. Specifically, section 493C(a)(3)(B) of the HEA sets the amount of income protected under IBR at 150 percent of the poverty line applicable to the borrower's family size. We cannot make the suggested changes to IBR via regulatory action. Accordingly, we do not think it would be appropriate to modify the percentage on PAYE. As explained in the section on borrower eligibility for IDR plans, we do not think it would be appropriate to change the threshold for ICR.

Changes: None.

Comment: One commenter argued that the proposal to use FPL violated the requirements outlined in Section 654 of the Treasury and Government Appropriations Act of 1999 that requires Federal agencies to conduct a family policymaking assessment before implementing policies that may affect family well-being and to assess such actions related to specified criteria.

With respect to our IDR proposals, a few commenters said that using FPL disadvantages married couples relative to single individuals because the amount of income protected for a two-person household is not double what it is for a single person household. They suggested instead setting the threshold at 152 percent of FPL for a single individual.

Discussion: The Department disagrees with the commenter's assessment of the applicability of section 654 of the Treasury and Government Appropriations Act of 1999 to this regulation. This regulation does not impose requirements on States or families, nor will it adversely affect family well-being as defined in the cited statutory provision. A Federal student loan borrower signed an MPN indicating their promise to repay. The Department does not require student loan borrowers to use the REPAYE plan. Instead, borrowers choose the plan under which they will repay their student loan.

Using FPL to establish eligibility or out-of-pocket payment amounts for Federal benefit programs is a commonly used practice. Moreover, the Department's use of the FPL focuses on the number of individuals in the household, not the composition of it.

In response to the comment regarding the alleged disadvantage for married borrowers, the Department notes that the one possible element that might have discouraged married borrowers from participating in the REPAYE plan was the requirement that married borrowers filing their tax returns separately include their spousal income. We have removed that provision by amending the REPAYE plan definition of ''adjusted gross income'' and aligning it with the definition of ''income'' for the PAYE, IBR, and ICR plans. This change required us to redefine ''family size'' for all plans in a way that would no longer include the spouse unless the borrower filed their Federal tax returns under the married filing jointly category. We no longer allow a borrower to include the spouse in the family size when the borrower knowingly excludes the spouse's income. Otherwise, we do not agree that further changes are needed to equalize the treatment of single and married borrowers.

Changes: None.

Comments: Some commenters argued that the FPL that is used to set the income protection threshold is flawed because the FPL is based exclusively on food costs and therefore excludes important costs that families face, such as childcare and medical expenses. As a result, the resulting FPLs are far too low and the threshold we use in our regulation would need to increase to meet basic needs.

Discussion: We discuss our justification for setting the income protection threshold at 225 percent of the FPL elsewhere in this rule. We disagree that our use of the FPL is a flawed approach. The FPL is a widely accepted method used to assess a family's income. Moreover, setting FPL at a threshold higher than 100 percent allows us to capture other costs. We believe that using 225 percent of the FPL to allocate for basic needs when determining an affordable payment amount for borrowers in an IDR plan is a reasonable approach. While borrowers may have various financial obligations, such as childcare and medical expenses, the FPL is a consistent measure to protect income and treat similarly situated borrowers fairly in repayment. Excluding income from the IDR payment calculation in a standard way will equalize treatment of borrowers. Furthermore, the Department has consistently used the FPL as a component in determining a borrower's income under an IDR plan since the introduction of the first IDR plan.[66]

Changes: None.

Payment Amounts (§ 685.209(f)(1)(ii) and (iii))

General Support

Comments: Many commenters strongly supported the proposed REPAYE provision that would decrease the amount of discretionary income paid toward student loans to 5 percent for a borrower's outstanding loans taken out for undergraduate study. Several commenters supported our proposal to limit the discretionary income percentage of 5 percent to only undergraduate loans to avoid expensive windfalls to those with high-income potential, namely graduate borrowers.

Discussion: We thank the commenters for their support.

Changes: None.

General Opposition

Comment: Several commenters stated that setting payments at 5 percent of discretionary income is far lower than rates in the United Kingdom and New Zealand, which are 9 and 12 percent, respectively.

Discussion: The Department thinks that considering the share of income that goes toward student loan payments is an insufficient way to consider cross-country comparisons. Different countries provide differing levels of support for meeting basic expenses related to food and housing. They also have different cost bases. Housing in one country might be more or less affordable than another. Relative incomes and national wealth might vary as well. As such, comparing the relative merits of the different student loan repayment structures is not as straightforward as simply comparing the share of income devoted to payments.

International comparisons would also require reckoning with differences in the prices charged for postsecondary education, which types of educations or institutions a borrower is able to obtain a loan for, and other similar considerations that are more complicated than solely looking at the back-end repayment terms. The commenters, however, did not provide any such analysis with their statements.

In the IDR NPRM and in this final rule we looked to data and information about the situation for student loan borrowers in the United States and we believe that is the proper source for making the most relevant and best-informed determinations about how to structure the changes to REPAYE in this rule.

Changes: None.

Comments: One commenter noted that they believe statutory provisions set the share of income owed on loans under the IDR plans as follows: 20 percent for ICR, 15 percent for IBR, and 10 percent for New IBR. The commenter points out that when the Department regulated on PAYE and REPAYE, we used the Congressionally-approved 10 percent threshold. The commenter argues that Congress has clearly established various thresholds and our previous regulatory provisions have respected that. The commenter states

[66] See 59 FR 61664. In the initial ICR plan (see 59 FR 34279), the family size adjustment was a mere $7 per dependent for up to five dependents.

that there should be a good reason for choosing the 5 percent threshold.

Discussion: Contrary to what the commenter asserted, Section 455(d)(1)(D) of the HEA does not prescribe a minimum threshold of what share of a borrower's income must be devoted toward payments under an ICR plan. Congress left that choice to the Secretary. And, in the past the Department has chosen to set that threshold at 20 percent of discretionary income and then 10 percent of discretionary income. We note that the Department promulgated the original REPAYE regulations in response to a June 9, 2014, Presidential Memorandum [67] to the Secretaries of Education and the Treasury that specifically noted that Direct Loan borrowers' Federal student loan payment should be set at 10 percent of income and to target struggling borrowers.[68] As we explained in the IDR NPRM, and further explain below, we decided to set payments at 5 percent of discretionary income for loans obtained by the borrower for their undergraduate study as a way to better equalize the benefits of IDR plans between undergraduate and graduate borrowers. In general, the Department is concerned that there are large numbers of undergraduate borrowers who would benefit from IDR plans but are not using these plans. Instead, they are facing unacceptably high rates of delinquency and default. By contrast, data show that graduate borrowers are currently using IDR plans at significantly higher rates. While the Department cannot know the specific reason why graduate borrowers are selecting IDR plans at greater rates than undergraduate borrowers, graduate borrowers' relatively higher loan balances mean that these individuals derive greater monthly savings from choosing an existing IDR plan than an otherwise identical undergraduate borrower with the same household size and income. As such, the Department seeks to better equalize the savings between undergraduate and graduate loans, with the goal that such increased savings for undergraduates will encourage more borrowers to use these plans and, consequently, avoid delinquency and default. As discussed in the IDR NPRM, setting payments at 5 percent of discretionary income for a borrower's undergraduate loans is the lowest integer percent where a typical undergraduate-only borrower and a typical graduate-only borrower with the same household size and income would have similar monthly payment savings.[69]

Changes: None.

Treatment of Loans for Graduate Education

Comments: Many commenters suggested that borrowers should also pay 5 percent, rather than 10 percent, of their discretionary income on loans obtained for graduate study. They said requiring borrowers to pay 10 percent of their discretionary income on those loans runs contrary to the goals of the REPAYE plan and may place a substantial financial burden on these borrowers. Many commenters further suggested that we consider that many graduate borrowers are often older than their undergraduate counterparts, are heads-of-households with dependent children, have caregiving responsibilities, and are closer to retirement. Moreover, many commenters expressed their concern that this disparate treatment of graduate borrowers from undergraduate borrowers could have financial consequences on borrowers' ability to purchase homes, start businesses, care for their families, and save for retirement. One commenter stated that treating graduate borrowers differently could make them more likely to take out private loans.

Discussion: We acknowledge the demographics among graduate student borrowers. However, we do not agree that a payment of 5 percent of discretionary income should apply to all borrowers.

As we discussed in the IDR NPRM, we are concerned that the lack of strict loan limits for graduate student loans and the resulting higher loan balances means that there is a significant imbalance between otherwise similarly situated borrowers who only have debt for undergraduate studies versus only having debt for graduate studies. Moreover, in this final rule we are working to improve the REPAYE plan to significantly reduce the number of borrowers who face delinquency and default. As we noted in the IDR NPRM, 90 percent of borrowers in default exclusively borrowed for undergraduate study compared to just 1 percent who exclusively borrowed for graduate study.

The Department believes that allowing loans obtained for graduate study to be repaid at 5 percent of discretionary income would come at a significant additional cost while failing to advance our efforts to meet the goals of this rulemaking, including reducing delinquency and default. We believe that the solution included in the IDR NPRM and adopted in this final rule for graduate loans is a more effective manner of achieving the Department's goal of providing borrowers access to affordable loan payments. A borrower who has both undergraduate and graduate loans will still see a reduction in the share of their discretionary income that goes toward loan payments and the treatment of loans for undergraduate study will be consistent across borrowers. Moreover, all student borrowers will also receive other benefits from the changes to REPAYE, including the protection of more income and the interest benefit. We do not believe the difference in the treatment of loans obtained for undergraduate and graduate study will make graduate borrowers more likely to take out private loans because the benefits offered by our new plan are more generous than the current IDR options, and likely more generous than the terms of private student loans.

Changes: None.

Comments: Several commenters claimed that not providing graduate borrowers the same discretionary income benefit as undergraduate borrowers disproportionately places an undue burden on Black students and other students of color. Another commenter argued that having different payment percentages for undergraduate and graduate students is unjustifiable and is likely to disproportionately harm Black and Latino borrowers, as well as women of color. Several commenters stated that requiring graduate borrowers to pay more creates an equity issue. They further cited data showing that of Black students rely on financial aid for graduate school at a higher rate than White students. Moreover, the commenters explain that Black students must also earn a credential beyond a bachelor's degree to receive pay similar to their White peers who only hold a bachelor's degree. Lastly, several commenters stated that the Department's choice to exclude graduate borrowers from the 5 percent discretionary income threshold is flawed and disregards the issue of repayment through racial and economic justice lenses.

Discussion: Research has consistently showed that graduate borrowers with advanced degrees earn more than borrowers with just an undergraduate degree.[70] Both graduate and undergraduate borrowers are subject to the same discretionary income

[67] See 79 FR 33843.

[68] See 80 FR 67225.

[69] 88 FR 1902–1905.

[70] *nces.ed.gov/programs/coe/indicator/cba/annual-earnings.*

threshold of 225 percent FPL. However, borrowers with graduate debt will pay 10 percent of their income above this threshold if they only hold graduate debt and a percentage between 5 and 10 if they have both graduate and undergraduate debt (weighted by the relative proportion of their original principal balance on outstanding debt from undergraduate and graduate studies). As a result, graduate borrowers will still benefit from the new REPAYE plan by having a larger share of their income protected from payment calculations than they would under the current REPAYE plan. We therefore disagree with some of the commenters that graduate borrowers would face undue burdens under this final rule. We also reiterate that while the benefits of this rule are focused on undergraduate borrowers, there will still be some benefits for graduate borrowers as a result of the changes.

The Department projected total payments per dollar of student loan payments for future cohorts of borrowers using a model that includes relevant lifecycle factors that determine IDR payments (*e.g.,* household size, the borrower's income, and spousal income when relevant) under the assumption of full participation in current REPAYE and the new REPAYE plan. The RIA discussion of the costs and benefits of the rule provides additional details on this model. The present discounted value of total payments per dollar borrowed was projected under current REPAYE and the new REPAYE plan for borrowers in different racial/ethnic groups and according to whether the borrower had completed a graduate degree or certificate. Table 2 contains these estimates, which illustrate how Black, Hispanic, and American Indian and Alaskan Native (AIAN) borrowers with a graduate degree are projected to see the largest decreases among borrowers with graduate degrees in payments per dollar borrowed under the new plan compared to all other categories of graduate completers. In conducting this analysis, the Department did not make any policy design choices specifically based upon an analysis of outcomes for different racial or ethnic groups.

TABLE 2—PROJECTED PRESENT DISCOUNTED VALUE OF PAYMENTS PER DOLLAR BORROWED FOR FUTURE REPAYMENT COHORTS OF GRADUATE COMPLETERS BY RACE/ETHNICITY, ASSUMING FULL TAKE-UP OF REPAYE

	AIAN	API	Black	Hispanic	White	Other/Multi
Current REPAYE	1.24	1.28	1.24	1.26	1.27	1.25
Final rule REPAYE	1.07	1.15	1.02	1.13	1.16	1.15
Reduction	0.17	0.12	0.22	0.13	0.11	0.10
Percent reduction	14%	10%	18%	11%	8%	8%

Notes: AIAN = American Indian or Alaskan Native, API = Asian or Pacific Islander.

The higher payment rate for borrowers with graduate debt is also justified based on differences in the borrowing limits for undergraduate and graduate borrowers. Graduate borrowers have higher loan limits through the Grad PLUS Loan Program and correspondingly, higher levels of student loan debt. We continue to believe it is important that borrowers with higher loan balances pay higher amounts over a longer period before receiving forgiveness. Finally, we disagree with the commenters that excluding graduate borrowers from the 5 percent discretionary income amount is flawed, as we explained our rationale for the higher discretionary income amount for graduate borrowers in the IDR NPRM. We believe that the analysis shown above, as well as what was included in the IDR NPRM and the RIA of this final rule show that the Department carefully considered the economic effects of the rule as appropriate.

Changes: None.

Comments: Many commenters emphasized that most States require a graduate or professional degree to obtain certification or licensure as a social worker, clinical psychologist, or school counselor. These commenters believed that, given such a requirement, borrowers working in these professions should be eligible to receive the same REPAYE plan benefits as undergraduate borrowers.

One commenter stated that, while some borrowers with graduate degrees will eventually become wealthy, many graduate-level borrowers will be in a low- to middle-income bracket, such as those seeking employment or who are employed in the field of social work. The commenter went on to explain that, even though teachers and social workers earn approximately the same salary, social workers will be penalized because they will have to pay a higher share of their income for a longer period of time due to their need to borrow more in graduate loans.

Discussion: We decline to make the changes requested by the commenters. It is true that many teachers and social workers attain graduate degrees as part of their education; according to data from the National Center for Educational Statistics, over 50 percent of public school teachers from 2017–2018 held a graduate degree.[71] And as of 2015, 45 percent of social workers held a graduate degree.[72] But teachers and social workers are also often eligible for other student loan forgiveness programs, such as PSLF, which shortens the repayment window to ten years for those who work consistently in the public or non-profit sector. Other programs include Teacher Loan Forgiveness for those who serve at least five years as a full-time teacher in an eligible low-income school. As the commenter acknowledges in the first part of their comment, many borrowers with graduate degrees will earn high incomes. For that reason, setting payments at 5 percent of discretionary income for graduate loans would raise concerns about targeting these repayment benefits to the borrowers needing the most assistance.

Changes: None.

Comment: One commenter stated that the Department's decision to calculate payments based on a weighted average between 5 percent and 10 percent of discretionary income for borrowers with graduate and undergraduate loans introduces complexity that will be difficult for borrowers to understand and make it complicated for servicers to administer.

Discussion: The weighted average for the share of discretionary income a borrower will pay on their loans will be automatically calculated by the Department and will be a seamless process for borrowers and servicers. The

[71] *nces.ed.gov/surveys/ntps/tables/ntps1718_fltable04_t1s.asp.*

[72] Salsberg, Edward, Leo Quigley, Nicholas Mehford, Kimberly Acquaviva, Karen Wyche, and Shari Sliwa. 2017. Profile of the Social Work workforce. George Washington University Health Workforce Institute and School of Nursing. *www.socialworkers.org/LinkClick.aspx?fileticket=wCttjrHq0gE%3D&portalid=0.*

Department will provide a plain language explanation of the way of calculating payments on *StudentAid.gov*. Borrowers may visit *StudentAid.gov* or contact their loan servicer for additional details of their loan payments. Moreover, we believe that this added work to explain the provision to borrowers is more cost effective than the alternative proposal to simply provide significant payment reductions on graduate loans.

Changes: None.

Comments: One commenter asserted that if we intended to discourage future borrowers from taking out graduate loans if they cannot afford them, we should simply state that. This commenter urged us to prospectively apply the provision of 10 percent of discretionary income only to new graduate borrowers as of 2023.

Discussion: The Department does not agree with the commenter's characterization of our discretionary income provision. Our rule is not intended to encourage or discourage borrowing or to alter the borrower's choice to attend graduate school or take out a loan. We believe the discretionary income percentage for IDR plans will target borrowers who need the assistance the most. As we stated in the IDR NPRM, the Department is not concerned that keeping the rate at 10 percent for graduate loans would incentivize graduate students to overborrow as the current 10 percent repayment rate is already in current IDR plans.

We also disagree that we should provide existing graduate borrowers with payments at 5 percent of income and only apply the weighted average approach to new graduate borrowers as of 2023. We do not think that the cost of providing the lower payments for graduate loans taken out before 2023 would justify the significant added costs that would come from such a change and we do not think there is a reasoned basis to provide payments of different levels solely based upon when a borrower obtained a loan.

Changes: None.

Treatment of Parent PLUS Borrowers

Comments: Many commenters expressed concern for parent PLUS borrowers. Many commenters argued that if the requirement to make payments of 5 percent discretionary income is designed to apply to undergraduate study, then parent PLUS loans—which are used only for undergraduate studies—should receive the same benefits and treatment as undergraduate borrowers. A few other commenters further suggested that the Department did not offer parent PLUS loan borrowers a safety net to protect them when they could not afford repayment because these borrowers do not have the opportunity to benefit from the new REPAYE plan.

Several commenters, however, expressed strong support for excluding parent PLUS loans for dependent undergraduates from the 5 percent of discretionary income standard.

Discussion: The Department disagrees with the suggestion that Parent PLUS loans should be eligible for this plan on the basis that the student for whom the loan was obtained was an undergraduate student. As discussed elsewhere in this preamble, the HEA prohibits parent PLUS loans from being repaid under any IDR plan. We decline to allow a Direct Consolidation Loan that repaid a parent PLUS loan to access REPAYE for reasons also discussed earlier in this preamble. The Department understands that the phrasing of § 685.209(f)(1)(ii) in the IDR NPRM may have created confusion that generated comments like the one discussed here because it only discussed payments on loans obtained for undergraduate study. We have clarified the regulation to make it clear that the 5 percent of discretionary income standard will be available only on loans obtained for the borrower's own undergraduate study.

Changes: We have revised § 685.209(f)(1)(ii) to clarify that we refer to loans obtained for the borrower's undergraduate study.

Comments: None.

Discussion: In modeling the treatment of the reduction in payments on undergraduate loans, the Department noted that some loans in our data systems do not have an assigned academic level. These are commonly consolidation loans and may include ones where a borrower has consolidated multiple times. The Department is concerned that the language in the NPRM did not provide sufficient clarity about how loans in such a situation would be treated. Accordingly, we are revising § 685.209(f)(1)(iii) to indicate that any loan not taken out for a borrower's undergraduate education will be assigned payments equal to 10 percent of discretionary income. This broader framing will clarify how either a loan for a borrower's graduate study or one with an unknown academic level will be treated. A borrower who believes their loan was in fact obtained for their undergraduate education and should not be treated as subject to the 10 percent calculation will be able to file a complaint with the Department's Student Loan Ombudsman. The Ombudsman's office will review the complaint and work with the borrower on next steps.

Changes: We have revised § 685.209(f)(1)(iii) to note that repayment on all loans not captured in § 685.209(f)(1)(ii) is calculated at 10 percent of discretionary income.

Alternative Payment Structures

Comments: Several commenters argued that the Department should adopt a progressive formula to determine the percentage of discretionary income required to go toward payments instead of a single flat one. These proposals included ideas like offering a bracket of 5 percent payments for low-income borrowers, a bracket of 10 percent payments on moderate incomes, and a bracket at 15 percent for borrowers with higher incomes. As income rises, the commenter explained, the borrower would pay a higher marginal payment rate.

These commenters wrote that the graduated rates would benefit all borrowers, including higher-income borrowers, by targeting these repayment rate structures to the borrowers needing the most assistance which could be counteracted with a higher marginal payment rate for those most able to pay.

Alternatively, one commenter specifically suggested that we could apply the payment rate of 5 percent of discretionary income to those with a discretionary income of 150 to 225 percent of the FPL and 10 percent for those whose discretionary income is above 225 percent of the FPL. The commenter compared this marginal rate structure proposal to the progressive income tax.

Discussion: The Department declines to adopt the more complicated bracket structures suggested by the commenters. We are concerned that doing so would undercut several of the goals of this final rule. This approach could not be combined with our intent to maintain that undergraduate loans get a greater focus than graduate loans so that we can address concerns about default and delinquency. Varying the share of discretionary income that goes toward payments by both income and undergraduate loan status would be complicated and challenging to explain. We think the weighted average structure better addresses our goals and is simpler to convey to borrowers.

Changes: None.

Comments: Some commenters argued that the Department should increase the amount of income protected and then set payments at 10 percent of discretionary income for all borrowers.

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They said such a rule would be more targeted and simpler.

Discussion: We discuss income protection, including the appropriate threshold using the FPL as a unit, under the ''Income Protection Threshold'' section in this document. As discussed, we do not think there is a compelling rationale for providing a higher amount of income protection. As discussed earlier and in the IDR NPRM, we think that loans taken out for a borrower's undergraduate study should be repaid at 5 percent of discretionary income. We believe this change will help prevent default and target the benefit at the group that includes the overwhelming majority of defaulters. Moreover, we reiterate our rationale for the differential payment amount thresholds for undergraduate and graduate loans and how the 225 percent FPL income protection threshold interacts with a borrower's payment in the IDR NPRM.

Changes: None.

Comments: Some commenters argued that borrowers who have undergraduate and graduate loans should pay 7.5 percent of their discretionary income as that would be simpler to establish and communicate. They also argued that otherwise, borrowers have an incentive to not pay off their undergraduate loans so they can use them to reduce their payment amount.

Discussion: We are concerned that setting payments at 7.5 percent of discretionary income for graduate loans would result in additional spending on benefits that are not aligned with our goals of preventing default and delinquency. A 7.5 percent payment amount also implies that borrowers have equal splits of undergraduate and graduate debt, which is not as likely to occur and might result in lower payments for graduate borrowers than would occur under our final rule. We do not believe the added cost that would come from such a change is necessary to achieve the Department's goals of averting default and making it easier to navigate repayment.

We disagree with the concerns raised by the commenter about whether borrowers would have an incentive to not pay off their undergraduate loans. Whether a borrower chooses to prepay their loan or not is always up to them. For scheduled payments, the borrower must pay the amount that is required by their repayment plan. If they pay less than that amount in order to avoid paying off their balance, they would become delinquent and possibly default. If they pause their payments, they would see interest accumulate (except for subsidized loans on a deferment), which could result in them paying more over time.

Changes: None.

Comments: One commenter suggested that instead of using a percentage of discretionary income, we should revise our IDR formulas to express the payment as a percentage of total income, with no payment due for borrowers who earn less than $30,000 a year. In the commenter's example, a borrower who earns $30,000 or more per year would have a monthly payment of 5 percent of their total income.

Discussion: This proposed change would introduce significant operational complexity and challenges. We expect that our approach for determining the amount of discretionary income to go to loan payments based on the type of loan that the borrower has, will achieve our intended purpose: to allow borrowers to make an affordable loan payment based on their income that we can easily administer. A borrower with only undergraduate loans would already have a 5 percent loan payment as the commenter suggests and we believe that a monthly payment amount of 5 percent of the discretionary income best assures that REPAYE assists the neediest borrowers.

Changes: None.

Methodological Concerns

Comments: One commenter argued that the Department's reasoning for proposing that undergraduate loans be repaid at 5 percent of discretionary income was arbitrary and could be used to justify any threshold. The commenter said none of the reasons articulated pointed to 5 percent as an appropriate number. The commenter provided no detail as to why they reached those conclusions.

Discussion: The Department disagrees with the commenter. We have explained our rationale for setting payments at 5 percent of discretionary income on undergraduate loans as providing better parity between undergraduate and graduate borrowers based upon typical debt levels between the two, with considerations added for rounding results to whole integers that are easier to understand. The commenter offered no substantive critiques of this approach.

Changes: None.

Comments: One commenter raised concerns that the Department's justification for choosing to set undergraduate loan payments at 5 percent of discretionary income is based upon looking at equivalent benefits for undergraduate versus graduate borrowers. They said the Department never explained or justified why the Department's goal should be to maintain parity in benefits between the two populations, noting their differences in income and debt.

Relatedly, the commenter said the Department did not explain why the goal should be for undergraduate borrowers to have equivalence with graduate borrowers rather than the other way around. They argued that since there are more undergraduate borrowers than graduate borrowers, the Department should try to seek parity with undergraduate borrowers if they could provide rational explanations that justify the approach.

The commenter also said that the Department's analysis included an assumption to choose different payment levels which relied on the same income levels for undergraduate and graduate borrowers. The commenter argued that a more likely scenario was that an undergraduate borrower would have lower earnings than a graduate borrower.

A different commenter made similar arguments, asking why the Department chose to conduct its analysis by using the debt for a graduate borrower as the baseline instead of the debt of an undergraduate borrower. The commenter noted that we could have changed the parameters of graduate debt to match that of undergraduates.

Discussion: The commenters seem to have misunderstood the Department's analysis and goals. One of the Department's major concerns in developing this rule is that despite the presence of IDR plans, more than 1 million borrowers defaulted on their loans each year prior to the pause on loan repayment due to the COVID–19 pandemic. And almost all of these borrowers are individuals who only borrowed for their undergraduate education. As further noted in the IDR NPRM, 90 percent of the borrowers in default only borrowed for undergraduate education.

Additionally, the Department's administrative data shows that only 28 percent of recent cohorts of undergraduate borrowers were using an IDR plan before the payment pause, despite earlier findings from Treasury that 70 percent of borrowers in default would have benefited from a reduced payment in IDR.[73] The Department is concerned that the rate at which undergraduate borrowers use IDR is far below the optimal levels necessary to achieve the goals of reducing

[73] 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.

delinquency and default. While the Department lacks income and household size data on all borrowers to know the correct share of undergraduate borrowers that would benefit from being on IDR, that number is unquestionably higher than the share of borrowers in IDR today.

Because delinquent and defaulted borrowers were not enrolling in the IDR plans at the rate we expected, the Department considered changes to REPAYE that would make the borrowers at greatest risk of default more likely to enroll in and stay enrolled in these plans. Given that we have been relatively successful at enrolling graduate borrowers into these plans, we considered how to best achieve something approaching parity in the benefits accrued through IDR between borrowers with undergraduate debt as compared to borrowers with graduate debt at the same salary. This analysis highlights an inequity in the current IDR plans—if you take two borrowers with identical income and family size, the one who borrowed at the typical undergraduate level will benefit less.

Changes: None.

Comments: Some commenters took exception to the Department's methodological justification for lowering payments only on undergraduate loans to 5 percent of discretionary income and believed it should have resulted in setting payments on graduate loans at 5 percent as well. One commenter mentioned that the President campaigned on the basis that 5 percent of discretionary income would be afforded to all borrowers under IDR plans thereby dismissing our rationale for the discretionary income in the IDR NPRM as pretextual. They said that the Department should not have assumed that the undergraduate and graduate borrowers have equivalent incomes. They argued that failing to grasp this meant that the Department did not capture that graduate borrowers with higher earnings will pay more even if the method of calculating payments is the same across all types of borrowers.

A different commenter objected to the idea that an undergraduate borrower and a graduate borrower with the same incomes should be treated differently. This commenter argued that if a graduate borrower and an undergraduate borrower have the same incomes it could be a sign of struggle for the former given that graduate degrees generally result in higher incomes.

Finally, the commenter objected that the Department has prioritized reducing undergraduate defaults rather than seeking to bring default for all borrowers to zero.

Discussion: We affirm our decision as outlined in the IDR NPRM [74] to lower payments only on undergraduate loans to 5 percent of discretionary income. The Department is committed to taking actions to make student loans more affordable for undergraduate borrowers, the individuals who are at the greatest risk of default and who are not using the existing IDR plans at the same frequency as their peers who attended graduate school. In accomplishing this goal, the Department looked for a way to provide greater parity between the benefits of IDR for a typical undergraduate borrower with a typical graduate borrower. Historically, graduate borrowers have been more likely to make use of IDR than undergraduate borrowers, suggesting that the economic benefits provided to them under existing IDR plans help in driving their enrollment in IDR. Accordingly, using benefits provided to graduate borrowers as a baseline is a reasonable approach to trying to get more undergraduate borrowers to enroll in IDR as well. As noted in the NPRM, the Department found that at 5 percent of discretionary income, a typical undergraduate borrower would see similar savings as a typical graduate borrower. Therefore, the approach taken in the NPRM and this final rule provides greater parity and will assist the Department in its goal of getting more undergraduate borrowers to use these plans, driving down delinquency and default. Our experience with current IDR programs indicates that graduate borrowers are already willing to enroll in IDR at high rates even with payments set at 10 percent payment of discretionary income. As already discussed, we already see significant usage of the IDR plans by graduate borrowers. It is not evident to us that we need to take additional steps to encourage graduate borrowers to use IDR to lessen delinquency and default. In response to commenters' concern regarding our methodologies, we emphasize the inequities that could be created if undergraduate and graduate borrowers were treated similarly. For example, if graduate and undergraduate borrowers making same income were charged the same in monthly payments, the benefits would be substantially greater for graduate borrowers given their larger loan amounts. We provided an illustrative example of the potential benefits for graduate borrowers in the IDR NPRM, and we maintain that our reductions of the payment rate only for undergraduates is justified.

[74] See 88 FR 1902–1905.

Regarding default, the Department agrees that eliminating all default is a laudable goal and points out that many of the provisions in this rule that would significantly reduce the likelihood of undergraduate default and delinquency would benefit graduate borrowers as well. This includes the higher income protection, the interest benefit, and automatic enrollment in IDR where possible, among other benefits. The fact remains that default rates are significantly higher among undergraduate borrowers, and they are significantly overrepresented among borrowers in default. We believe the final rule strikes the proper balance of making changes that will reduce rates of delinquency and default while still requiring the borrowers who are most able to make payments to do so.

Changes: None.

Comments: Commenters argued that the Department does not explain in the analysis that supported the proposed 5 percent threshold why it would be acceptable to produce an outcome in which borrowers with the same income and family size do not have the same payment amount. Similarly, some commenters argued that treating graduate loans differently meant that the plan was less based upon income than upon degree sought.

Discussion: In the IDR NPRM, we explained why we proposed to set the 5 percent threshold for undergraduate borrowers. A key consideration in our proposal was to provide greater parity between an undergraduate borrower and a graduate borrower that are similarly financially situated. We do not want graduate borrowers to benefit more than borrowers with only undergraduate debt. We believe that creating this parity may make undergraduate borrowers more willing to enroll in an IDR plan, possibly at rates equal to or greater than graduate borrowers today. This is important because delinquency and default rates are significantly higher for undergraduate borrowers than they are for graduate borrowers.

In response to the comment about how the proposed rule would treat borrowers who have the same income and same family size but loans from different program levels (undergraduate versus graduate), the Department is making distinctions between types of loans the same way the HEA already does. The HEA already mandates different interest rates and loan limits based upon whether a borrower is an undergraduate or graduate borrower. The approach in this final rule simply continues to acknowledge those distinctions for repayment. Moreover, as we noted in the preamble and reaffirm

here, failing to draw such a distinction could create inequities because a graduate borrower is likely to derive far greater economic benefits from the IDR plan than a similarly situated undergraduate borrower. Overall, we think this change will make the repayment options more equitable across two otherwise similar classes of borrowers.

Changes: None.

Comments: One commenter raised concerns that one of the Department's reasons for reducing payments to 5 percent of discretionary income for borrowers with undergraduate loans was a survey of just over 2,800 people. They said that is an insufficient basis for making regulatory changes of such a significant cost.

Discussion: The commenters misconstrued our citation of the survey from the Pew Charitable Trust-Student Borrower's survey conducted by SSRS, a market research firm. In considering whether to reduce the payment amount, we considered information from multiple sources, including negotiated rulemaking participants and public commenters, focus groups,[75] and data from the FSA Ombudsman. In these areas, borrowers consistently expressed concern with the amount of their loan payments. In the survey that we cited in the IDR NPRM, we illustrated external research that outlined specific problems that borrowers experienced while in an IDR plan. This data point was not meant to be read in isolation. The focus groups that we cited in the IDR NPRM and the data from the FSA Ombudsman [76] further reflected the concerns of borrowers experiencing problems with their loan payments.

Therefore, we believe the need for and benefits of reducing the payments for undergraduate borrowers are grounded in sufficient data and sound reasoning.

Changes: None.

Comments: One commenter argued that the weighted average approach would result in an outcome where a borrower who took on more total debt would end up with a lower payment than someone who took on less debt. For example, a borrower who takes out $30,000 for undergraduate education and $60,000 for graduate school pays 8.3 percent of their discretionary income (one-third times 5 percent plus two-thirds times 10 percent), while a borrower who takes out $10,000 for undergraduate education and $30,000 for graduate school pays 8.75 percent of their discretionary income (one-quarter times 5 percent plus three-quarters times 10 percent). The commenter suggested that it would be more equitable to vary the payments based upon the borrower's loan balance.

Discussion: The commenter's suggested approach would introduce greater confusion for borrowers and be complex for the Department to administer given the differential loan limits for dependent and independent undergraduate students. Moreover, the result would be that an independent student could end up with a higher payment than their dependent undergraduate peer. Varying payments for undergraduates based upon their dependency status runs counter to the Department's goal of targeting the effects of the lowered payments on undergraduate borrowers so that there is better parity with graduate peers. The Department thinks this is important given the need to better use IDR as a tool to avert delinquency and default.

The commenter is correct that one effect of this policy is that the more debt for their undergraduate education a borrower has relative to the debt for their graduate education, the lower the share of their discretionary income the borrower must commit to their loan payments. But the commenter fails to address two important considerations of this structure. First, this creates an incentive for borrowers to keep their borrowing for their graduate education lower, as adding more debt there will increase their payments. Second, while a borrower's total balance does not affect their monthly payment in this plan, it does affect how their payment is applied. Borrowers with higher loan balances will have to pay down more interest before payments are applied toward principal. This can mean that it takes them longer to pay off the loan or will keep them in repayment for the full 25 years until they get forgiveness on a graduate loan. As a result, it is not inherently beneficial for the borrower to take on more debt to achieve the outcomes described by the commenter.

Changes: None.

Adjustments to Monthly Payment Amounts (§ 685.209(g))

Comments: One commenter noted that the IDR NPRM omitted provisions that exist in current regulations regarding rounding monthly IDR payments up or down when the calculated amount is low.

Discussion: We agree we should include the provisions treating the rounding of small monthly payments that currently exist in our regulations. We are revising the final rule to include § 685.209(a), (c), and § 685.221(b) from the current regulations for the REPAYE, PAYE, and IBR plans. These provisions stipulate that, for the REPAYE, PAYE, and IBR, plans, if a borrower's calculated payment amount is less than $5, the monthly payment is $0 and, if a calculated payment is equal to or greater than $5 but less than $10, a borrower's monthly payment is $10. We are also revising the final rule to include § 685.209(b) from current regulations, which stipulates that, for the ICR plan, if a borrower's calculated payment amount is greater than $0 but less than or equal to $5, the monthly payment is $5. We did not receive any comments that suggest we should change these provisions and have restored them without amending them.

Changes: For the REPAYE, PAYE, and IBR plans we added § 685.209(g)(1) to allow for an adjustment to the borrower's calculated payment amount under certain circumstances. For the ICR plan, we added paragraph § 685.209(g)(2) to allow for an adjustment to the borrower's calculated payment amount that if the borrower's calculated payment is greater than $0 but less than or equal to $5, the monthly payment is $5.

Comment: One commenter stated that our proposals for the revised REPAYE plan do not contain a standard payment cap and that, for some borrowers, REPAYE would be inferior compared to the IBR or PAYE plans.

Discussion: The commenter correctly points out—and we acknowledged in the IDR NPRM—that our new REPAYE plan does not contain a standard payment cap like those in the IBR and PAYE plans. Under both the IBR and PAYE plans, a borrower must have a calculated payment below what they would pay on the standard 10-year repayment plan to be eligible for that plan. Borrowers on this plan also see their payments capped at what they would owe on the standard 10-year repayment plan. By statute, borrowers on IBR whose calculated payment hits the standard 10-year repayment cap will see any outstanding interest capitalized.

The Department adopts the decision reflected in the NPRM to not include a cap on payments in REPAYE. Such a cap can provide a significant benefit for higher-income borrowers and can result in these individuals receiving forgiveness instead of paying off their loan through higher monthly payments. Therefore, the lack of a cap provides a

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[75] FDR Group. Taking Out and Repaying Student Loans: A Report on Focus Groups with Struggling Student Loan Borrowers. (2015). *www.static.newamerica.org/attachments/2358-why-student-loans-are-different/FDR_Group_Updated.dc7218ab247a4650902f7afd52d6cae1.pdf.* See also, *www.pewtrusts.org/-/.*

[76] See *FY2022 FSA Annual Report,* Report of the Federal Student Aid Ombudsman, page 150. *Studentaid.gov/sites/default/files/fy2022-fsa-annual-report.pdf.*

way to better target the REPAYE benefits. Finally, we note that if a borrower is concerned about their payments going above what they would pay on the standard 10-year repayment plan, they are able to switch to another repayment plan options, but they might have to give up progress toward forgiveness in making such a choice.

Changes: None.

Interest Benefits (§ 685.209(h))

Comments: The Department received many comments in support of the proposed change to the REPAYE plan under which the Secretary will not apply accrued interest to a borrower's account if is not covered by the borrower's payments. Many commenters suggested that the Department use its regulatory authority to provide this benefit for borrowers making IBR payments while in default, or to all borrowers while they are in any of the IDR plans.

Another commenter opined that the psychological impact of this treatment of accruing interest when borrowers repay their student loans would likely have a positive effect on default aversion.

Discussion: We thank the commenters for their suggestions for applying accrued interest to a defaulted borrower's account while the borrower is on an IBR plan and for borrowers on any of the IDR plans. We do not believe it would be appropriate to change the treatment of unpaid monthly interest for all borrowers on any of the other IDR plans. The Department cannot alter the terms of the interest accrual for the IBR plan, which are spelled out in Sec. 493C(b) of the HEA. We also decline to make this change for the PAYE plan because one of the Department's goals in this final rule is to streamline the number of IDR options available to borrowers in the future. Were we to include this benefit on the PAYE plan it might encourage more borrowers to remain on the PAYE plan instead of shifting to REPAYE. That would work against the Department's simplification goals. We also decline to make this change for the ICR plan. As explained earlier, the Department views that plan as being the option for borrowers who have a consolidation loan that repaid a parent PLUS loan, and we are concerned about getting the balance of benefits for those borrowers right given the fundamentally different nature of parent versus student loans.

Changes: None.

Comments: Many commenters argued that the interest capitalization on Federal student loans creates the most significant financial hardship for the majority of borrowers. Several commenters stated that more borrowers would be inclined to pay their loans if the interest capitalization was eliminated. In addition, commenters stated that many students have been left feeling hopeless, defeated, and trapped due to the compound interest causing their loans to grow significantly larger than their initial principal. A few commenters mentioned that a waiver of unpaid monthly interest for borrowers with low earnings over the course of their career would help borrowers to avoid negative amortization.

Discussion: The Department eliminated interest capitalization in instances where it is not statutorily required in the Final Rule published on November 1, 2022.[77] We disagree that we need to provide a blanket waiver for unpaid monthly interest because we have already eliminated instances of interest capitalization where we have the discretion to do so.

Changes: None.

Comments: Commenters argued there was no compelling argument for waiving interest and stated that the IDR plans were designed to make payments more affordable while still collecting the necessary payments over time. These commenters further believed that our proposals would primarily benefit borrowers who have low earnings early in their careers but higher earnings later in their career.

Several commenters urged us to allow interest to accrue normally during repayment, or at the very least, allow interest to accrue during temporary periods when borrowers earn low to no earnings, such as during certain deferments or forbearances. These commenters believed that our interest benefits proposal was costly, regressive, and illegal.

Discussion: The Department declines to adopt the suggestions from commenters to change the treatment of unpaid monthly interest included in the proposed rule. Borrowers will still make payments based upon their income and their payment will still be applied to interest before touching principal. That preserves the possibility for borrowers to pay more in interest than they would on other repayment plans, as borrowers may continue to make interest-only payments, rather than touching their principal balance. However, this change will provide a few key benefits for borrowers. It will mean that borrowers will no longer see their outstanding amounts owed increasing even as they make their required monthly payments on REPAYE. Department data show that 70 percent of borrowers on IDR plans have payments that do not cover the full amount of their accumulating monthly interest. Apart from borrowers who only have subsidized loans and are in the first three years of repayment, these borrowers will see their balances grow. The Department is concerned that this result can provide a significant reason for borrowers to not pursue an IDR plan, can psychologically undercut the benefits of IDR for those who are on one of the plans, and those factors together may be a further reason why the most at-risk borrowers are not using IDR plans at rates sufficient to significantly drive down national numbers of borrowers who are delinquent or in default.

We also note that for borrowers whose incomes are low relative to their debt for the duration of the repayment period, this change will mean that interest that would otherwise be forgiven after 20 or 25 years is forgiven sooner. That can provide significant non-monetary benefits, such as not having borrowers feel like their debt situation is getting worse due to balance growth, and makes it easier for them to decide whether to enroll in the REPAYE plan.

We remind the commenters concerned about the effect of this benefit on borrowers whose incomes start low and then increase significantly about the lack of a cap on payments at the standard 10-year plan amount. That cap exists on the other IDR plans available to borrowers, neither of which includes an interest benefit as extensive as the one included for REPAYE. The effect of such a cap, though, is that borrowers who have seen a lot of interest accumulate over time may still not be paying it off, since the capped payment amount may not be sufficient to retire all the added interest, let alone pay down the principal. By contrast, the REPAYE plan does not include such a cap, which can mean that high-income borrowers would make larger payments that could increase the likelihood of paying off their loans entirely.

We also partly disagree with the suggestion to not implement this interest benefit for periods when a borrower has no or low earnings or when they are in certain deferment and forbearance periods. On the latter point, the Department is not changing the treatment of interest while a borrower is on a deferment or forbearance. This aligns with the commenter's request. That means that borrowers generally will not see interest accumulate on their subsidized loans while in deferment, while they will see interest charged on unsubsidized or PLUS loans, including while in a deferment or forbearance.

[77] 87 FR 65904.

The one exception to this is the cancer treatment deferment, which, under the statute, provides interest benefits on more types of loans than other deferments. However, we disagree with the suggestion to not provide this interest assistance to borrowers with periods of low or no earnings who are on the REPAYE plan. We are concerned that these are the borrowers who most need assistance to help avert delinquency or default and we think this change will help encourage those borrowers to select the REPAYE option and set themselves up for longer repayment success.

We discuss comments related to the legality of the interest benefit in the *Legal Authority* section of this document.

Changes: None.

Comments: One commenter noted that there is no compelling reason to forgive interest because the remaining balance is already forgiven at the end of the loan term.

Another commenter argued that the Department was incorrect on its position that interest accumulation will solve issues of borrowers being discouraged to repay their loans. They said the change coupled with other parameters means that many borrowers will never see their balance go down by even $1, which would increase frustration and make the problems the Department seeks to solve worse.

Another commenter suggested that we only apply the unpaid monthly interest accrual benefit when preventing negative amortization on undergraduate loans. The commenter suggested that this change would preserve the interest accrual benefit for those borrowers more likely to struggle economically and would protect the integrity of the loan program for all borrowers and taxpayers.

One commenter who opposed the interest benefits argued that there will be unintended consequences for high-income professionals, such as physicians and lawyers, who will have their interest cancelled rather than deferred because we calculate IDR income based on earnings reported on tax returns from nearly two years prior.

Discussion: The Department disagrees with the commenter who argued that there is no compelling reason to provide the interest benefit that we proposed in the NPRM because the remaining balance is already forgiven at the end of the loan term. This rule would provide borrowers with more affordable monthly payments, and borrowers need to fulfill their obligations to receive forgiveness by making their monthly payments. Twenty or twenty-five years is a very long time in repayment, especially for someone just beginning to repay their loans. Telling these borrowers not to worry as their balances grow because they may reach forgiveness sometime in the future is unlikely to assuage their concerns as forgiveness after 20 or 25 years can feel very abstract. Borrowers may also be skeptical that the forgiveness will actually occur, concerns that are furthered because few borrowers have earned forgiveness on IDR to date and the Department has acknowledged a long history of inaccurate payment counting (which we are separately taking steps to address). We believe that addressing the accrual of unpaid interest on a monthly basis will provide significant benefits to borrowers by ensuring they don't see their balances grow while they make required payments. It will lessen the sense that a borrower is trapped on an IDR plan by the need to repay extensive amounts of accumulated interest. And we believe it is one component that will assist our larger goals of making these plans more attractive for borrowers who are otherwise highly likely to experience delinquency or default.

We disagree with the commenter who contended that addressing interest accumulation will not help to resolve the issue of borrowers being discouraged to repay their loans. As we stated in the IDR NPRM, the Department is acutely aware of how interest accrual creates psychological and financial barriers to repayment. We believe that the interest benefits is one of the benefits of REPAYE that will independently encourage enrollment in this plan, and borrowers will make progress toward repaying their loans. Contrary to that commenter's assertion, borrowers will still be required to make a payment under REPAYE and many borrowers who make a loan payment will see a reduction in their original outstanding principal balance. Additionally, by removing interest growth as a barrier to repayment, we expect it will be easier to convince borrowers who would have a $0 payment to sign up for REPAYE and thereby avoid delinquency or default because we will be removing one of the most significant downsides to choosing an IDR plan for these borrowers.

We do not agree with the suggestion that we should apply the interest benefit only when needed to prevent negative amortization on undergraduate loans. The change suggested by the commenter would introduce significant operational complexity and challenges. In addition, the Department is concerned that it would create confusion with other benefits of REPAYE.

We disagree with the suggestion that interest benefits will provide an unintended benefit for high-income professionals. Borrowers with higher incomes will make larger monthly payments than an otherwise similar individual with a lower income. If that higher income borrower also has a larger loan balance, they will also have large amounts of interest they must first pay each month before the principal balance declines. That means they will still be paying significant amounts of interest on a monthly, annual, and lifetime basis. These borrowers are also not subject to an overall cap on payments the way they are on IBR or PAYE. That means the highest-income borrowers may end up making larger total payments on REPAYE, even if they receive some interest benefits at the start of their time in repayment.

Lastly, the Department is concerned that the initial period of repayment is when a borrower might be most likely to exhibit signs of struggle and when lower incomes might place them at the greatest risk of not being able to afford payments. For borrowers such as the doctors described by the commenter, their incomes will rise after a few years and the Department will receive significant payments from them in the future. Similar reasoning applies to our decision not to adopt the proposal to only apply the interest treatment after the first few years in repayment.

Changes: None.

Deferments and Forbearances (§ 685.209(k))

Comments: A few commenters requested that the Department include in-school deferments in the list of periods counting toward the maximum repayment period under § 685.209(k) or allow for a buyback option for these periods of deferment. Another commenter argued that not including in-school deferments toward monthly forgiveness credit will be especially problematic for many graduate students who are employed while going to school and regularly making payments.

Discussion: The Department does not believe it would be appropriate to provide credit for time spent in an in-school deferment toward forgiveness. While some borrowers do work while in an in-school deferment, there are many that do not. The Department does not think it would be appropriate to award credit toward forgiveness solely because a borrower is in school. Borrowers have the option to decline the in-school deferment when they re-enroll and those who wish to make progress toward forgiveness should do so. A borrower who believes they were

incorrectly placed in an in-school deferment contrary to their request should open a case with the Federal Student Aid Ombudsman by submitting a complaint online at *www.studentaid.gov.*

Changes: None.

Comment: Several commenters suggested that once the automatic one-time payment count adjustment is completed, the Department should provide an IDR credit for anyone with a $0 payment who is in deferment or forbearance, as well as credit for time spent in an in-school deferment.

Discussion: The Department outlined the terms of the one-time payment count adjustment when it announced the policy in April 2022. We have continued to provide updates on that policy. The one-time payment count adjustment is a tailored response to specific issues identified in the long-term tracking of progress toward forgiveness on IDR plans as well as the usage of deferments and forbearances that should not have occurred. We believe the one-time payment count adjustment policy that we announced in 2022 and our other hold harmless provision that we discuss elsewhere throughout this document will adequately address these commenters' concerns.

Changes: None.

Comments: A few commenters suggested that we treat periods of deferment and forbearance as credit toward the shortened forgiveness periods laid out in § 685.209(k)(3) since the department already proposed to count them toward the 20 or 25 years required for forgiveness under § 685.209(k)(1) and (2). These commenters stated that we should remove the clause in § 685.209(k)(4)(i) that prohibited periods in deferment and forbearance to count toward the shortened forgiveness timeline.

Discussion: The Department agrees with these commenters that all months of deferment and forbearance listed in § 685.209(k)(4)(iv) should count as payments toward the shortened forgiveness period. We had originally proposed to exclude these periods because we wanted to make certain that borrowers would not try to use a deferment or forbearance to minimize the payments made before receiving forgiveness in as few as 120 months. However, we think excluding those periods from the shortened forgiveness timeline would create confusion for borrowers and operational challenges that are more problematic than the Department's initial reasons for not counting those periods. We think borrowers would have trouble understanding why some months count toward one tally of time to forgiveness but not others. Such an approach would also create significant operational challenges as the Department would have to keep track of two different measures of progress toward forgiveness, which could increase the risk of error. Given that the periods of deferment and forbearance being counted toward forgiveness are tied to specific circumstances that will not just be available to most borrowers, we now think the overall gains from establishing one measure of progress toward forgiveness is appropriate.

Changes: We have revised § 685.209(k)(4)(i) to remove the phrase ''including a payment of $0, except that those periods of deferment or forbearance treated as a payment under (k)(4)(iv) of this section do not apply for forgiveness under paragraph (k)(3) of this section'' and in its place add ''or having a monthly payment obligation of $0.''

Comment: Other commenters suggested that the time spent in certain deferment and forbearance periods that count toward PSLF also be counted toward IDR forgiveness.

Discussion: The Department agrees with the commenters that all months that borrowers spent in deferment or forbearance that get credited as time toward forgiveness for PSLF should be credited as time toward forgiveness for IDR. However, the inverse is not always true. The Department will award credit toward IDR forgiveness for the unemployment and rehabilitation training deferments for which a borrower would not be able to be employed full-time and which do not count for PSLF.

Changes: We have revised § 685.209(k)(4)(v) to include that a payment toward a month of forgiveness in PSLF will count toward a month of forgiveness in IDR.

Comment: A few commenters expressed concern that the Department does not provide different forbearance status codes to lenders and loan servicers, thereby creating an operational challenge. Specifically, commenters pointed out the need to distinguish among and report the types of forbearance, as currently only one forbearance status code exists in the National Student Loan Data System (NSLDS).

Discussion: We agree that the Department should provide different forbearance status codes to lenders and loan servicers. This is an operational issue that does not need to be addressed in the rule. However, given the comment we wish to clarify how this provision will be implemented for borrowers. The Department will only be implementing this treatment of crediting certain periods of forbearance for months occurring on or after July 1, 2024. This reflects the data limitations mentioned by commenters, which would otherwise result in the overawarding of credit for forbearance statuses that go beyond those we include in the rule. The Department also believes the one-time payment count adjustment will pick up many of these same periods and as a result a separate retroactive application is not necessary.

The Department will take a different approach to deferments. For those, the Department has the data needed to determine the months a borrower is in specific deferments and can count past periods. Here we note that the Department will already be crediting all periods of non-in-school deferments prior to 2013 as part of the one-time payment count adjustment so this will only apply to periods starting in 2013. The Department is currently evaluating when we will be able to implement this change and as noted earlier in this rule, we may publish a **Federal Register** notice indicating if this is going to be implemented sooner than July 1, 2024.

Changes: We have amended § 685.209 (k)(4)(iv) to clarify that only periods in the forbearances noted in that section on or after July 1, 2024, will be counted toward forgiveness.

Comments: One commenter disagreed with our proposals for considering certain deferment and forbearance periods as counting toward IDR forgiveness. This commenter believed that deferments and forbearances allow borrowers to avoid making payments and that our proposals would allow us to classify those periods of deferments or forbearance as payments.

Discussion: We disagree with the commenter's framing of the Department's policy. Forbearances and deferments are statutory benefits given to borrowers when they meet certain criteria, such as deferments for borrowers while they are experiencing economic hardships or forbearances for students who are servicemembers who have been called up for military duty. We have carefully reviewed all of the different forbearances and deferments available to borrowers and intentionally decided to only award credit toward IDR forgiveness for those instances where the borrower would or would be highly likely to have a $0 payment or where there is confusion about whether they should choose IDR or the opportunity to pause their payments. The former category includes situations like an unemployment deferment, while

the latter includes deferments related to service in the military, AmeriCorps, or the Peace Corps. All of these deferments and forbearances also require borrowers to complete documentation and be approved. The forbearances that we are not proposing to provide credit toward forgiveness are those where the Department is concerned about creating unintended incentives to not make payments.

Changes: None.

Comments: Several commenters proposed that borrowers who are in a forbearance while undergoing a bankruptcy proceeding should receive credit toward forgiveness. They noted that in many cases borrowers may be making payments during that proceeding. They also noted that while borrowers currently have a way to get credit toward IDR by including language in their bankruptcy agreement, that option is infrequently used and confusing for borrowers.

Discussion: The Department agrees with the commenters in part. A borrower in a Chapter 13 bankruptcy is on a court-approved plan to pay a trustee. However, we do not know the amount that the trustee will distribute to pay the borrower's loan, nor do we know the payment schedule. The trustee may pay on the student loan for a few months, then switch to paying down other debt. It may also take time for a borrower to have their Chapter 13 plan approved after filing for bankruptcy and not all borrowers successfully complete the plan. For those reasons, the Department is modifying the regulatory text to allow for the inclusion of periods while borrowers are making required payments under a Chapter 13 bankruptcy plan. Borrowers will only be credited for the months during which they are fulfilling their obligations. Given that the Department will not know this information in real time, we have revised the regulation to allow us to credit these periods toward forgiveness when we are notified that the borrower made the required payments on their approved bankruptcy plan. We anticipate that we will be informed about months of successful payments after the trustee distributes payments. We believe that this crediting of months well after the payments to the trustee are made will still provide benefit for borrowers as a Chapter 13 proceeding typically lasts for a few years, leaving an extended period remaining prior to forgiveness.

Changes: We have revised § 685.209(k)(4)(iv)(K) to provide that the Department will award credit toward IDR forgiveness for months where the Secretary determines that the borrower made payments under an approved bankruptcy plan.

Comments: As a response to our request for feedback [78] on whether we should include comparable deferments for Direct Loan borrowers with outstanding balances on FFEL loans made before 1993 toward IDR forgiveness, a few commenters responded with the view that we should include time spent on these deferments toward forgiveness. Another commenter noted if we included comparable deferments, we would face data limitations and operational constraints.

Discussion: After further evaluation, we concur with the latter commenter. It is not operationally feasible for us to provide credit toward forgiveness for comparable deferments to Direct Loan borrowers with outstanding balances on FFEL loans made before 1993. The Department has limited data pertaining to deferments and forbearances for Direct Loan borrowers who still have an outstanding FFEL loan made before 1993. Therefore, we are unable to include comparable deferments to Direct Loan borrowers with outstanding balances on FFEL loans made before 1993 toward IDR forgiveness.

Changes: None.

Catch-Up Payments (§ 685.209(k))

Comment: Many commenters strongly supported the Department's proposed catch-up payments provision that would allow borrowers to receive loan forgiveness credit when they make qualified payments on certain deferments and forbearances that are not otherwise credited toward forgiveness.

Discussion: We thank the commenters for their support. We believe this process will provide a way to make certain borrowers can continue making progress toward forgiveness even if they intentionally or unintentionally select a deferment or forbearance that is not eligible for credit toward forgiveness. By requiring borrowers to make qualifying payments for these periods we successfully balance that flexibility with ensuring borrowers do not have an incentive to intentionally pause their payments rather than join an IDR plan.

Changes: None.

Comments: Several commenters felt that requiring a borrower to document their earnings for past periods to receive catch-up credit would create an administrative burden for the borrower, as well as the Department. These commenters further suggested that we annually notify borrowers if they have eligible periods of deferment and forbearance for which they are eligible for catch-up payments.

Several commenters suggested that the Department automate the hold harmless periods and give borrowers credit toward forgiveness for any period of paused payments.

Several commenters requested that the Department set the catch-up payments to allow $0 payments if we could not determine the amount of the catch-up payments.

One commenter suggested that the proposed catch-up period would be virtually unworkable for the Department and sets both borrowers and FSA up for failure. This commenter recommended eliminating or restricting this provision because the required information is too difficult for borrowers to obtain.

Discussion: In continuing to review the proposal from the NPRM, the Department considered how best to operationalize the process of giving borrowers an option for buying back time spent in deferment or forbearance that is not otherwise credited toward forgiveness. We also looked at ways to create a process that we can administer with minimal errors and with minimal burden on borrowers. We believe doing so will address both the operational issues raised by some commenters, as well as the concerns raised by others about borrowers being unable to take advantage of this provision or being unduly burdened in trying to do so.

In considering these issues of operational feasibility and borrower simplicity, we have decided to revise the catch-up option that was proposed in the IDR NPRM. Specifically, we will offer the catch-up option for periods beginning after July 1, 2024. This reflects the Department's assessment that we lack the operational capability to apply this benefit retroactively. Instead, we believe the one-time payment count adjustment will capture most periods that we would have otherwise captured in this process—and it will do so automatically.

In considering the comments about making this process as simple and automatic as possible, the Department determined that the best way to apply this benefit going forward is to allow borrowers to make catch-up payments at an amount equal to their current IDR payment when they seek to make up for prior periods of deferment or forbearance that are not otherwise credited. This amount will easily be known to both the borrower and the Department and minimizes the need for any additional work by the borrower. However, because we base the catch-up payment upon the current IDR payment, the Department is limiting the usage of

[78] See 88 FR 1906.

the catch-up period to only the months of deferment or forbearance that ended no more than three years prior to when the borrower makes the additional catch-up payment and that took place on or after July 1, 2024.

We believe this 3-year catch-up period is reasonable because IDR payments can reflect a period of up to 3 calendar years prior to when the borrower certifies their income. As an example, a borrower who signs up for IDR in 2026 before they file their tax return will likely have their monthly payments calculated using their 2024 income. The Department is providing borrowers with one additional year, for a total of three years, to make catch-up payments to allow for additional flexibility while ensuring that current IDR payments will not be used to receive credit for periods much further in the past.

Because we are structuring the catch-up period to use the current IDR payment, we are also excluding periods of in-school deferment from this provision. Borrowers may spend multiple years in an in-school deferment, graduate, and then immediately go onto IDR using their prior (or prior-prior) year tax data, which would likely make them eligible for a $0 payment if they were not working full-time while in school. Allowing borrowers to make catch-up payments for periods of in-school deferment would therefore allow recent graduates to get credit toward IDR for their entire period of enrollment without having to make any payments. While it is true that some borrowers may want to make payments while in school and may improperly end up in an in-school deferment instead, we believe these instances are best addressed through complaints to the Ombudsman rather than through the catch-up provisions in this rule.

The approach taken in this final rule will address several concerns raised by the commenters. First, the catch-up payments will always be made based upon the borrower's current IDR payment amount. That means borrowers will not face the burden of collecting documentation of past income. Second, making this policy prospective only and assigning it a clearer time limit will make it easier for the Department to make borrowers aware of the benefit. We will be able to inform borrowers each year on how many payments may be eligible for this catch-up process. That way borrowers will know how many months could be addressed through the catch-up option and when months would no longer be eligible for this approach. At the same time, it avoids the operational issues identified by other commenters about retroactive review of accounts.

Upon further review of the operational and budgetary resources available, the Department does not believe it would be able to administer the catch-up process for earlier periods within a reasonable time frame. And we do not believe that other suggestions from commenters that would be simpler, such as giving any borrower in this situation credit for a $0 payment, would be an appropriate and fair step. There likely would be borrowers in that situation who could have made an IDR payment and we are concerned that automatically awarding a $0 payment would create an inappropriate mechanism for avoiding payments.

The Department recognizes this approach is different from what was included in the final rule for PSLF, and we note that months awarded for purposes of PSLF through that process will still count for IDR. In the final rule [79] for PSLF published on November 1, 2022, the Department proposed allowing catch-up payments for any period in the past up to the creation of the PSLF program. However, the Department believes such an approach is more feasible in the case of PSLF because the PSLF program is 13 years newer than IDR. The PSLF policy also affects a much smaller number of borrowers—about 1.3 million to date—compared to more than 8 million borrowers on IDR overall. Moreover, the PSLF program only requires 120 months of payments compared to up to 300 payments on IDR. That means the administrative burden of counting payments will be offset by the fact that the policy will move PSLF borrowers significantly closer to forgiveness on PSLF than it would on IDR. Similarly, the Department believes awarding credit for catch-up periods of in-school deferment is reasonable in PSLF because that program has a requirement that borrowers be working full-time, limiting the prospect of a borrower using lower earnings while in-school to get a $0 payment after school and then receive significant amounts of credit toward forgiveness.

Changes: We have amended § 685.209(k)(6)(i) to provide that the catch-up period is limited to periods excluding in-school deferments ending not more than three years prior to the payment and that the additional payment amount will be set at the amount the borrower currently must pay on an IDR plan. We have also amended § 685.209(k)(6)(ii) to note that, upon request, the Secretary informs the borrower of the months eligible for payments under paragraph (k)(6)(i).

Comment: Several commenters suggested that lump sum payments should be counted as catch-up payments and treated the same in both IDR and PSLF.

Discussion: The Department agrees with commenters that lump sum payments in both IDR and PSLF should count toward forgiveness in the same manner. To that end, we believe that our current practice and operations are sufficient, as we already consider lump sum payments in advance of a scheduled payment to count toward IDR forgiveness. The changes made in the PSLF regulation were designed to align with the existing IDR practice.

Changes: None.

Comments: Several commenters suggested that we clarify that defaulted loans could receive loan forgiveness credit if the borrower makes catch-up payments. Furthermore, the commenters asked whether borrowers would qualify for loan forgiveness credit now if they had made $0 payments in the past.

Discussion: The Department will apply the catch-up option the same regardless of whether a borrower was in repayment or in default so long as they are on an IDR plan at the time they make the catch-up payment. As noted in response to other comments in this section, the catch-up payments provision will only apply to periods starting on or after July 1, 2024. Borrowers in default, like borrowers in repayment, will not be able to make catch-up payments to receive credit toward forgiveness for periods prior to that date, though they may receive credit for additional periods under the Department's one-time payment count adjustment.[80]

Changes: None.

Treatment of Income and Loan Debt (§ 685.209(e))

Comments: Several commenters supported the Department's proposal to provide that if a married couple files separate Federal tax returns the borrower would not be required to include the spouse's income in the information used to calculate the borrower's Federal Direct loan payment. Commenters supported this provision to only consider the borrower's income when a borrower is married but filing separately to be consistent with the PAYE and IBR plans.

One commenter argued that the married filing separately option is

[79] See 87 FR 65904.

[80] *www.studentaid.gov/announcements-events/idr-account-adjustment.*

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seriously flawed, because filing taxes in this manner is often very costly, given the deductions and credits that married people filing separately lose out on. The commenter further asserted that borrowers should not have to choose between paying more on their taxes or their loans. They encouraged the Department to consider allowing borrowers to submit joint tax returns and all of their individual W2s and 1099s when certifying income each year.

Several other commenters argued that loan payment amounts should be tied to the individual who took out the loans. Several other commenters argued that if a spouse did not borrow the loans, it is irrelevant how much money they earned.

Discussion: We agree with the commenters that felt that it was appropriate to exclude the spouse's income for married borrowers who file separately when calculating monthly payments and to have more consistent regulatory requirements for all IDR plans. In addition, we sought to help borrowers avoid the complications that might be created by requesting spousal income information when married borrowers have filed their taxes separately, such as in cases of domestic abuse, separation, or divorce.

The HEA requires that we include the spouse's income if the borrower is married and files jointly. Specifically, Sec. 455(e)(2) of the HEA states that the repayment amount for a loan being repaid under the ICR plan ''shall be based on the adjusted gross income (as defined in section 62 of the Internal Revenue Code of 1986) of the borrower or, if the borrower is married and files a Federal income tax return jointly with the borrower's spouse, on the adjusted gross income of the borrower and the borrower's spouse.'' The Department must include a spouse's income for married borrowers who file joint tax returns. The new family size definition means that while we will no longer require a married borrower filing separately and repaying the loan under the REPAYE plan to provide their spouse's income, the borrower cannot include the spouse in the family size number under this status. This revised definition will apply to the PAYE, IBR, and ICR plans. Previously, borrowers repaying under IBR, PAYE, or ICR were permitted to include the spouse in family size when filing separately and borrowers repaying under REPAYE could include the spouse only if the spouse's income was provided separately. However, since borrowers will no longer be required to provide the spouse's income, all plans will require the removal of the spouse from the family size number when the borrower is filing separately. After these new regulations are effective, the only instance in which a married borrower will include the spouse in family size is when the borrower and spouse file a joint Federal tax return. This new definition will provide more consistent treatment since borrowers will not include their spouse in the family size when excluding the spouse's income for purposes of calculating the payment amount under any of the IDR plans.

Changes: None.

Borrower's Income and Family Size §§ 685.209(a)(1)(i), 685.209(c)(1)(i), and 685.221(a)(1)

Comments: Many commenters supported the Department's proposal to change the regulations to provide that married borrowers who file separate Federal tax returns would not be required to include their spouse's income for purposes of calculating the payment amount under REPAYE. Other commenters believed that our proposals would disadvantage married borrowers in relation to single individuals and would make couples less likely to get married or, for those borrowers already married, more likely to divorce. These commenters explained that married couples filing jointly are allowed to exclude less total income than are unmarried couples. These commenters suggest that our proposal would penalize married couples.

Another commenter expressed concern over the budgetary cost of the regulation and believed certain married borrowers would experience a windfall. This commenter believes that married borrowers could choose to file separate tax returns to reduce their student loan payments and that many borrowers will try to ''game'' the system by filing separately, particularly among households with one earning spouse. Similarly, several commenters urged us to maintain the current REPAYE regulations regarding AGI calculations for married couples.

Discussion: We thank the commenters who support this provision. Establishing the same requirements and procedures with respect to spousal income across all of the IDR plans will alleviate confusion among borrowers when selecting a plan that meets their needs. It will make it easier for future student loan borrowers to choose between IBR and REPAYE and may encourage some borrowers eligible for PAYE to switch into REPAYE, further simplifying the system. Excluding spousal income under all IDR plans for borrowers who file separate tax returns creates a more streamlined process for borrowers and the Department.

Section 455(e)(2) of the HEA requires that the repayment schedule for an ICR plan be based upon the borrower and the spouse's AGI if they file a joint tax return.

Under these final regulations, married borrowers filing separately will include only that borrower's income for purposes of determining the payment amount under REPAYE. Depending on the couple's circumstances, filing separately may or may not be advantageous for the taxpayers. The married couple has the option to either file separately or file jointly as allowed by the Federal tax laws.

We already responded to comments about how the use of FPL affects marriage incentives in the *Other Issues Pertaining to Income Protection Threshold* section of this document. As also noted in that section, allowing married borrowers to file separately and exclude their spouse's income from the payment will address the more significant potential drawback to marriage that existed in the REPAYE plan. We also note that if both earners in a household have student loan debt, both of their debts are covered by the same calculated payment amount. That means if 5 percent of a household's total income is going to student loan payments, then it is in effect 2.5 percent of the household income going to one borrower's payments and the other 2.5 percent going to the other.

Changes: None.

Forgiveness Timeline (§ 685.209(k))

Comments: Many commenters urged the Department to set a maximum forgiveness timeline of 20 years for both undergraduate and graduate borrowers in all IDR plans. A few commenters suggested that the disparity between the forgiveness timeline for undergraduate and graduate loans may discourage undergraduates from pursuing a graduate education.

Discussion: The Department disagrees with the suggestion and will keep the maximum time to forgiveness at 20 years for borrowers with only undergraduate loans and 25 years for borrowers with any graduate loans. Under the current REPAYE regulations published in 2015,[81] borrowers with any graduate debt are required to pay for 300 months (the equivalent of 25 years) to receive forgiveness of the remaining loan balance instead of the 240 months required for undergraduate borrowers. As discussed in the IDR NPRM[82] and

[81] See 80 FR 67204 (October 30, 2015).

[82] See 88 FR 1901–1905.

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reiterated here, there are significant differences between borrowing for undergraduate versus graduate education. Congress recognized these distinctions, as well, by providing different loan limits [83] and interest subsidies [84] between undergraduate and graduate borrowers. Graduate PLUS borrowers do not have a strict dollar-based limit on their annual or lifetime borrowing in contrast to the specific loan limits that apply to loans for undergraduate programs. We believe that our 2015 decision to treat undergraduate and graduate borrowing differently was appropriate and should not be changed.[85] We appreciate the concerns expressed by the commenters and the suggested alternative approaches. However, we continue to believe that it is important to have borrowers with higher loan balances make payments over a longer period before receiving loan forgiveness. Providing loan forgiveness after 20 years of repayment for all borrowers, regardless of loan debt, would be inconsistent with this goal and, equally importantly, would result in significant additional costs to taxpayers that would not address the Department's broader goals in this rule.

We do not share the concern of some commenters that the longer forgiveness timeline for graduate borrowers will discourage students from pursuing a graduate education. In fact, in the time since REPAYE was first created, graduate enrollment has increased even as undergraduate enrollment has declined. The Department does not view having graduate debt negatively. Pursuing education beyond the bachelor's degree opens career pathways that would otherwise be unavailable to many people. Nonetheless, we remained concerned about the increasing share of loans borrowed for graduate education and how the much higher loan balances of borrowers with graduate debt can affect the benefits from IDR plans. The longer repayment timeframe is the simplest way that we can equitably distribute benefits to borrowers.

Changes: None.

Comments: Several commenters suggested that we reduce the maximum time to forgiveness for borrowers. A few commenters suggested that we reduce the maximum time to forgiveness to 15 years for undergraduate borrowers and to less than 15 years for borrowers with low incomes. Several commenters suggested that we set the maximum forgiveness thresholds at 10 years for undergraduate borrowers and 15 years for graduate borrowers.

Discussion: The Department's goal in developing the changes to REPAYE included in these regulations is to encourage more borrowers who are at a high risk of delinquency or default to choose the REPAYE plan and to simplify the process of selecting whether to enroll in a particular IDR plan. At the same time, the plan should not include unnecessary subsidies for borrowers that do not help accomplish those goals. We believe that the various shortened times for forgiveness proposed by these commenters would give more benefits to higher-income borrowers who can afford to repay their loans.

We believe the changes to the payment amounts under REPAYE, coupled with the opportunity for lower-balance borrowers to receive forgiveness after a shortened period, will accomplish our goals better than the suggestions from the commenters. These changes will also benefit other borrowers who borrowed higher amounts.

The Department does not think that setting a forgiveness threshold at 10 years of monthly payments would be appropriate for all undergraduate borrowers. As discussed in the IDR NPRM and in the section in this preamble on shortened forgiveness, we think a forgiveness period that starts as early as 10 years of monthly payments is appropriate only for borrowers with the lowest original principal balances. Using a 10-year timeline for all undergraduate borrowers would allow individuals with very high incomes to receive forgiveness when they would otherwise have repaid the loan. The same is true for setting forgiveness at 15 years for graduate borrowers. The Department is concerned that such a short repayment time frame for any graduate borrower regardless of balance would provide very significant benefits to high-income borrowers who might otherwise repay the loan in full between years 15 and 25. Helping borrowers with lower incomes is the Department's priority as we improve the REPAYE plan.

Changes: None.

Comments: Many commenters expressed concerns about possible tax liabilities and pointed out that the loan amount forgiven will be considered taxable income for the borrower. Several commenters argued that it would be harsh to tax the amount of the loan that is forgiven, especially because people who are struggling to repay their student loans do not have the money to pay taxes on such a potentially large sum. One commenter noted that borrowers may be taxed on the amount of the loan that is forgiven, which may be reduced due to the interest benefit provided to the borrower. Another commenter explained that the borrower would have to enter into a payment plan with the IRS—which charges interest—and defeats the purpose of loan forgiveness.

Discussion: The Department does not have the authority to change the income tax laws relating to the amount of any loan that is forgiven. The IRS and the States have their own statutory and regulatory standards for what is considered taxable income—and whether that income is taxable or not. A borrower may need to consider any tax implications of their choice of repayment plan and potential loan forgiveness and any resulting taxes.

Changes: None.

Shortened Forgiveness Timeline (§ 685.209(k))

General Support

Comments: Many commenters supported the Department's proposal to shorten the time to forgiveness for borrowers in the REPAYE plan to as few as 10 years of monthly qualifying payments for borrowers with original loan balances of $12,000 or less which would increase by 1 year for every additional $1,000 of the borrower's original principal balance.

Discussion: We thank the commenters for their support. We believe that shortening the time to forgiveness for borrowers with loan balances of $12,000 or less will help to address our goal of making REPAYE a more attractive option for borrowers who are more likely to struggle to afford their loan payments and decrease the frequency of delinquency and default. This will include counting past qualifying payments for borrowers with these low loan balances.

General Opposition

Comments: Several commenters opposed our proposals for shortened forgiveness timelines. They claimed that our proposal conflicts with the statute. According to these commenters, the standard repayment period under the HEA is 10 years, and while the statute permits ICR plans for loans to be repaid for an ''extended period of time,'' the commenters suggest that loan forgiveness under an ICR plan may only be permitted after 10 years, and that loan forgiveness may not occur as soon as 10 years as we have proposed. Several other commenters believed that

[83] See Sec. 428H(d) of the HEA.

[84] Congress terminated the authority to make subsidized loans to graduate and professional students in 2012. See Sec. 455(a)(3) of the HEA.

[85] See 80 FR 67221.

we would violate Congress' intent by extending the 10-year forgiveness timeline, which applies to the PSLF Program, to all borrowers. These commenters believe that Congress generally established maximum repayment periods of 20 to 25 years for loans.

Discussion: We discuss the legal arguments about the underlying statutory criteria in the *Legal Authority* section of this document. As a policy matter, we disagree with the commenters. As noted in the IDR NPRM and in this preamble, we are concerned about high rates of delinquency and default in the student loan programs and those negative problems are particularly concentrated among these lower-balance borrowers. We believe this provision will help make REPAYE a better option for those borrowers, which will assist us in achieving our goals.

Changes: None.

Comment: Commenters argued that the Department's proposal for shortened periods to forgiveness failed to consider that a borrower eligible for this forgiveness after 10 years of monthly payments might still be able to keep paying and therefore, not need forgiveness.

Discussion: We disagree with the commenter. By limiting the shortened forgiveness period to borrowers with lower loan balances, borrowers with higher incomes will still pay down substantial amounts of their loan balance, if not pay it off entirely, before the end of the 120 monthly payments. This point is strengthened by the fact that forgiveness is not available until the borrower has made 10 years' worth of monthly payments, which is a point at which borrowers will start to see their income trajectories established. Moreover, Department data show that in general the borrowers who take out the debt amounts that would lead to shortened forgiveness are among those who are most likely to default. We believe this simplified approach will best address our goals of reducing default, while the strict caps on the amount borrowed for undergraduate programs protect against the type of manipulation referenced by the commenter.

Changes: None.

Comments: One commenter argued that the Department's analysis supporting the choice of thresholds for the shortened period to forgiveness was arbitrary because it would result in the median person benefiting from this policy. They argued that forgiveness should not be for the general person.

Discussion: The Department disagrees with the commenter. The overall policy purpose of the shortened timeline to forgiveness is to increase the likelihood that the most at-risk borrowers select an IDR plan that reduces the time spent in repayment before their loan debt is forgiven and, by doing so, reducing rates of default and delinquency.

To determine the maximum original principal balance that a borrower could receive to qualify for a shortened period of forgiveness, the Department compared the level of annual earnings a borrower would need to make to not qualify for forgiveness to the median individual and household earnings for early career adults at different levels of educational attainment. These calculations show that a borrower in a one-person household would not benefit from the shortened forgiveness if their starting income exceeded $59,257, while the median earnings for early career workers with at least some college education is $74,740. As a result, the median individual with at least some college education would not benefit from shortened forgiveness and we believe it is reasonable that a borrower with earnings above a typical college-educated individual should not benefit from the shortened period to forgiveness. The commenter did not provide a suggestion for what a different reasonable threshold might be.

We also note that the maximum earnings to benefit from the shortened forgiveness deadline is likely to be far different from the actual earnings of most individuals who ultimately benefit from this policy. Generally, borrowers with this level of debt tend to be independent students who only completed one year of postsecondary education and left without receiving a credential. These individuals tend to have earnings far below the national median figures, which is one of the reasons why they are so likely to experience delinquency and default.

Changes: None.

Tying Forgiveness Thresholds to Loan Limits

Comments: In the IDR NPRM, we requested comments on whether we should tie the starting point for the shortened forgiveness to the first two years of loan limits for a dependent undergraduate student to allow for an automatic adjustment. Several commenters said shortened periods until loan forgiveness should not be tied to loan limits. Some of those commenters said the starting point for shortened forgiveness should remain at $12,000. These commenters felt that if the regulations specify that higher loan limits mean earlier forgiveness, the budgetary costs of raising the loan limits will increase. Another commenter mentioned that if Congress were to raise Federal student loan limits in the future, the effectiveness of this threshold would likely be reduced for low-balance borrowers. Another point some commenters made was that tying forgiveness to the loan limit thresholds would make it harder for Congress to raise loan limits.

Other commenters argued that we should index the starting point of shortened forgiveness to the statutory loan limits for the first two of years of college for dependent students. Another commenter who supported indexing the starting point to the statutory loan limits stated that because these loan limits are not indexed to inflation there is an implicit understanding when Congress increases loan limits that they are acknowledging increases in postsecondary education costs.

Discussion: The Department's overall goal in crafting changes to REPAYE is to make it more attractive for borrowers who might otherwise be at a high risk of default or delinquency. In choosing the threshold for principal balances eligible for a shortened period until forgiveness, we looked at whether borrowers would have earnings that placed them below the national median of similar individuals. We then tried to relate that amount to loan limits so that it would be easier to understand for future students when making borrowing decisions. That amount happens to be equal to two years of the loan limit for dependent undergraduate students.

However, the suggestion to tie the shortened forgiveness amount to the dependent loan limits generated a number of comments suggesting that we should instead adjust the amounts to two years at the independent loan limit, an amount that is $8,000 higher than the amount included in the IDR NPRM. The Department is concerned that higher level would provide the opportunity for borrowers at incomes significantly above the national median to receive forgiveness and the result would be a benefit that is more expansive than what is needed to serve our overall goals of driving down delinquency and default. By contrast, the $12,000 threshold not only is better targeted in terms of incomes, it also aligns with the borrowing level at which we witness higher levels of adverse student loan outcomes. As previously mentioned in the IDR NPRM, 63 percent of borrowers in default borrowed $12,000 or less originally, while the share of borrowers in default with debts originally between

$12,000 and $19,000 is just 15 percent.[86]

Given that the $12,000 amount is better targeted in terms of income where borrowers would benefit and where the Department sees loan struggles, we think it is better to continue expressing the point at which a borrower could receive forgiveness after 120 monthly payments in explicit dollar terms rather than tying it to loan limits.

Changes: None.

Starting Point for Shortened Forgiveness

Comments: Many commenters suggested that we increase the starting amount of debt at which shortened forgiveness would occur to $20,000, which is equal to the maximum amount that an independent student can borrow for the first two years of postsecondary education. They argued that doing so would provide a shortened time to forgiveness at the maximum amount of undergraduate borrowing for two years. One commenter said that the starting point should be there because independent students are more likely to default on their loans than dependent students. Another commenter said that if we did not change the shortened forgiveness point to $20,000 for everyone, we should distinguish between dependent and independent borrowers and set the starting point for shortened forgiveness at $12,000 for dependent borrowers and $20,000 for independent borrowers.

Discussion: We understand why the commenters argued to set the threshold for shortened time to forgiveness at $20,000 to maintain parity between independent and dependent students if we were to establish this threshold explicitly based upon loan limits. However, as noted in the IDR NPRM, we considered adopting thresholds such as the ones suggested by the commenters but rejected them based on concerns that the incomes at which borrowers would benefit from this policy are too high and that the rates of default are significantly lower for borrowers with those higher amounts of debt, including independent borrowers. While independent students have higher loan limits than dependent students, Department data show that the repayment problems we are most concerned about occur at similar debt levels across independent and dependent students. We recognize that independent students often face additional challenges, but we believe that the $12,000 threshold still protects those borrowers most likely to struggle repaying their student loans. For example, Department data show that, among independent borrowers with student loans in 2022, 33 percent of those who borrowed less than $12,000 in total were in default, compared to 11 percent of independent students who left higher education with higher amounts of debt.

Additionally, establishing different forgiveness thresholds based upon dependency status could also lead to substantial administrative burden and complexity for borrowers, as students can start their borrowing as dependent borrowers and then become independent. For example, of entering students classified as dependent undergraduates in the 2011–12 academic year, 53 percent of those who were enrolled five years later (in the 2016–17 academic year) were considered independent.[87] This is because an undergraduate student who turns 24, gets married, has a child, or meets certain other criteria while enrolled as an undergraduate student becomes an independent student. Also, all students in graduate school are considered independent. Further, it would be administratively difficult to consolidate debt incurred by a borrower both as a dependent and an independent student and maintain different forgiveness thresholds. Accordingly, we think a single structure for shortened forgiveness would be simpler operationally and easier for borrowers to understand. Therefore, we affirm our position of adopting a threshold starting at $12,000 in this final rule.

Changes: None.

Comments: Several commenters urged the Department to reduce the original balance threshold of $12,000 to $10,000 to receive loan forgiveness for borrowers who have satisfied 120 monthly payments. These commenters argued that associating $10,000 to 10 years is simpler. Others argued that this would make more sense since it is close to the one-year limit for independent undergraduate borrowers.

Discussion: As noted elsewhere in this final rule, we are not electing to tie the threshold for the shortened period for loan forgiveness to loan limits and will instead continue it to base it upon the amount originally borrowed. We appreciate the suggestions for simplification from commenters but believe the benefits for borrowers by setting the threshold at a higher level of original principal balance exceeds the simplification benefits.

Changes: None.

Inflation Adjustment

Comments: Several commenters suggested that the shortened forgiveness threshold should be indexed to inflation. One commenter requested that the Department publish annual inflation adjustments. Another commenter indicated that if we index the amount to inflation, we should explain how inflation adjustments would apply to borrowers who were in school versus in repayment.

Another commenter disagreed and felt that the Department should not apply inflation adjustments to the forgiveness level since the Department has already linked early loan forgiveness to loan limits and loan limits do not change that often and the value erodes. Another commenter opposed adjusting for inflation and said that, because the $12,000 is tied to the loan limits for a dependent undergraduate borrowing for the first two years, we should reconsider the terms of our plan in the event that Congress increases loan limits.

Discussion: The Department has decided not to apply inflation adjustments to the shortened forgiveness amount. This provision will provide the greatest benefits to borrowers with undergraduate loans and those debts are subject to strict loan limits that have not been increased since 2008. It would not be appropriate to adjust the amount of forgiveness based on inflation when the amount of money an undergraduate borrower could borrow has not changed. Doing so could result in providing shortened forgiveness to higher-income borrowers which would be inconsistent with one of the Department's primary goals of providing relief to borrowers who are most at risk of delinquency and default. Moreover, any kind of inflation adjustment would create different shortened forgiveness thresholds for borrowers based upon when they borrowed, since it would not make sense to increase the thresholds for individuals who are already in repayment.

Given that the Department is not choosing to connect the shortened forgiveness thresholds to loan limits, we similarly do not think an automatic adjustment tied to loan limits would be appropriate. Since Congress does not regularly change the amount that undergraduate students can borrow, including no changes since 2008, we agree with the commenter that it would be more appropriate to conduct an additional rulemaking process if circumstances change such that a

[86] See 88 FR 1909.

[87] Analysis of Beginning Postsecondary Students (BPS) 2012/2017, *nces.ed.gov/datalab/powerstats/table/maaiwf.*

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different threshold for shortened forgiveness may be appropriate.

Changes: None.

Alternative Formulas

Comment: Many commenters urged the Department to consider providing a shorter time to forgiveness for any borrower whose income either results in a payment amount of $0 or whose payment is insufficient to reduce the principal balance for a period of time under 5 years. Some commenters also argued for an approach where borrowers would earn different amounts of credit toward forgiveness based upon their financial situation. The result is that the lowest income borrowers would earn more than a month's worth of credit for each month they spent in that status.

Discussion: The Department does not believe that it is appropriate to adopt either of the commenters' suggestions. We are concerned that it would put borrowers in a strange circumstance in which if they had a $0 payment for a few years in a row they would be better off in terms of loan forgiveness staying at $0 as opposed to seeking an income gain that would result in the need to make a payment. The Department similarly declines to adopt the commenters' suggestion of varying the amount of credit toward forgiveness granted each month based upon borrowers' incomes. Part of the structure of IDR plans is to create a situation where a borrower with a low income at the start of repayment will still end up paying off their loan if their income grows sufficiently over time. The differential credit proposal could work against this goal, especially for individuals who are on career trajectories where pay is very low at first and then increases substantially, such as doctors and others employed in the medical profession. Adopting such an approach could mean that those individuals pick up significant credit toward forgiveness, which then reduces the months when they might be paying off the loan in full or making very significant payments due to their higher income.

Changes: None.

Comments: A few commenters recommended that we adopt a forgiveness structure in which we discharge part of the borrowers' principal balance each year. These commenters said that the problem with the current IDR plans is that the lowest income borrowers will not see a decrease in their balances. Other commenters provided similar suggestions with forgiveness occurring monthly.

Discussion: As noted in the IDR NPRM, we do not believe the Department has the legal authority to make such a change. Section 455(d)(1)(D) of the HEA contemplates a single instance of forgiveness that occurs when the borrower's repayment obligation is satisfied. This means that any loan balance that remains outstanding after the borrower has made qualifying payments according to the terms of the IDR plan in which they are enrolled for a maximum repayment period is to be forgiven. An incremental forgiveness structure like that the commenters suggested would require a statutory change.

Changes: None.

Comments: One commenter proposed that the Department only make shortened forgiveness available to borrowers seeking non-degree or certificate credentials. Relatedly, several commenters urged us to limit the shortened time to forgiveness to only those borrowers who pursued sub-baccalaureate degrees.

Discussion: The Department disagrees with the commenters' suggestions. While we understand the concerns about not extending benefits to borrowers who are less likely to need them, we believe that a limitation like the one the commenter requested would exclude many borrowers for whom this policy would be very important. For instance, the 2004 Beginning Postsecondary Students Study, which tracked students through 2009, found that rates of default are similar between someone who finished a certificate (43.5 percent) and someone who did not finish a degree (39.7 percent). We are concerned that the commenters' suggestion could also disincentivize borrowers who might otherwise consider a baccalaureate degree program. We think keeping the point at which the shortened time to forgiveness applies better accomplishes the overall concern about targeting the benefit. Generally, these debt levels are owed by lower-income borrowers. And as shown in the RIA, we anticipate that very few graduate borrowers will have debt levels that allow them to make use of this benefit.

Changes: None.

Comments: Several commenters suggested multiple options for forgiveness timelines, such as 10 years for borrowers who had $20,000 in loan debt, 15 years for borrowers who had $57,500 in loan debt, and 20 years for all other amounts. Several other commenters suggested different forgiveness timelines for dependent versus independent students, such as that dependent students receive forgiveness at 10 years for balances of $12,000 or less, 15 years for balances between $31,000 and $12,000, and 20 years for all amounts over $31,000. These commenters further stated that independent students should have timelines starting at 10 years for balances of $20,000 or less, 15 years for balances between $20,000 and $57,500, and 20 years for balances over $57,500.

One commenter was concerned that the proposed formula created points at which a borrower would see zero added costs from taking on additional debt. In other words, they could borrow more debt without seeing their total lifetime payments increase. This commenter suggested a few possible formulas, including ones that would provide forgiveness after as few as five or eight years of payments.

Several commenters suggested that the Department measure the periods for forgiveness in terms of months rather than years. In other words, a borrower could have a repayment timeline of 10 years and 1 month based upon the amount they borrowed.

Discussion: We appreciate the suggestions from commenters but decline to make changes to the shortened forgiveness formula. Regarding proposals to start the period of forgiveness sooner, the Department believes that it would not be appropriate to have the period of forgiveness be shorter than the existing standard 10-year repayment period. The Department also believes that some of the other proposals would either establish significant cliff effects or create a structure for shortened forgiveness that would be overly complicated. On the former, the Department is concerned that some suggestions to only provide forgiveness after 10, 15, or 20 years would add significant jumps in timelines such that a borrower who takes on debt just above a threshold would be paying for as long as an additional 5 years. This result is distinct from the different treatment of undergraduate and graduate debt where the latter reflects an intentional decision to borrow for an additional type of program. At the same time, the Department is concerned that calculating timelines to forgiveness that could vary by a single month or two would be too confusing for borrowers to understand and for the Department to administer. A slope of an additional year for every $1,000 borrowed creates a clear connection between the period in which the student borrowed and the repayment time frame. The equivalent of saying every $83.33 in debt adds one month would be less likely to affect how

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borrowers consider how much debt to take out.

Changes: None.

Other Comments

Comments: Several commenters recommended that the Department clarify how we will calculate the forgiveness timeline for a borrower who starts repayment, then returns to school and takes out new loans. One commenter suggested that the Department create a provision similar to § 685.209(k)(4)(v)(B) that would address this situation to prorate the amount of forgiveness based on the weighted average of the forgiveness acquired for each of the set of loans by the original balance, as well as make the update automatic which would standardize repayment. The commenter also expressed concern that § 685.209(k)(4)(v)(B) only applies to consolidated loans.

Discussion: The timelines for forgiveness will be based upon the borrower's total original principal loan balance on outstanding loans. As a result, if a borrower goes back to school and borrows additional loans after some period in REPAYE, the new total loan balance would form the basis for calculating the forgiveness timeline. Absent such an approach, the Department is concerned that a borrower would have an incentive to borrow for a year, take time off and enter repayment, then re-enroll so that they have multiple loans all based upon a shorter forgiveness period, even though the total balance is higher.

Regarding questions about the time to 20- or 25-year forgiveness for a borrower with multiple unconsolidated loans, those loans may accumulate different periods toward forgiveness, even though the total amount of time until forgiveness is consistent. As an example, if a borrower repays for 10 years on one set of undergraduate loans and then borrows more undergraduate loans without consolidating with the earlier loans, the earlier loans will have 10 of the necessary 20 years for forgiveness; the newer loans would have no progress toward forgiveness. If the second set of loans were graduate loans, the borrower would have 15 years remaining on the 25-year forgiveness for the earlier loans and 25 years left for the new loans.

Changes: None.

Automatic Enrollment in an IDR Plan (§ 685.209(m))

Comments: Many commenters strongly supported automatic enrollment into an IDR plan for any student borrower who is at least 75 days delinquent on their loan(s). Many commenters urged the Department to allow borrowers in default who have provided approval for the disclosure of their Federal tax information to also be automatically enrolled in an IDR plan.

One commenter stated that this proposal is a significant step forward because defaulting on student loans has long-term financial consequences. One commenter urged the Department to add regulatory language requiring servicers to notify borrowers with parent PLUS loans who are 75 days delinquent about consolidating their loans and then enrolling in IDR.

Discussion: We agree with the commenters that this is a step forward to give borrowers an important opportunity to repay their loans instead of defaulting. While our hope is that borrowers will give us approval for disclosing their Federal tax information prior to going 75 days without a payment, we recognize that it is possible that a borrower may choose to give us their approval only after entering default. Therefore, if a borrower in default provides approval for the disclosure of their Federal tax information for the first time, we would also calculate their payment and either enroll them in IBR or remove them from default in the limited circumstances laid out in § 685.209(n). The same considerations would apply to both delinquent and defaulted borrowers in terms of the Department needing approval and the borrower needing to see a reduction in payments from going onto an IDR plan. However, we will not apply this provision for borrowers subject to administrative wage garnishment, Federal offset, or litigation by the Department without those borrowers taking affirmative steps to address their loans. Accordingly, we have broadened this provision to include borrowers whose loans are in default, with the limitation that it would not include borrowers subject to Federal offset, administrative wage garnishment or litigation by the Department. If a borrower has loans both in good standing in repayment and in default, the loans in repayment would be eligible for automatic enrollment in REPAYE.

We appreciate the suggestion that the regulations be modified to require the Department to notify parent PLUS borrowers who are delinquent about the option to consolidate their loans, which would allow them access to ICR. Currently, the Department provides borrowers with this information through numerous methods. The requirements applicable to our servicers in this area are addressed operationally and not in regulations.

Changes: We have revised § 685.209(m)(3) to provide that a borrower who has provided approval for the disclosure of their Federal tax information and has not made a scheduled payment on the loan for at least 75 days or is in default on the loan and is not subject to a Federal offset, administrative wage garnishment under section 488A of the Act, or a judgment secured through litigation may automatically be enrolled in an IDR plan.

Comments: One commenter was concerned that borrowers may be unaware of IDR plans. This commenter stated that automatically moving borrowers to an IDR plan and presenting them with an anticipated lower payment would more effectively raise awareness than additional marketing or outreach. Moreover, this commenter expressed concern that a borrower may become delinquent because their current repayment amount may be unaffordable.

Discussion: We thank the commenter for their concern about borrowers' awareness of the IDR plans. The Department shares this commenter's concern and anticipates having multiple communication campaigns and other methods explaining the REPAYE plan to borrowers. We agree with the commenter about the benefits of automatically enrolling borrowers and will automatically enroll borrowers who are 75 days delinquent into the IDR plan. We believe this approach will help borrowers avoid default and give them an opportunity for repayment success.

Changes: None.

Comments: Another commenter supported the automatic enrollment for borrowers who are 75 days delinquent but felt that implementation of the regulation will be burdensome because borrowers will have to provide their consent for the Department to obtain income information from the IRS. Several commenters argued that they are concerned that automatic enrollment depends on borrowers providing previous approval to disclose the borrower's Federal tax information and family size to the Department.

Another commenter stated that automatic enrollment in an IDR plan is unlikely to be effective and cannot be implemented. The commenter believed it is misleading to characterize the application or recertification process as automatic for delinquent borrowers since borrower approval for the IRS to share income information with the Department is required.

Discussion: It is true that a borrower must have previously provided approval for the disclosure of tax information to be automatically enrolled in an IDR plan when becoming 75 days delinquent; however, we believe that calling it automatic enrollment is appropriate because the goal is for borrowers to provide such approval when they are first in the process of taking out the loan. The result is that the enrolment in IDR can be more automatic at the time of delinquency. As the Department implements this functionality, we are working to make the process of providing such approval as simple as legally possible for the borrower.

Changes: None.

Defaulted Loans (§ 685.209(d), (k), and (n))

Comments: Many commenters expressed strong support for the Department's proposal to allow defaulted borrowers to enroll in the IBR plan, so that they can receive credit toward forgiveness. Other commenters agreed that the IBR plan was the appropriate plan for borrowers in default, and also encouraged the Department to automatically enroll all borrowers exiting default into the lowest cost IDR plan.

Discussion: We agree with the commenters that enrollment in the IBR plan is the proper IDR option for borrowers in default. Allowing them to choose this one plan instead of choosing between it and REPAYE simplifies the process of selecting plans and provides borrowers with a path to accumulate progress toward forgiveness. This is particularly important for borrowers who cannot exit default through loan rehabilitation or consolidation. As we explain under the ''Automatic Enrollment in an IDR Plan'' section of this document, we will automatically enroll in IBR a borrower who is in default if they have provided us the approval for the disclosure of tax data.

We agree with the suggestion to help borrowers access other IDR plans upon leaving default if possible. To that end, we have updated the regulatory text noting that a borrower who leaves default while on IBR may be placed on REPAYE if they are eligible for the plan and doing so would generate a payment lower than or equal to their monthly payment.

Changes: We added a provision to § 685.210(b)(3) that a borrower who made payments under the IBR plan and successfully completed rehabilitation of a defaulted loan may chose the REPAYE plan when the loan is returned to current repayment if the borrower is otherwise eligible for the REPAYE plan and if the monthly payment under the REPAYE plan is equal to or less than their payment on IBR.

Comments: Several commenters disagreed with the proposed regulations relating to defaulted borrowers. They believed that the cohort default rates (CDR) and repayment rates on Federal loans were important indicators of whether a particular institution is adequately preparing its graduates for success in the job market so that they are able to earn sufficient income to remain current on their student loan repayments. Another commenter believed that while our proposals may mitigate the risk of default for individual borrowers, our proposals would also reduce the utility of CDR rates. This commenter reasoned that if CDR were to become a useless accountability tool, we would need new methods of quality assurance for institutions. The commenter concluded that to avoid risk to the taxpayer investment, we should simultaneously draft regulations that provide affordable payments and hold institutions accountable.

In addition, several other commenters noted that consumer disclosure websites, including the Department's ''College Scorecard,'' point to CDRs and metrics describing the proportion of graduates making progress toward repayment as important quality indicators that can help families and matriculating students assess the likelihood that a particular institution offers a reasonably high return on investment.

Discussion: We believe that the expanded qualifications under the new REPAYE plan will afford defaulted borrowers more of an opportunity to repay their obligations because their monthly payment will be more appropriately calculated based on their current income and family size. Through other rulemaking approaches, as described in the RIA, the Department is working to implement other accountability and consumer protection measures. In the responses to comments in the RIA we have included a longer discussion of these accountability issues.

Changes: None.

Comments: Several commenters expressed support for granting access to an IDR plan to borrowers in default but said the Department should amend the terms of IBR to better align with the terms of the REPAYE plan, such as the amount of income protected from payments and the share of discretionary income that goes toward payments. Along similar lines, some commenters raised concerns that a defaulted borrower's path through IBR is not ideal because IBR is not the most generous plan for monthly payments, particularly when compared with the additional income protections offered in the new REPAYE plan.

A few commenters argued that the Department should grant defaulted borrowers' credit toward cancellation for payments under REPAYE as long as the borrower enrolls in IBR at some point during repayment.

Discussion: We appreciate the commenters' support for allowing defaulted borrowers to access an IDR plan. This change will provide a much-needed path that can help reduce borrowers' payments and give them the opportunity for loan forgiveness. While we understand the requests for adjusting the terms of IBR to better match REPAYE, the Department does not have the legal authority to do so.

Changes: None.

Comments: Several commenters asked that the Department adjust the restrictions on when a borrower who has spent significant time on REPAYE be allowed to switch to IBR. They asked that if a borrower makes extensive payments on REPAYE and then defaults that they still be granted access to IBR while in default.

Discussion: The Department disagrees with commenters. The purpose of the restriction on switching to IBR is to prevent situations where a borrower might switch so they could get forgiveness sooner. While it is unlikely that a borrower would default to shorten their period to forgiveness, that is a possibility that we want to protect against. However, by changing the limitation on switching into IBR to only apply once a borrower has made 60 payments on REPAYE after July 1, 2024, we believe that the number of borrowers who end up in default and are affected by this restriction will be low. In general, default rates for borrowers on IDR plans are quite low and we anticipate they will remain low due to improvements in the annual recertification process.

Changes: None.

Comments: Several commenters asked the Department to allow a borrower in default who has a Direct Consolidation Loan that repaid a parent PLUS loan to access the IBR plan. Commenters further explained that while this option might not always give borrowers a lower payment in default, and it would not count toward forgiveness, it would provide more affordable payments for some borrowers.

Discussion: Section 493C of the HEA precludes a borrower with a Direct Consolidation Loan that repaid a parent

PLUS loan from using the IBR plan. The Department also declines to grant access to the ICR plan for a borrower in default. We are concerned that time in default does not count toward forgiveness and would not help address a borrower's long-term situation. We note that if a borrower with a Direct Consolidation Loan that repaid a parent PLUS loan rehabilitates their defaulted loan, they may access the ICR plan after getting out of default.

Changes: None.

Comments: Several commenters argued that we should waive collection fees entirely for those making payments under IDR or create a statute of limitations on collection fees. Those commenters also recommended waiving collection charges during repayment as a greater incentive to repay the loan than forgiving a portion of the loan two decades in the future.

Discussion: The Department understands that increasing collection fees can discourage borrowers from repaying their loans. However, the HEA generally requires borrowers to pay the costs of collection.[88] We will consider the appropriate level of collection fees for borrowers in default who make voluntary payments including payments made while enrolled in an IDR plan. These are subregulatory issues that are not addressed in this final rule.

Changes: None.

Comments: Many commenters supported the provision that allows borrowers to receive credit toward forgiveness for any amount collected through administrative wage garnishment, the Treasury Offset Program, or any other means of forced collection that is equivalent to what the borrower would have owed on the 10-year standard plan. But many of these same commenters expressed confusion about regulatory language that indicated we would award credit for forgiveness for involuntary collections based upon amounts that equaled a payment on the 10-year standard plan. They asked why a borrower would not receive credit based upon their IBR payment.

Discussion: The Department expects that borrowers in IBR will make payments while they are in default, but we recognize that they may face some involuntary collections. We agree with the commenters that if a borrower has provided the necessary information to calculate their IBR payment, we would treat amounts collected through involuntary methods akin to how we consider lump sum or partial payments for a borrower who is in repayment. That means if we know what they should be paying each month under IBR, we could credit a month of progress toward forgiveness on IBR when we have collected an amount equal to their monthly IBR payment. In other words, if a borrower's monthly IBR payment is $50 and we collect $500 from Treasury offset in one year, we would credit the borrower with 10 months of credit toward forgiveness for that year. Alternatively, if the borrower's IBR payment was $50 and we collect $25 a month through administrative wage garnishment, we would credit one month of forgiveness for every two months we garnish wages. Upon further review of the proposal from the NPRM we think that only crediting the progress toward forgiveness based upon amounts equivalent to payments on the 10-year standard plan when we know that a payment based on their income would be lower is not appropriate.

This provision would also have limitations that are similar to those on lump sum payments. Namely a borrower would not be able to receive credit at the IBR payment amount for a period beyond their next recertification date. This makes certain amounts stay up to date with a borrower's income.

We do not believe this treatment of forced collections amounts as akin to lump sum payments would put borrowers in default in a better position than those who are in repayment or provide better treatment to someone who voluntarily makes a lump sum payment than someone in this situation who has not chosen to. For one, the borrowers in default would still be facing the negative consequences associated with default, including negative credit reporting. These amounts would also not be voluntarily collected. Someone who makes a lump sum payment in repayment is choosing to do so. In these situations, a borrower is not choosing the amount that is collected and it is highly likely that they would choose to not make such large payments all at once. Because the borrowers in default are not controlling the amounts collected, they cannot guarantee that the amounts collected would not be in excess of the amount at which they would stop receiving credit toward forgiveness. In other words, if 12 months of an IBR payment is $1,000 and we collect $1,500, the additional $500 would not be credited as additional months in forgiveness. By contrast, a borrower in repayment could choose to only make a lump sum payment up to the point that they would not be making payments in excess of what is needed to get credit toward forgiveness up to their next recertification date. Given these existing downsides compared to borrowers in repayment, crediting payments at the equivalent of IBR monthly payments is a modest benefit for borrowers instead of calculating them at the 10-year standard plan. It will help borrowers earn additional credit toward forgiveness and a path out of default compared to only crediting payments at the standard 10-year amount. And the Department hopes that seeing the lower available payment may encourage some of these borrowers to take steps to make voluntary payments instead and cease being subject to forced collections.

Accordingly, we clarified the language to note that amounts collected would be credited at the amount of IBR payments if the borrower is on the IBR plan, except that a borrower cannot receive credit for an amount of payments beyond their recertification date. Borrowers who are not on IBR would be credited toward IBR forgiveness at an amount equal to the amount calculated under the 10-year standard plan. We need to credit those borrowers at that level because we do not know their income and cannot calculate an IBR payment.

Changes: We amended § 685.209(k)(5)(ii) to clarify that a borrower would receive credit toward forgiveness if the amount received through administrative wage garnishment or Federal Offset is equal to the amount they would owe on IBR, except that a borrower cannot receive credit for a period beyond their next recertification date. We also added subparagraph (iii) that indicates a borrower would receive credit toward forgiveness on an amount equal to the amount due under the 10-year standard plan from those same sources of involuntary collections if the IBR payment amount cannot be calculated.

Comments: Many commenters recommended that the Department clarify that defaulted borrowers who are enrolled in IBR will not be subject to any involuntary collections so long as they are satisfying IBR payment obligations through voluntary payments—including $0 payments for those eligible. Other commenters suggested that the Department should confirm that borrowers enrolled in IDR are either not subject to involuntary collections (such as wage garnishment, seizure of Social Security benefits, or seizure of tax refunds) at all, or at least not for any amounts that exceed their IDR payment obligation.

Discussion: We agree with the goals of the many commenters who asked us to cease involuntary collections once a defaulted borrower is on IBR. However,

[88] See Sec. 455(e)(5) of the HEA.

involuntary collections also involve the Departments of Treasury and Justice, and we do not regulate the actions of these other agencies. Instead, we will work with those agencies to implement this operational change outside of the regulatory process. We also note that we could access information about defaulted borrower wages through the involuntary collections process even for borrowers not in IBR. We will explore using those data to work with the Departments of Treasury and Justice to better align involuntary collections with what a defaulted borrower would owe under IBR.

Changes: None.

Comments: Several commenters asked us to create a path out of default based upon a borrower agreeing to repay on an IBR plan. They argued that once a borrower is placed on the IBR plan, they should be able to move back into good standing.

Discussion: The Department does not have the statutory authority to establish the path out of default as requested by the commenters. However, the Department recognizes that there may be borrowers who provide the information necessary to calculate an IBR payment shortly after entering default and that such information may indicate that they would have had a $0 payment for the period leading up to their default had they given the Department such information. Since those borrowers would have a $0 monthly payment upon defaulting, the Department believes it would be appropriate to return those borrowers to good standing. This policy is limited to circumstances in which the information provided by the borrower to establish their current IBR payment can also be used to determine what their IDR payment would have been at the point of default.

An example highlights how this would work. A borrower enters default in June 2025. In August 2025, they furnish their Federal tax information for the 2024 calendar year, and it shows they would have had a $0 payment. We would have calculated a $0 payment had the borrower submitted this information in June, thereby preventing the default. That borrower would be removed from default and returned to good standing. Had the same borrower who defaulted in June 2025 provided their information in 2028, they would not receive this benefit. At that point, the information provided is likely from the 2027 calendar year, and so it does not cover the period of default. The effect of this is that most borrowers will need to provide their earnings information within a year of defaulting to benefit from this policy.

Borrowers who receive this benefit will not have the history of default or any collections that occurred before providing their income information reversed because these defaults did not occur in error. It would also not be available for borrowers with a payment higher than $0, as the Department cannot guarantee that someone who would have had a reduced payment obligation would have met that requirement the way in which we know they would have fulfilled the $0 payment requirement.

This benefit will give low-income borrowers who act swiftly in default a fast path back into good standing without exhausting either their rehabilitation or consolidation options.

Changes: The Department has added new paragraph § 685.209(n) to provide that a borrower will move from default to current repayment if they provide information needed to calculate an IDR payment, that payment amount is $0, and the income information used to calculate the IDR payment covers the period when the borrower's loan defaulted.

Comments: Many commenters called for the Department to allow previous periods of time spent in default to be retroactively counted toward forgiveness. These commenters asserted that some people in default are disadvantaged borrowers who were poorly served by the system, and that their situation is similar to past periods of deferment and forbearance that are being credited toward loan forgiveness.

Discussion: The Department does not agree that periods of time in default prior to the effective date of this rule should be credited toward forgiveness. To credit time toward IBR, we need to know a borrower's income and household information. We would not have that information for those past periods. Therefore, there is no way to know if the amount paid by a borrower would have been sufficient. The Department will award credit for certain periods in deferment retroactively on the grounds that most of those are situations in which the Department knows the borrower would have had a $0 payment, such as an economic hardship deferment or the rehabilitation training deferment. We do not have similar information for past periods in default.

Changes: None.

Comments: One commenter noted that many borrowers experience obstacles enrolling in an IDR plan after exiting default, especially those who choose to rehabilitate their loans. This commenter said that research showed borrowers who have rehabilitated their loans tend to re-default.[89] They suggested that the Department should remove the stipulation of completing unnecessary and burdensome loan rehabilitation paperwork.

Discussion: We agree with the commenter that it is critical to make it easier for borrowers to navigate the Federal student financial aid programs and share their concerns about making sure borrowers can succeed after rehabilitating a defaulted loan. To help achieve these goals, we have added language that allows the Secretary to place a borrower who successfully rehabilitates a defaulted loan and has provided approval for the disclosure of their Federal tax information on REPAYE if the borrower is eligible for that plan and doing it would produce a monthly payment amount equal to or less than what they would pay on IBR. We feel that this streamlined approach will remove obstacles when borrowers enroll in an IDR plan, especially for those borrowers that rehabilitated their defaulted loans. In addition, this will remove unnecessary and burdensome paperwork.

The Department is adopting an additional change to also help borrowers navigate the process of rehabilitating their loans. We are revising § 685.211(f) to note that a reasonable and affordable payment for the purposes of loan rehabilitation can be equal to the IBR payment amount calculated for the borrower. The current regulations calculate the payment at the IBR amount for borrowers prior to 2014, which is 15 percent of discretionary income. Since then, borrowers have been able to make payments at 10 percent of discretionary income. This change will allow borrowers to make payments at the greater of 10 percent of discretionary income or $5 while pursuing a loan rehabilitation.

Changes: We have modified § 685.211(f) to provide that a reasonable and affordable payment can be equal to the borrower's IBR payment amount. We have also added a new paragraph (f)(13) to § 685.211 that allows the Secretary to move a borrower into REPAYE after the satisfaction of a loan rehabilitation agreement if the borrower is eligible for that plan and it would produce a lower or equivalent payment to the IBR plan.

[89] *www.pewtrusts.org/en/research-and-analysis/reports/2023/01/student-loan-default-system-needs-significant-reform.*

Application and Annual Recertification Procedures (§ 685.209(l))

Comments: Many commenters supported the Department's efforts to simplify the annual income recertification process for borrowers in IDR plans. These commenters also felt that the proposed rules would help eliminate burdensome and confusing recertification requirements and administrative hurdles for borrowers. A few commenters were concerned that administering these regulations contained inherent challenges for recertification if a borrower did not file a tax return. One commenter commended the Department for its plan to streamline IDR enrollment and recertification through IRS data sharing. Several commenters urged that we retain the current data retrieval tool with the IRS for FFEL Program borrowers who complete the electronic IDR application which is currently available on the *StudentLoans.gov* website. Another commenter suggested that a robust regulatory notification process is vital, even for borrowers already in IDR since some borrowers will opt out of data-sharing.

Discussion: We thank the commenters for their positive comments and suggestions for improvement regarding the application and automatic recertification processes. We understand the commenters' concern about keeping the current process for the IDR application in place. However, we believe that the process we have developed improves and streamlines our processes for borrowers. We will continue to seek additional ways to improve processes.

In response to the commenters' concern about inherent challenges non-filing borrowers face with recertification, under § 685.209(l) we provide the procedures under which we may obtain the borrower's AGI under the authorities granted to us under the FUTURE Act as well as opportunities for borrowers to provide alternate documentation of income (ADOI). Accordingly, we modified § 685.209(l) to provide examples of how borrowers, including those who do not file Federal tax returns, could approve to the disclosure of their tax information for purposes of IDR recertification.

The treatment of IRS data sharing for FFEL Program loans is not a regulatory issue and is not addressed in these rules.

Changes: We have modified § 685.209(l) to provide examples of how a borrower could provide approval for the disclosure of tax information for the purposes of IDR.

Comments: One commenter believed we should make recertification simpler and, to the maximum extent possible, update the monthly loan payment amount automatically instead of requiring annual certification for continuation in an IDR plan. This commenter believes that many borrowers, especially those borrowers who would otherwise qualify for a $0 monthly payment, do not complete the recertification process.

Discussion: We agree, in part, with the commenter about the difficulties borrowers face during recertification. As we acknowledged in the IDR NPRM, the current application and recertification processes create significant challenges for the Department and borrowers. As a solution, we believe that the authorities granted to us under the FUTURE Act as codified in HEA section 455(e)(8) will allow us to obtain a borrower's AGI for future years if they provide approval for the disclosure of tax information. This should ameliorate the commenter's concern about borrowers' failure to recertify. This includes borrowers who would otherwise qualify for a $0 monthly payment in subsequent years.

Changes: None.

Consequences of Failing To Recertify (§ 685.209(l))

Comments: Commenters noted concerns that the current process of annually recertifying participation on IDR plans is burdensome and results in many borrowers being removed from IDR plans. Other commenters argued that the Department needs to do more to protect progress toward forgiveness for those who fail to recertify, especially when the recertification was hampered by what they described as inept servicers.

Discussion: We thank the commenters for their support of automatic enrollment for IDR. We believe that the recertification process will enable borrowers to streamline the process toward forgiveness and reduce the burden on borrowers. We also believe that more borrowers will recertify so that they are not removed from IDR plans and that borrowers who struggle to recertify on time will not lose a few months of progress to forgiveness every year. As we explain in the IDR NPRM, due to recent statutory changes regarding disclosure of tax information in the FUTURE Act [90] (alongside subsequent amendments to this language), upon the Department obtaining the borrower's approval, we will rely on tax data to provide a borrower with a monthly payment amount and offer the borrower an opportunity to request a different payment amount if it is not reflective of the borrower's current income or family size.

Changes: None.

Consolidation Loans (§ 685.209(k))

Comments: Many commenters strongly supported the Department's proposal to provide that a borrower's progress toward forgiveness will not fully reset when they consolidate Direct or FFEL Program Loans into a Direct Consolidation Loan. Many commenters supported the proposed regulations, citing that we should count previous payments in all IDR plans and not reset the time to forgiveness when a person consolidates their loans because the debt is not new.

Several commenters expressed disappointment that the proposed regulations did not address how qualifying payments would be calculated for joint consolidation loans that may be separated through the Joint Consolidation Loan Separation Act,[91] which was enacted October 11, 2022, and hoped that the Department would provide more details about counting the number of qualifying payments on the loans.

Discussion: We thank the commenters for their support of the provision to retain the borrower's progress toward forgiveness when they consolidate Direct or FFEL Program Loans into a Direct Consolidation Loan.

We did not discuss joint consolidation separation in the IDR NPRM. However, we agree with the commenters that more clarity would be helpful. Accordingly, we have added new language noting that we will award the same periods of credit toward forgiveness on the separate consolidation loans that result from the split of a joint consolidation loan. The Department chose this path as the most operationally feasible option given that these loans are all from 2006 or earlier and it may otherwise not be possible to properly determine the amount of time each loan spent in repayment. We are also clarifying how consideration of whether the separate consolidation loans that result from the split of a joint consolidation loan would be eligible for the shortened period until forgiveness would work. Eligibility for that provision would be calculated based upon the original principal balance of

[90] See Public Law 116–91.

[91] Text—S.1098—117th Congress (2021–2022): Joint Consolidation Loan Separation Act. (2022, October 11). *www.congress.gov/bill/117th-congress/senate-bill/1098/text.*

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the loans that have been split from a joint consolidation loan.[92]

Changes: We have amended § 685.209(k)(4)(vi)(C) to provide that, for borrowers whose Joint Direct Consolidation Loan is separated into individual Direct Consolidation loans, each borrower receives credit for the number of months equal to the number of months that was credited prior to the separation.

Choice of Repayment Plan § 685.210

Comments: One commenter recommended that we update our regulations to provide that, when a borrower initially selects a repayment plan, the Secretary must convey to the borrower specific information about IDR plans, including the forgiveness timelines. This commenter cited a report from the GAO that flagged this area for improvement. Another group of commenters urged us to include regulatory language to make sure that borrowers are aware of the terms and conditions of their IDR plans. This group of commenters were concerned that we eliminated the detailed notices in existing regulations without proposing adequate replacements and provided examples of the notice types that they believed we should implement.

Discussion: We believe that our regulations at § 685.210(a) provide an adequate framework describing when the Department notifies borrowers about the repayment plans available to them when they initially select a plan prior to repayment. Moreover, § 685.209(l)(11) already provides that we will track a borrower's progress toward eligibility for IDR forgiveness. In the GAO report[93] cited by the commenter, the GAO recommended that we should provide additional information about IDR forgiveness, including what counts as a qualifying payment toward forgiveness, in communications to borrowers enrolled in IDR plans. The recommendation further noted that we could provide this information to borrowers or direct our loan servicers to provide it. In response to the GAO, we concurred with the recommendation and identified steps we would take to implement that recommendation. As part of the announcement of the one-time payment count adjustment we have also discussed how we will be making improvements to borrowers' accounts so they will have a clearer picture of progress toward forgiveness. Moreover, we do not think we need regulatory language to accomplish what the commenter requests. We can address these issues while working with our contractors and a subregulatory approach gives us greater ability to tailor our activities to what works best for borrowers.

We similarly disagree that we need to add regulatory text around notifications as suggested by the group of commenters. As part of this regulatory effort, the Department streamlined and standardized the IDR plans. To provide uniformity across the different IDR plans, § 685.209(l)(5) specifies the repayment disclosure that we send to borrowers including: the monthly payment amount, how the payment was calculated, the terms and conditions of the repayment plan, and how to contact us if the borrower's payment does not accurately reflect the borrower's income or family size. The Department thinks it is important to preserve flexibility around how we conduct outreach and notification to borrowers, and we are concerned that overly prescriptive regulations would work against those goals.

Changes: None.

Comments: None.

Discussion: The IDR NPRM did not reflect the statutory requirement under section 493C(b)(8) of the HEA (20 U.S.C. 1098e(b)(8)) that provides that borrowers who choose to leave the IBR plan must repay under the standard repayment plan. This requirement is reflected in current regulations at § 685.221(d)(2)(i) and requires a borrower leaving IBR to make one payment under the standard repayment plan before requesting a change to a different repayment plan. A borrower may make a reduced payment under a forbearance for the purposes of meeting this statutory provision. This provision does not apply to borrowers leaving ICR, PAYE, or REPAYE. To clarify that this statutory provision still applies we are reflecting it in this final rule. It mirrors the Department's longstanding interpretation and implementation of this statutory requirement.

Changes: We have added § 685.210(b)(4) which requires a borrower leaving the IBR plan to make one payment under the standard repayment plan prior to enrolling into a different plan.

Alternative Repayment Plan § 685.221

Comments: Several commenters noted that the Department's proposal to simplify the Alternative Plan is a positive step. They believed that changing the regulations to re-amortize the remaining loan balance over 10 years would make certain that borrowers' monthly payments are lower than they would have been under the Standard 10-year Repayment Plan. A few commenters stated that the Department should count all payments on the alternative plan toward forgiveness on REPAYE, rather than just 12 months of payments. Others argued that, instead of being placed on the alternative payment plan, borrowers should be placed on the 10-year standard plan so that all the months of payments would count toward REPAYE forgiveness.

Discussion: We appreciate the support for the creation of a simplified alternative repayment plan. However, we disagree and decline to accept either set of recommended changes. For one, we think the policy to allow a borrower to count up to 12 months of payments on the alternative plan strikes the proper balance between giving a borrower who did not recertify their income time to get back onto REPAYE while not creating a backdoor path to lower loan payments. For some borrowers, it is possible that the alternative repayment plan could produce payments lower than what they would owe on REPAYE. Were we to credit all months on the alternative plan toward forgiveness then we would risk creating a situation where a borrower is encouraged to not recertify their income so they could receive lower payments and then get credit toward forgiveness. Doing so works against our goal to target the benefits of, and encourage enrollment in, REPAYE. It would also in effect work as a cap on payments, which the Department is intentionally not including in REPAYE.

Moreover, the Department anticipates that the number of borrowers who fail to recertify each year will decline thanks to the improvements made by the FUTURE Act. With those changes borrowers will be able to authorize the automatic updating of their payment information, limiting the likelihood that a borrower ends up on the alternative plan for failure to submit paperwork.

We similarly disagree with the suggestion to place borrowers on the 10-year standard repayment plan. Doing so creates a risk that borrowers would face extremely high unaffordable payments right away. That is because the 10-year plan calculates the payment needed for a borrower to pay off the loan within 10-years of starting repayment. For example, a borrower who spent four years on REPAYE and then went onto the 10-year standard repayment plan

[92] The Department has published regular updates on the Joint Consolidation Separation Act on *StudentAid.gov: www.studentaid.gov/announcements-events/joint-consolidation-loans.*

[93] U.S. Government Accountability Office, 2022. Federal Student Aid: Education Needs to Take Steps to Ensure Eligible Loans Receive Income-Driven Repayment Forgiveness. GAO–22–103720.

would be on a plan that amortizes their entire remaining loan balance over six years. That amount could easily be hundreds of dollars more a month than what the borrower was paying on an IDR plan, increasing the risk of delinquency or default. The alternative plan is a better option that would result in less payment shock than the 10-year standard plan would, so we encourage borrowers to recertify.

Changes: None.

Executive Orders 12866 and 13563

Regulatory Impact Analysis

Under Executive Order 12866, the Office of Management and Budget (OMB) must determine whether this regulatory action is ''significant'' and, therefore, subject to the requirements of the Executive Order and subject to review by OMB. Section 3(f) of Executive Order 12866, as amended by Executive Order 14094, defines a ''significant regulatory action'' as an action likely to result in a rule that may—

(1) Have an annual effect on the economy of $200 million or more (adjusted every 3 years by the Administrator of OIRA for changes in gross domestic product), or adversely affect in a material way the economy, a sector of the economy, productivity, competition, jobs, the environment, public health or safety, or State, local, territorial, or Tribal governments or communities;

(2) Create a serious inconsistency or otherwise interfere with an action taken or planned by another agency;

(3) Materially alter the budgetary impacts of entitlement grants, user fees, or loan programs or the rights and obligations of recipients thereof; or

(4) Raise legal or policy issues for which centralized review would meaningfully further the President's priorities, or the principles stated in the Executive Order, as specifically authorized in a timely manner by the Administrator of OIRA in each case.

The Department estimates the net budget impact to be $156.0 billion in increased transfers among borrowers, institutions, and the Federal Government, with annualized transfers of $16.6 billion at 3 percent discounting and $17.9 billion at 7 percent discounting, and largely one-time administrative costs of $17.3 million, which represent annual quantified costs of $2.3 million related to administrative costs at 7 percent discounting. Therefore, this final action is subject to review by OMB under section 3(f) of Executive Order 12866 (as amended by Executive Order 14094).

Notwithstanding this determination, we have assessed the potential costs and benefits, both quantitative and qualitative, of this final regulatory action and have determined that the benefits will justify the costs.

We have also reviewed these regulations under Executive Order 13563, which supplements and explicitly reaffirms the principles, structures, and definitions governing regulatory review established in Executive Order 12866. To the extent permitted by law, Executive Order 13563 requires that an agency—

(1) Propose or adopt regulations only on a reasoned determination that their benefits justify their costs (recognizing that some benefits and costs are difficult to quantify);

(2) Tailor its regulations to impose the least burden on society, consistent with obtaining regulatory objectives and taking into account—among other things and to the extent practicable—the costs of cumulative regulations;

(3) In choosing among alternative regulatory approaches, select those approaches that maximize net benefits (including potential economic, environmental, public health and safety, and other advantages; distributive impacts; and equity);

(4) To the extent feasible, specify performance objectives, rather than the behavior or manner of compliance a regulated entity must adopt; and

(5) Identify and assess available alternatives to direct regulation, including economic incentives—such as user fees or marketable permits—to encourage the desired behavior, or provide information that enables the public to make choices.

Executive Order 13563 also requires an agency ''to use the best available techniques to quantify anticipated present and future benefits and costs as accurately as possible.'' The Office of Information and Regulatory Affairs of OMB has emphasized that these techniques may include ''identifying changing future compliance costs that might result from technological innovation or anticipated behavioral changes.''

We are issuing these regulations only on a reasoned determination that their benefits will justify their costs. In choosing among alternative regulatory approaches, we selected those approaches that maximize net benefits. Based on the analysis that follows, the Department believes that these regulations are consistent with the principles in Executive Order 13563.

We have also determined that this regulatory action will not unduly interfere with State, local, territorial, and Tribal governments in the exercise of their governmental functions.

The Director of OMB has waived the requirements of section 263 of the Fiscal Responsibility Act of 2023 (Pub. L. 118–5) pursuant to section 265(a)(2) of that act.

As required by OMB Circular A–4, we compare the final regulations to the current regulations. In this regulatory impact analysis, we discuss the need for regulatory action, potential costs and benefits, net budget impacts, and the regulatory alternatives we considered.

1. Congressional Review Act Designation

Pursuant to the Congressional Review Act (5 U.S.C. 801 *et seq.*), the Office of Information and Regulatory Affairs designated that this rule is covered under 5 U.S.C. 804(2) and (3).

2. Need for Regulatory Action

Postsecondary education provides significant individual and societal benefits. For individuals, obtaining postsecondary credentials can lead to higher lifetime earnings and increased access to other benefits like health insurance and employer-sponsored retirement accounts, and is also positively correlated with job satisfaction, homeownership, and health.[94] Our society also benefits from increased postsecondary attainment through a better educated and flexible workforce, increased civic participation, and improved health and well-being for the next generation.[95]

But postsecondary education is expensive. For many attendees, a postsecondary education will be among the most expensive and consequential purchases they make in their lifetimes. Most students cannot afford this cost out of pocket. This is particularly the case for students from low-income families, individuals who are the first in their families to go to college, adults who do not attend postsecondary education immediately after high school, and other students who face barriers to college enrollment and success. For these individuals in particular, Federal student loans are

[94] Oreopoulos, P., & Salvanes, K.G. (2011). Priceless: The Nonpecuniary Benefits of Schooling. Journal of Economic Perspectives, 25(1), 159–184.

[95] Moretti, E. (2004). Workers' Education, Spillovers, and Productivity: Evidence from Plant-Level Production Functions. *American Economic Review,* 94(3), 656–690.

Dee, T.S. (2004). Are There Civic Returns to Education? *Journal of Public Economics,* 88(9–10), 1697–1720.

Currie, J., & Moretti, E. (2003). Mother's Education and the Intergenerational Transmission of Human Capital: Evidence from College Openings. *Quarterly Journal of Economics,* 118(4), 1495–1532.

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often a necessary component for financing college.

Student loans provide the necessary financial resources to borrowers who cannot finance their educations out of pocket, allowing them to reap the benefits from enrolling in and completing a postsecondary education, and, as a result, to repay their debt through the earnings gains resulting from their increased educational attainment. This is why student loans are often described as borrowing against one's future income.

However, in the years since the Great Recession, a greater number of students are borrowing student loans, and student loan balances have become larger. Many students are able to repay their Federal student loans from their earnings gains from postsecondary education. However, some borrowers find the amount of debt burdensome, and it may impact their decisions to buy a home, start a family, or start a new business.

Many borrowers end up significantly constrained due to loan payments that make up an unaffordable share of their income. Among undergraduate students who started higher education in 2012 and were making loan payments in 2017, at least 19 percent had monthly payments that were more than 10 percent of their total annual salary.[96]

Borrowing to pursue a postsecondary credential also involves risk. First is the risk of noncompletion. In recent years, about one-third of undergraduate borrowers did not earn a postsecondary credential.[97] These individuals are at a high risk of default, with an estimated 40 percent defaulting within 12 years of entering repayment.[98] Even among graduates, there is substantial variation in earnings across colleges, programs, and individuals. Some borrowers do not receive the expected economic returns due to programs that fail to make good on their promises or lead to jobs that provide financial security. Conditional on educational attainment, Black students take on larger amounts of debt.[99] Additionally, discrimination in the labor market may lead borrowers of color to earn less than white borrowers, even with the same level of educational attainment.[100] Unanticipated macroeconomic shocks, such as the Great Recession, provide an additional type of risk—specifically, that borrowers' postsecondary credentials may pay off less than anticipated in the short- or even long-run due to prolonged periods of unemployment or lower wages. Finally, there is individual-level risk of unanticipated events such as a serious illness that may reduce a borrower's ability to keep up with a fixed monthly payment.

Income-driven repayment (IDR) plans are intended to help borrowers whose incomes are insufficient to sustain reasonable debt payments. The plans are created through statute and regulation and base a borrower's monthly payment on their income and family size. Under these plans, loan forgiveness occurs after a set number of years in repayment, depending on the repayment plan that is selected. Because payments are based on a borrower's income, they may be more affordable than fixed repayment options, such as those in which a borrower makes payments over a period of between 10 and 30 years. There are four repayment plans that are collectively referred to as IDR plans: (1) the income-based repayment (IBR) plan; (2) the income contingent repayment (ICR) plan; (3) the pay as you earn (PAYE) plan; and (4) the revised pay as you earn (REPAYE) plan. Within the IBR plan, there are two versions that are available to borrowers, depending on when they took out their loans. Specifically, for a new borrower with loans taken out on or after July 1, 2014, the borrower's payments are capped at 10 percent of discretionary income. For those who are not new borrowers on or after July 1, 2014, the borrower's payments are capped at 15 percent of their discretionary income.

Because payments are calculated based upon income, the IDR plans can assist borrowers who may be overly burdened at the start of their time in the workforce, those who experience a temporary period of economic hardship, and those who perpetually earn a low income. For the first and second groups, an IDR plan may be the ideal option for a few years, while the last group may need assistance for multiple decades. IDR plans simultaneously provide protection for the borrower against the consequences of having a low income and adjust repayments to fit the borrower's changing ability to pay.[101]

Federal student loan borrowers are increasingly choosing to repay their loans using one of the currently available IDR plans.[102] Enrollment in IDR increased by about 50 percent between the end of 2016 and the start of 2022, from approximately 6 million to more than 9 million borrowers, and borrowers with collectively more than $500 billion in debt are currently enrolled in an IDR plan.[103] Similarly, the share of borrowers with Federally managed loans enrolled in an IDR plan rose from just over one-quarter to one-third during this time.[104]

While existing IDR plans have helped millions of borrowers afford their monthly payments, they have not been selected by large numbers of the most vulnerable borrowers. Despite the availability of these plans, more than 1 million borrowers a year were still defaulting on student loans prior to the national pause on repayment, interest, and collections that began in March 2020. Many other borrowers were behind on their payments and at risk of defaulting.

Research shows that undergraduate borrowers, borrowers with low incomes, and borrowers with high debt levels relative to their incomes enroll in IDR plans at lower rates than their counterparts with higher levels of education and incomes.[105] An analysis of IDR usage by the JPMorgan Chase Institute found that there are two borrowers who could potentially benefit

[96] Calculations using 2012 BPS data; table reference tcedtf.

[97] Calculations using 2012 BPS data; table reference: icvago.

[98] Calculations using 2004/2009 BPS data; table reference: lvafhq.

[99] *E.g.,* Scott-Clayton, J., & Li, J. (2016). Black-white disparity in student loan debt more than triples after graduation. Economic Studies, Volume 2 No. 3.

[100] See *https://nces.ed.gov/programs/raceindicators/indicator_RFD.asp.https://nces.ed.gov/programs/raceindicators/indicator_RFD.asp.* For an overview of research on earnings gaps by race and the role of labor market discrimination, see Altonji, J.G., & Blank, R.M. (1999). Race and gender in the labor market. Handbook of labor economics, 3, 3143–3259.

[101] Krueger, A.B., & Bowen, W.G. (1993). Policy Watch: Income-Contingent College Loans. *Journal of Economic Perspectives, 7*(3), 193–201. *doi.org/10.1257/jep.7.3.193.*

[102] Gary-Bobo, R.J., & Trannoy, A. (2015). Optimal student loans and graduate tax under moral hazard and adverse selection. The RAND Journal of Economics, 46(3), 546–576. doi.org/10.1111/1756–2171.12097.

[103] U.S. Department of Education, Federal Student Aid Data Center, Repayment Plans, available *studentaid.gov/manage-loans/repayment/plans.* Includes all Federally managed loans across all IDR plans, measured in Q4 2016 through Q1 2022.

[104] Ibid.

[105] Daniel Collier et al., Exploring the Relationship of Enrollment in IDR to Borrower Demographics and Financial Outcomes (Dec. 30, 2020); see also Seth Frotman and Christa Gibbs, Too many student loan borrowers struggling, not enough benefiting from affordable repayment options, Consumer Fin. Prot. Bureau (Aug. 16, 2017); Sarah Gunn, Nicholas Haltom, and Urvi Neelakantan, Should More Student Loan Borrowers Use Income-Driven Repayment Plans?, Federal Reserve Bank of Richmond (June 2021).

from an IDR plan for each borrower who actually enrolls in an IDR plan.[106] Moreover, the borrowers not using the IDR plans appear to have significantly lower incomes than those who are enrolled. According to a Federal Reserve Bank of Richmond report, a quarter or less of borrowers in households with incomes less than $20,000 per year were in an IDR plan, compared to 46 percent of borrowers in households with income between $60,000 and $80,000 and 38 percent in households with incomes between $80,000 and $100,000.[107] An Urban Institute analysis using the 2016 Survey of Consumer Finances found that households headed by borrowers who were receiving Federal benefits, such as support from the Supplemental Nutrition Assistance Program, were more likely to not make any payments because of forbearance, some other forgiveness program, or an inability to afford payments, than to be enrolled in an IDR plan.[108] Similarly, a one-time analysis of student loan data conducted by the U.S. Treasury and disclosed in a GAO report found that 70 percent of defaulted borrowers had incomes that met the requirements to qualify for IBR. This means that they would have had payments lower than the 10-year standard plan had they signed up for IBR.[109] In line with evidence that Black borrowers are more likely to experience default on their loans, there is evidence of lower take-up in IDR usage among potentially-eligible Black borrowers. In particular, households headed by Black borrowers in the 2016 Survey of Consumer Finances were slightly more likely to report not making payments on their loans than to report using IDR.[110]

These trends are further borne out in the Department's administrative data on borrowers with outstanding debt who recently entered repayment.[111] Currently, just under a quarter (23 percent) of borrowers with only undergraduate loans are on an IDR plan, as compared to half (50 percent) of those who borrowed to attend a graduate program. As a result, about 79 percent of borrowers who recently entered repayment only had undergraduate loans, but these individuals represent only 64 percent of recent borrowers on IDR plans. By contrast, 21 percent of borrowers who recently entered repayment had graduate loans, but they represent 36 percent of borrowers on an IDR plan. Usage rates are even lower among the borrowers who are likeliest to face repayment difficulties. Among undergraduate only borrowers who recently entered repayment, 22 percent of borrowers who did not complete a credential are using an IDR plan, and IDR usage increases as educational attainment increases: 24 percent of those who completed a sub-baccalaureate credential and 25 percent of those who completed a bachelor's degree but not a graduate degree are on IDR plans. About half of borrowers who completed a graduate degree and recently entered repayment on are on IDR plan. These results are shown in Table 2.1 below.

TABLE 2.1—IDR USAGE BY BORROWER CHARACTERISTICS, BORROWERS WHO ENTERED REPAYMENT BETWEEN 2015 AND 2018

	Percentage of borrowers (%)	Percentage of IDR borrowers (%)
Has undergraduate loans only	79	64
Has graduate loans	21	36
Among those that have undergraduate loans only		
Did not complete any credential	47	44
Completed a sub-baccalaureate credential	20	20
Completed a bachelor's degree but no graduate degree	30	32
Among all borrowers		
Completed a graduate degree	17	27

Note: Borrowers who entered repayment with only Parent PLUS loans are excluded from these analyses. IDR usage is measured as of 12/31/2019.

Even the borrowers who do use an IDR plan may continue to face challenges in repayment. Many borrowers on IDR still report concerns that their payments are too expensive. For example, one survey of student loan borrowers found that, of those currently or previously enrolled in an IDR plan, 47 percent reported that their monthly payment was still too high.[112] Complaints from borrowers enrolled in IDR received by the Student Loan Ombudsman show that borrowers find that IDR payments are unaffordable because competing expenses, such as medical bills, housing, and groceries, cut into their discretionary income. Furthermore, borrowers in IDR still struggle in other areas of financial health. One study showed that borrowers enrolled in IDR had less money in their checking accounts and a lower chance of participating in saving for retirement than borrowers in other repayment plans, suggesting that struggling borrowers may not obtain sufficient relief from unaffordable

[106] This analysis is restricted to borrowers with a Chase checking account who meet certain other criteria in terms of frequency of monthly transactions and amount of money deposited into the account each year. *www.jpmorganchase.com/institute/research/household-debt/student-loan-income-driven-repayment.*

[107] Sarah Gunn, Nicholas Haltom, and Urvi Neelakantan, Should More Student Loan Borrowers Use Income-Driven Repayment Plans?, Federal Reserve Bank of Richmond (June 2021).

[108] *www.urban.org/urban-wire/demographics-income-driven-student-loan-repayment.*

[109] 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.

[110] *www.urban.org/urban-wire/demographics-income-driven-student-loan-repayment.*

[111] Based on borrowers with who had at least one loan enter repayment between 2015 and 2018, excluding borrowers who only had Parent PLUS loans. IDR use is measured as of 12/31/2019.

[112] Plunkett, Travis, Fitzgerald, Regan, Denten, Brain, West, Lexi, Upcoming Rule-Making Process Should Redesign Student Loan Repayment (September 2021), *www.pewtrusts.org/en/research-and-analysis/articles/2021/09/24/upcoming-rule-making-process-should-redesign-student-loan-repayment.*

payments under the current IDR options to achieve financial stability.[113]

Many borrowers on IDR plans face challenges beyond the affordability of their monthly payments. Department data show that 70 percent of borrowers on IDR plans prior to March 2020 had payment amounts that did not cover their full interest payment.[114] Borrowers in those situations on existing IDR plans will see their balances grow unless they only have subsidized loans and are in the first three years of repayment. Focus groups of borrowers show that this causes borrowers on IDR stress even when they are able to afford their payments.[115]

A significant share of borrowers report their expected monthly payments will still be unaffordable when they return to repayment following the end of the payment pause. For example, 26 percent of borrowers surveyed in 2021 disagreed with the statement that they would be able to afford the same monthly amount they were paying before the pause.[116] A 2022 survey found that over a fifth of borrowers were chronically struggling with repayment before the pause and expected that they would continue to struggle when payments resume.[117]

The Department is also concerned that while borrowers using IDR have lower default rates than borrowers not on these plans, the rate of default for borrowers on IDR still remains high. According to research from the Congressional Budget Office (CBO), the default rate for borrowers in IDR is about half that of borrowers in payment plans with a fixed amortization period. However, the cumulative default rates of undergraduate borrowers who began repayment in 2012 and participated in an IDR plan in their first and/or second year of repayment still approached nearly 20 percent by 2017.[118] While the Department cannot definitively know why these borrowers defaulted, the fact that nearly one in five of them defaulted despite the usage of IDR shows that many borrowers struggle to make their payments under the current IDR options and suggests there is still significant work to do to make sure that these plans can set borrowers up for long-term repayment success.

The improved terms of the REPAYE plan in this final rule will help address these concerns. To the extent that borrowers are still defaulting because they cannot afford their payments, this plan will provide a $0 payment for more low-income borrowers and will reduce payments for all other borrowers relative to the current REPAYE plan, making payments more manageable and reducing the risk of default. In particular, income information currently on file suggests that more than 1 million borrowers on IDR could see their payments go to $0 based upon the parameters of the plan in this final rule, including more than 400,000 that are already on REPAYE whose payment amounts would be updated automatically to $0.

The Department is also taking steps to make it easier for borrowers to stay on IDR, which will further support their long-term repayment success. In particular, this is done through the ability to automatically recalculate payments when a borrower provides approval for the sharing of their Federal tax information. Such changes are important because historically, many borrowers failed to complete the income recertification process that is required to recalculate payments and maintain enrollment in an IDR plan. Borrowers who fail to complete this process at least once a year are moved to other repayment plans and may see a significant increase in their required monthly payment. Further, the fact that it is currently easier to obtain a forbearance or deferment than to enroll in or recalculate payments under IDR may lead some borrowers to choose to enter deferment or forbearance to pause their payments temporarily, rather than enrolling in or recertifying their income on IDR to access more affordable payments following a change in their income.[119] In particular, borrowers may not have to provide income information or complete as much paperwork to obtain a pause on their loans through deferment or forbearance. Borrowers who are struggling financially and working to address a variety of financial obligations may be particularly inclined to enter deferment or forbearance rather than navigating the IDR enrollment or recertification process, despite the fact that staying on IDR—and updating their income information to recalculate monthly payments as needed—may better set them up for long-term repayment success. For example, the Consumer Financial Protection Bureau found that delinquency rates significantly worsened for those who did not recertify their incomes on time after their first year in an IDR plan.[120] In contrast, delinquency rates for those who did recertify their incomes slowly improved.

The Department has several goals in pursuing these regulatory changes. First, we want to increase enrollment in an IDR plan among borrowers who are at significant risk of default or struggling to repay their student loans. Doing so will help reduce the number of defaults nationally and protect borrowers from the resulting negative consequences. Second, we want to make it simpler for borrowers to choose among IDR plans. This requires considering the benefits available to borrowers in other plans and minimizing the number of situations in which a borrower might have an incentive to pick a different plan. In other words, if the terms of the new REPAYE plan provide fewer benefits to a large group of borrowers compared to existing plans, it will be harder for borrowers to identify and select an IDR plan that meets their needs. Third, we want to make it easier for borrowers to navigate repayment overall. This involves addressing elements of the repayment experience in which well-meaning choices by borrowers could accidentally result in being required to repay for a significantly longer period of time. It also means simplifying the overall process for the borrower of choosing between IDR and other types of repayment plan.

Different parameters of the plan in this final rule accomplish these various goals. For instance, the provisions to protect a higher amount of income, set payments at 5 percent of discretionary income for undergraduate loans, not charge unpaid monthly interest, automatically enroll borrowers who are delinquent or in default, provide credit toward forgiveness for time spent in certain deferments and forbearances, and shorten the time to forgiveness for low balance borrowers all provide disproportionate benefits for undergraduate borrowers, particularly

[113] Collier, D.A., Fitzpatrick, D., & Marsicano, C.R. (2021). Another Lesson on Caution in IDR Analysis: Using the 2019 Survey of Consumer Finances to Examine Income-Driven Repayment and Financial Outcomes. Journal of Student Financial Aid, 50(2).

[114] Department of Education analysis of loan data for borrowers enrolled in IDR plans, conducted in FSA's Enterprise Data Warehouse, with data as of March 2020.

[115] Sattelmeyer, Sarah, Brian Denten, Spencer Orenstein, Jon Remedios, Rich Williams, Borrowers Discuss the Challenges of Student Loan Repayment (May 2020), *www.pewtrusts.org/-/media/assets/2020/05/studentloan_focusgroup_report.pdf.*

[116] Survey on Student Loan Borrowers 2021, The Pew Charitable Trusts—Student Loan Research Project. *survey-on-student-loan-borrowers-2021-topline.pdf* (*pewtrusts.org*).

[117] Akana, Tom and Dubravka Ritter. 2022. Expectations of Student Loan Repayment, Forbearance, and Cancellation: Insights from Recent Survey Data. Federal Reserve Bank, Philadelphia. Consumer Finance Institute.

[118] *www.cbo.gov/publication/55968.*

[119] Consumer Financial Protection Bureau. Borrower Experiences on Income-Driven Repayment. November 2019. *files.consumerfinance.gov/f/documents/cfpb_data-point_borrower-experiences-on-IDR.pdf.*

[120] Ibid.

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those at greater risk of default. That will make the IDR plans more attractive to the very groups of borrowers the Department is concerned about being at risk of delinquency or default.

The inclusion of borrowers who have graduate loans in some but not all elements of the REPAYE plan and the treatment of married borrowers who file separately in particular accomplish the second goal of making it easier to choose among IDR plans. Currently, the process of selecting among IDR plans is unnecessarily complicated. Borrowers may be better off choosing different plans depending on a variety of factors, including whether they are married, when they borrowed, and both their current and anticipated future income relative to the annual amount due on eligible loans. That makes it harder for student loan servicers to explain the different plans to borrowers when they are trying to make important financial decisions. Such complexity also complicates efforts to explain IDR to more vulnerable borrowers. Allowing borrowers with graduate loans to gain access to some of the benefits provided by REPAYE will make the REPAYE plan the best option for almost all borrowers. Absent such a structure, it would be harder to sunset new enrollment in other plans and borrowers would continue to face a confusing set of IDR choices.

Provisions around the counting of prior credit toward forgiveness following a consolidation, not charging unpaid monthly interest, and providing credit for deferments and forbearances make it easier for borrowers to navigate repayment. The Department is concerned that the current process of navigating repayment and choosing between IDR and non-IDR plans is overly complicated. There are too many ways for borrowers to accidentally make choices that seemed reasonable at the time but result in the loss of months, if not years, of progress toward forgiveness. For example, a borrower may choose certain deferments or forbearances instead of picking an IDR plan where they would have a $0 payment. Or they may consolidate their loans because they think it would be easier to have one loan to keep track of, not knowing it would erase all prior progress toward forgiveness. Similarly, the fact that IDR plans are the only payment options available where a borrower can make their required payments and still see their balance grow makes it difficult for borrowers to understand the choices and options that are best for them. With these changes, the negative consequences associated with various repayment choices, including enrollment in REPAYE, will be minimized.

The Department believes the REPAYE plan as laid out in these final rules focuses appropriately on supporting the most at-risk borrowers, simplifying choices within IDR, and making repayment easier to navigate. The result is a plan that targets benefits to the borrowers at the greatest risk of delinquency or default, while providing a single option that is clearly the most advantageous for the vast majority of borrowers.

The changes to REPAYE focus on borrowers who are most at risk of default: those who have low earnings, borrowed relatively small amounts, and only have undergraduate debt. This emphasis is especially salient for those who are at the start of repayment. For example, among borrowers earning less than 225 percent of the Federal poverty level five years from their first enrollment in postsecondary education, 36 percent had at least one default in the within 12 years of entering postsecondary education, compared to 24 percent of those earning more.[121] And borrowers with relatively small debts—$10,000 or less in 2009—defaulted at a rate of 43 percent 12 years after beginning postsecondary education, compared to 21 percent for those who borrowed more.[122] Finally, those who borrowed only for their undergraduate education were more than three times as likely to experience a default from 2004 to 2016 (34 percent vs. 9 percent for those with any graduate loans).[123]

3. Summary of Comments and Changes From the IDR NPRM

TABLE 3.1—SUMMARY OF KEY CHANGES IN THE FINAL REGULATIONS

Provision	Regulatory section	Description of final provision
Adding SAVE as an alternative name for REPAYE.	§ 685.209	Indicating that REPAYE may also be referred to as Saving on a Valuable Education, or SAVE plan.
Family size and Federal tax data	§ 685.209	Indicating that information from Federal tax information reported to the Internal Revenue Service can be used to calculate family size for an IDR plan.
Minimum payment amount	§ 685.209	Rounding calculated payment amounts of less than $5 to $0 and those between $5 and $10 to $10.
5% and 10% payments on REPAYE	§ 685.209	Clarifying that borrowers pay 5% of discretionary income toward loans obtained for their undergraduate study and 10% for all other loans, including those when the academic level is unknown.
Borrower eligibility for different IDR plans	§ 685.209	Stating that a Direct Consolidation loan disbursed on or after July 1, 2025, that repaid a Direct parent PLUS loan, a FFEL parent PLUS loan, or a Direct Consolidation Loan that repaid a consolidation loan that included a Direct PLUS or FFEL PLUS loan may only chose the ICR plan. Also states that a borrower maintains access to PAYE if they were enrolled in that plan on July 1, 2024 and does not change repayment plans. Similar language is adopted for ICR with an exception for Direct Consolidation Loans that repaid a parent PLUS loan.
Payments made in bankruptcy	§ 685.209	Granting the Secretary the authority to award credit toward IDR forgiveness for periods when it is determined that the borrower made payments on a confirmed bankruptcy plan.
Treatment of joint consolidation loans	§ 685.209	Clarifying that joint consolidation loans that are separated will receive equal credit toward IDR forgiveness.
Crediting involuntary collections toward forgiveness.	§ 685.209	Stating that involuntary collections are credited at amounts equal to the IBR payment, if known, for a period that cannot exceed the borrower's next recertification date.

[121] Analysis of Beginning Postsecondary Students (BPS) 2004/2009. *https://nces.ed.gov/datalab/powerstats/table/lqawqv.*

[122] Ibid.

[123] Ibid.

TABLE 3.1—SUMMARY OF KEY CHANGES IN THE FINAL REGULATIONS—Continued

Provision	Regulatory section	Description of final provision
Catch up payments	§ 685.209	Stating that catch up payments are only available for periods beginning after July 1, 2024, can only be made using the borrower's current IDR payment, and are limited to periods that ended no more than 3 years previously.
Providing approval for disclosure of Federal tax information.	§ 685.209	Expanding the situations in which the borrower could provide approval for obtaining their Federal tax information.
Removal from default	§ 685.209	Allowing the Secretary to remove a borrower from default if they enroll in an IDR plan with income information that covers the point at which they defaulted and their current IDR payment is $0.
Shortened time to forgiveness	§ 685.209	Stating that periods of deferment or forbearance that are credit toward IDR forgiveness may also be credited toward the shortened time to forgiveness.
Rehabilitation	§ 685.209	Clarifying that a reasonable and affordable payment amount for rehabilitations may be based upon the IBR formula and that a borrower on IBR who exits default may be placed on REPAYE if they are eligible for it and it would result in a lower payment.

Comments: Many commenters expressed concerns about the estimated net budget impact of the REPAYE plan. Several commenters cited Executive Order 13563, which requires agencies to ''propose or adopt a regulation only upon a reasoned determination that its [the regulation's] benefits justify its costs'' and to ''use the best available techniques to quantify anticipated present and future benefits and costs as accurately as possible.'' Other commenters argued that the cost alone indicated that Congress should have taken this action, rather than the Department. Commenters also expressed concerns about the fairness of providing such spending to individuals who had gone to college compared to the effects on someone who never enrolled in postsecondary education.

Discussion: As discussed in greater detail in the Benefits of the Regulation section of this RIA, the Department believes that the benefits of this final regulation justify its costs. These changes to REPAYE will create a safety net that can help the most vulnerable borrowers avoid default and delinquency at much greater rates than they do today. Doing so is important to make certain that a student's background does not dictate their ability to access and afford postsecondary education. The Department is concerned that the struggles of current borrowers may dissuade prospective students from pursuing postsecondary education.

Importantly, these benefits are provided to existing borrowers and future ones. That means anyone who has previously not enrolled in college because they were worried about the cost or the risk of borrowing will have access to these benefits as well. In considering who these individuals might be, it is important to recall there are many people today who may seem like they are not going to enroll in postsecondary education today who may ultimately end up doing so. Currently, 52 percent of borrowers are aged 35 or older, including 6 percent who are 62 or older.[124] The benefits of revisions to REPAYE are also available to borrowers enrolled in all types of programs, including career-oriented certificate programs and liberal arts degree programs. The additional protections provided by this rule may also encourage borrowers who did not complete a degree or certificate and are hesitant to take on more debt to re-enroll, allowing them to complete a credential that will make them better off financially.

We also note that the sheer scale of the student loan programs plays a major role in the overall estimated net budget impact. Student loans are the second largest source of consumer debt after mortgages and ahead of credit cards.[125] There is currently $1.6 trillion in outstanding student loan debt.[126] The Department estimates that another $872 billion will be lent over the coming decade. By contrast, there was $23 billion outstanding in 1993 when Congress created the ICR authority and $577 billion in 2008, the last time Congress reauthorized the Higher Education Act. This growth is not just a function of higher prices but also of a significant expansion of postsecondary enrollment. The number of students enrolled in college has increased from 12.29 million in fall 1994 to 18.66 million in fall 2021.[127] The types of students who borrow have also changed as the composition of college students has expanded to include more individuals who are low-income, the first in their families to attend college, or working adults. The costs observed in the net budget impact are at least partly affected by the overall growth in volume and the characteristics of who is borrowing, not just the extension of certain benefits.

Changes: None.

Comments: The Department received comments expressing concern that the most expensive elements of the plan are also the ones that are the least well-targeted. For instance, the commenters pointed to estimates from the IDR NPRM showing that the most expensive components of the proposal were the increase in the amount of income protected from payments and having borrowers pay 5 percent of their discretionary income on undergraduate loans. The commenters argued that the cost of those provisions plus the extent of the benefits they provided to higher-income borrowers created an imbalance between the costs and benefits of the rule. They also argued that there is little evidence that the most expensive provisions will provide sufficient benefits to justify their costs. Several commenters argued that our proposals lack a cost and benefit analysis specific to graduate borrowers. This group of commenters claim our proposals provide uncapped subsidies for the most educated Americans.

Discussion: The commenters accurately identified the elements of the plan that we project have the greatest individual costs. However, we disagree with the claim that the benefits of the plan are ill-targeted. First, because payments under REPAYE are not capped, borrowers with the highest incomes will still have higher scheduled payments under the plan than under the

[124] From Q1 2023 data in *studentaid.gov/sites/default/files/fsawg/datacenter/library/Portfolio-by-Age.xls.*

[125] *https://www.newyorkfed.org/medialibrary/interactives/householdcredit/data/pdf/HHDC_2023Q1.*

[126] *https://studentaid.gov/sites/default/files/fsawg/datacenter/library/PortfolioSummary.xls.*

[127] *nces.ed.gov/programs/digest/d22/tables/dt22_303.10.asp.*

standard 10-year plan. Second, graduate borrowers—who tend to have higher incomes—will only receive the 5 percent of discretionary income payment rate for the debt they took on for their undergraduate education. The Department considered the cost of providing additional relief to graduate borrowers and we believe that our plan balances our goals of protecting the borrowers most at risk of delinquency while ensuring borrowers pay back their fair share. The Department's analyses of the distributional benefits of the plan show that borrowers at the bottom of the lifetime income distribution are projected to see the largest reduction in payments per dollar borrowed.

Changes: None.

Comments: One commenter claimed that the proposed plan was regressive and benefitted wealthy borrowers more than lower-income borrowers, citing Table 7 of the IDR NPRM (the updated version of this table is now Table 5.5). This is a table that showed the breakdown of mean debt and estimated payment reductions for undergraduate and graduate borrowers by income range. A commenter argued that the expansion of eligibility for forgiveness to borrowers with higher incomes is the costliest component of the proposed regulations. This commenter claims that these regulations significantly increase the range of starting incomes that borrowers can earn and still expect to receive some type of loan forgiveness from approximately $32,000 under the current IDR plan to $55,000 under the new IDR plan.

Discussion: Assessing the starting incomes that could lead to forgiveness is not a one-size-fits-all endeavor. That is because the borrower's student loan balance also affects whether the borrower is likely to fully repay the loan or have some portion of their balance forgiven. For instance, a borrower who earns $55,000 as a single individual and only borrowed $5,000 would pay off the loan before receiving forgiveness. The REPAYE plan will provide many borrowers with lower payments, particularly helping low-income borrowers avoid delinquency and default while ensuring middle-income borrowers are not overburdened by unaffordable payments.

Regarding the discussion of Table 7 in the IDR NPRM (Table 5.5 in this RIA), there are a few important clarifications to recall. First, this table reflects existing differences in the usage of IDR between these groups. The new plan emphasizes its benefits toward the lower-income borrowers that do not currently use IDR at rates as high as some of their counterparts with higher incomes. Second, many borrowers in the lowest income categories will have $0 monthly payments as part of these changes. A borrower cannot see their payments reduced below $0, so this will cap the possible reduction in payments for the lowest-income borrowers. The potentially smaller dollar savings that occur each month will still be important for them, as the marginal burden of each additional $1 in student loan payments will be greater for a lower-income borrower compared to a higher income one. We also note that an undergraduate borrower in the middle of the three income ranges still sees larger typical savings than a graduate borrower in the same range does.

Finally, it is important to recall that some of the savings that are occurring for these graduate borrowers are due to the fact that they also have undergraduate loans. That means had they never borrowed for graduate school they would still be seeing some of those savings.

Changes: None.

Comments: One commenter argued that the Department's explanation for the net budget estimate in the IDR NPRM does not match its stated goal of assisting student loan borrowers burdened by their debt. This commenter further claimed that the Department's refusal to tailor its IDR plan to the students that it purports to help demonstrates that the IDR NPRM's reasoning is contrived and violated the Administrative Procedure Act (APA). This commenter cited an analysis that claimed that the Department's proposed new IDR plan constituted a taxpayer gift to nearly all former, current, and prospective students.

The commenter further believed that the level of income protected and share of income above the protected amount that goes toward loan payments exceeds what would be needed for a targeted policy measure that solves the specific problem of young borrowers struggling with debt because borrowers below this level would have a zero-dollar payment under the IDR Plan.

Discussion: As noted elsewhere in this final rule, the Department has several goals for this regulatory action. Our main goal is to reduce the rates of default and delinquency by making payments more affordable and manageable for borrowers, particularly those most at risk of delinquency and default. We are also working to make the overall repayment experience simpler. This means making it easier both to decide whether to sign up for an IDR plan and which IDR plan to select. Achieving that goal requires operating within the existing IDR plans. For example, a REPAYE plan that fully excluded all graduate borrowers would increase confusion because many borrowers carry both graduate and undergraduate loans, and there are currently many graduate borrowers using the REPAYE plan. We are concerned that added complexity would make it harder for the most at-risk borrowers to pick the best plan for them as they may be overwhelmed by choices that vary based upon highly technical details.

Changes: None.

Comments: Several commenters submitted different types of analyses of how many borrowers would fully repay their loans or what share of their loans they would repay. One commenter provided an analysis showing that they estimated that 69 percent of borrowers with certificates and associate degrees will repay less than half their loan before receiving forgiveness. They also estimated that would be the case for 49 percent of bachelor's degree recipients. These are both increases from existing plans. Several other commenters cited this analysis in their comments.

A different commenter provided their own estimate that borrowers from programs with a negative return on investment would pay 21 percent of what they originally borrowed. That same commenter said that borrowers from private for-profit colleges would repay just under 45 percent of what they borrowed.

Another commenter estimated that 85 percent of individuals with postsecondary education would benefit from lower payments based upon their assumptions about typical debt levels.

Discussion: As discussed in the IDR NPRM, the Department developed its own model to look at what would occur if all borrowers were to choose the proposed REPAYE plan versus the existing one. We continue to use this model for the final rule. The model includes projections of all relevant factors that determine payments in an IDR plan, including debt and earnings at repayment entry, the evolution of earnings in subsequent years, transitions into and out of nonemployment, transitions into and out of marriage, spousal earnings and student loan debt, and childbearing. The model also allows these factors to vary with educational attainment and student demographics. While simpler models that do not include these factors can provide a rough indication of payments in the plan early in the repayment process, total repayments will depend on the entire sequence of labor market outcomes and family formation outcomes for the full length of

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repayment. Projections based on simplifying assumptions, such as a constant rate of income growth, or a median income for a broad set of borrowers, fail to capture the volatility of changes in earnings over time, and cannot fully capture the distribution of earnings relative to the amount of student loan debt a borrower acquires. As a result, we believe the model we designed for the IDR NPRM and used again in this final rule provides more accurate projections of the types of analyses the commenters provided.

Changes: None.

Comments: Some commenters pointed to a prior report from GAO about the Department's estimation of the cost of IDR plans to argue that the Department will not fully capture the cost of this rule.[128]

Discussion: The Department's student loan estimates are regularly reviewed by several entities, including GAO. The report cited by the commenter referenced the lack of modeling of repayment plan switching, resulting in upward re-estimates of IDR plan costs. The Department conducts regular re-estimates of the student loan programs to capture changes in the repayment plan distribution. This allows us to make certain we are updating our cost estimates to reflect updates to administrative data as well as changes in underlying economic indicators, such as government interest rates.

Changes: None.

Comments: Some commenters asked the Department to provide more clarity with regard to the quantified economic benefits of this rule versus its estimated costs.

Discussion: The Department believes we have appropriately described the economic benefits of the rule in the discussion of costs and benefits section, including the benefits to borrowers in the form of reductions in payments, decreased risk of student loan delinquency and default, and reduction in the complexity involved in choosing between different repayment plans. Included in this section is an analysis of the reduction in payments per dollar borrowed under the new plan compared to current REPAYE and the standard plan, both overall and by quintile of lifetime income and graduate debt. Many of the benefits that are provided that go beyond the reduction in payments are important but not quantifiable.

Changes: None.

Comments: Some commenters argued that the Department did not sufficiently connect the discussion of costs and benefits to stated goals. They also questioned why, if the concern is about preventing defaults, the Department did not first conduct an analysis of who defaults to drive decisions.

Discussion: With respect to the concerns about who defaults, the Department has intentionally taken a number of steps in the regulation that directly reflect research and data on default. For instance, as noted in the IDR NPRM, 90 percent of borrowers who default borrowed exclusively for their undergraduate education. This is one of the reasons why we are only lowering the share of income that goes toward payments for undergraduate loans. Similarly, as noted in the IDR NPRM, 63 percent of defaulters had an original principal balance of less than $12,000, the threshold we chose for the early forgiveness provision. The raised income protection will capture more of the lowest-income borrowers, which will also help avert default, as will the provision to automatically enroll delinquent borrowers in REPAYE. As noted in the NPRM and reiterated in the preamble to this final rule, the Department decided to protect earnings up to 225 percent of FPL after conducting an analysis showing that individuals at that point reported similar rates of material hardship than those with family incomes at or below the 100 percent of the FPL. Therefore, we believe the borrowers that will now have a $0 payment from this rule are those who were going to be at the greatest risk of default.

Changes: None.

Comments: Many commenters raised concerns that the budget estimates in the IDR NPRM understated the costs of the proposals. In particular, commenters pointed to three issues that they said should have been accounted for in the budgetary estimates:

(1) Existing student loan borrowers who do not currently choose an IDR plan may choose to begin repaying on an IDR plan given the more generous terms. The result would be an overall increase in the share of borrowers and loan volume in the IDR plans.

(2) Existing student loan borrowers may choose to take on higher levels of debt. This could be driven by personal choices since the cost of repaying debt for the individual has fallen or due to increases in tuition charged by institutions. Some commenters noted that this increased borrowing may only be for living expenses.

(3) More students who would not otherwise have borrowed may choose to take on debt as a result of these changes. This could include both more students going to college who might not have previously borrowed as well as students who would not otherwise have obtained student loans now choosing to borrow.

Commenters provided a range of estimates for how to quantify these various effects. These included estimates from the Penn Wharton Budget Model, the Urban Institute, and analyses done by Adam Looney and Preston Cooper, among others. These various analyses projected that between 70 and 90 percent of borrowers would benefit from the proposed changes to REPAYE. Commenters also included calculations using data from the National Postsecondary Student Aid Study looking at borrowers who did not take out the maximum amount of student loans available to them, data on the number of community colleges that might now choose to participate in the loan programs, data from the American Community Survey on earnings by field of study, information from the College Scorecard about typical debt and earnings levels, data from the Beginning Postsecondary Students Longitudinal Study, and trends in usage of IDR plans. Commenters also cited research from the Federal Reserve Bank of New York and Howard Bowen on possible effects on college prices.

Another commenter claimed that the Department's proposed revisions to the REPAYE plan would effectively discount the cost of college by 44 percent for the average borrower (relative to the current REPAYE plan) at a cost to taxpayers of several hundred billion dollars.

Discussion: The Department has updated the main budget estimate in this final rule that includes more future loan volume being repaid on the IDR plans, with most of this volume going onto the new REPAYE plan. We have also added a number of sensitivities that consider what would happen if total annual loan volume increases. These items are all explained in greater detail in the *Net Budget Impact* section of this RIA. This approach captures the fact that the degree of increases in take-up and new loan volume are subject to uncertainty. Given the timing of benefits received through IDR forgiveness and the uncertainty around many factors that would determine these benefits (*e.g.,* individual earnings trajectories and macroeconomic conditions), it is not unreasonable to assume that any price responses by higher education institutions would be muted relative to changes in prices that have been found following increases in the generosity of Federal student aid that students receive while enrolled. While we agree with the commenters that a significant majority of borrowers could benefit from the

[128] *www.gao.gov/products/gao-17-22.*

changes to the REPAYE plan, it is also true that many more borrowers who could benefit from existing IDR plans do not select them, so the highest take-up levels suggested by some analyses are unlikely to be achieved, at least as an immediate consequence of the regulation.

We have estimated the present discounted value (PDV) of the change in total payments under the new plan compared to total payments under REPAYE for borrowers representative of the 2017 repayment cohort. This includes modeling all of the factors that would affect payments (*e.g.,* future earnings and nonemployment, marriage, childbearing). Using this model, we compare the average difference in the PDV of total payments by institutional control and predominant degree (assuming all borrowers participate in each plan) and can compare this projected reduction in payments with the average cost of attendance in each sector, multiplied by 2 years for sub-baccalaureate institutions and by 4 for baccalaureate institutions. Table 3.2 shows these estimates which suggests that at most, the average reduction in payments under the new plan relative to existing REPAYE would be 13 percent of the average total cost of attendance. Among 4-year institutions, the reduction in payments never exceeds 6 percent of the average total cost of attendance. Both of these figures are well below the 44 percent figure provided by commenters.

TABLE 3.2—AVERAGE REDUCTION IN THE PRESENT DISCOUNTED VALUE OF TOTAL PAYMENTS BY SECTOR AS A PERCENTAGE OF THE AVERAGE TOTAL COST OF ATTENDANCE IN THE SECTOR

	Associate or certificate (percent)	Baccalaureate or graduate only (percent)
Public	10	6
Nonprofit	13	4
For-profit	12	5

Notes: Average cost of attendance from Table 330.40, Digest of Education statistics, 2021–22 academic year, using off-campus living expenses. For public institutions, the average cost of attendance includes tuition and fees for in-state students. The annual average cost of attendance from the table is multiplied by 2 to get the average total cost of attendance for sub-baccalaureate institutions and by 4 to get the average total cost of attendance for baccalaureate institutions.

We also reject some of the implications by commenters that greater usage of IDR is inherently bad. As noted already, the Department is concerned about the significant number of borrowers who end up in delinquency and default each year. Past studies have shown that large numbers of these individuals would likely have a low-to-zero payment on IDR yet do not sign up. Moving all or most of this volume in default into IDR will represent a net benefit for the borrowers and for society overall as the consequences of defaulting are very damaging and can prevent borrowers from engaging in other behaviors like buying a house or starting a business.

Changes: The Department has increased the share of volume in IDR plans for the main budget estimate and incorporated additional analyses of IDR take-up and additional loan volume in the *Net Budget Impact* section of this RIA.

Comments: One commenter expressed concern with our cost estimates, which account for the Administration's one-time debt relief plan to forgive $20,000 for Pell Grant eligible borrowers and $10,000 for other borrowers. This issue remains before the Supreme Court. The commenter suggests that we should produce a secondary cost estimate in the event that the loan cancellation plan does not go into effect. The commenter further stated that our cost estimates and our analyses do not account for increased borrowing.

Discussion: The Department is confident in our authority to pursue debt relief and is awaiting the Supreme Court's ruling on the issue. Our cost estimates account for the Department's current and anticipated programs and policies. It is difficult to assess whether increased borrowing will occur and for which students. For example, undergraduate borrowers receive more repayment benefits under the new REPAYE plan but are also subject to annual borrowing limits which are likely to restrict any additional borrowing. Roughly 48 percent of those who borrowed for their undergraduate education in 2017–18 already borrowed at their individual maximum amount for Federal loans.[129]

Changes: None.

Comments: Some commenters argued that borrowers would use certain provisions in the rules to reduce their payments in ways that would understate potential savings to the Department and increase the overall cost of the regulation. Commenters argued that borrowers who would have higher payments on the plan would not stay on it and would instead switch onto a non-IDR plan. Commenters also argued that the proposal to allow a married borrower who files separately to not include their spouse's income would also result in more borrowers filing separately so a non-working or otherwise lower-income spouse could have lower loan payments.

Discussion: We disagree with the commenters about the switching behavior of borrowers. For one, borrowers who have spent an extended time in an IDR plan would likely face large and possibly unaffordable payments if they were to switch back to the standard 10-year plan. If a borrower leaves a repayment plan and is placed on the standard plan, their balance will be amortized over however many years are remaining until the loan is repaid in a time frame equal to 10 years of time in repayment. In other words, a borrower who pays on IDR for 5 years and then switches to the 10-year standard plan would see their remaining loan balance amortized over 5 years. Realistically, the kinds of borrowers described by the commenters who might be switching are going to be doing so later in their repayment period when they have had a significant number of years of work experience. Those borrowers may no longer have access to a 10-year standard plan. At that point, if they left IDR, they would have to go onto other payment plans that do not qualify for IDR forgiveness and which result in the loan being paid off in full.

We also disagree with the assessment of what married borrowers may or may not do. For one, the ability for married borrowers to avoid having their spouse's income counted for IDR by filing taxes separately currently exists on every

[129] Powerstats analysis of the National Postsecondary Student Aid Student-Administrative Collection 2018 (NPSAS–AC). Reference table number: dfwcsn.

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other IDR plan, and the different treatment in REPAYE makes the process of choosing plans more confusing. On a policy level, filing one's taxes separately as a married couple has significant consequences. According to the IRS, a married couple that files separately may pay more in combined Federal tax than they would with a joint return. This is partly because income levels for the child tax credit and retirement savings contributions credit are based on income levels half that of what is used for a joint return.[130] Married couples that file separate returns are also ineligible for the Earned Income Tax Credit. Moreover, married couples that file separately must wait several years to file jointly again. The effect is that any savings on loan payments may be offset by higher costs in taxes. We also note that this final rule does not allow a borrower who files taxes separately from their spouse to include that spouse in their household size, which reduces the amount of income protected when calculating IDR payments.

Changes: None.

Comments: Related to concerns about the effect of the plan on tuition, commenters argued that the mention in the IDR NPRM that institutions could have an incentive to raise prices created a conflict with the public statements when some parameters of the plan were announced that this rule was part of a plan to tackle prices. They argued that the Department failed to reckon with how a plan that was part of a solution to the problem of college prices could exacerbate this issue.

Discussion: We disagree with the commenters. A required component of the RIA is to explore every major benefit or cost that we can identify when considering the possible effect of the rule. Where possible, these elements are quantified, where not, they are at least mentioned. There are thousands of institutions of higher education that participate in the financial aid programs. Most of them already raise their cost of attendance each year, which is a major reason why concerns about student debt have grown so much in recent years. The Department thinks it is highly unlikely that significant numbers of institutions would raise their prices in response to this plan. For one, many public institutions do not have direct tuition setting authority. For another, there are many institutions whose prices are already above the combination of annual limits on Pell Grants and undergraduate loans, meaning it would not be possible to simply offset any higher price with greater loan debt. There are also other student-related factors, such as price sensitivity and debt aversion, that influence tuition setting behavior. The mention in the IDR NPRM simply indicated that, given the sheer number of institutions operating, there is a possibility that some number could choose to raise prices. We continue to think the benefits of creating a safety net that will help the most at-risk borrowers and deliver affordable payments for middle-income borrowers far outweigh the potential costs associated with this risk.

Changes: None.

Comments: Commenters argued that the costs and benefits analysis in the IDR NPRM did not sufficiently engage with the potential effects of the rule on accountability for institutions or programs that do not provide strong returns on investment or otherwise serve students well. Some commenters calculated that the IDR NPRM would result in subsidies of nearly 80 percent for programs with negative returns on investment and more than 50 percent at private for-profit colleges. Some commenters argued that these effects could result in a race to the bottom for institutions under severe financial pressure and argued that colleges would present REPAYE as a de facto wage subsidy to recruit underprepared students. Similarly, commenters argued that the IDR NPRM should have reckoned more with the effects of the proposal on accountability measures such as cohort default rates (CDRs) and the likelihood of institutions marketing low-value programs. Commenters also argued that the request for information about creating a list of the least financially valuable programs that was released concurrent with the IDR NPRM was insufficient to address these issues.

Discussion: We disagree with some concerns raised by the commenters with regard to CDRs and think that other issues are best understood by considering the totality of the Department's work, not just this regulatory package.

Cohort default rates already affect a very small number of institutions on an annual basis. For the 2017 CDRs—the last set of rates that do not include time periods covered by the national pause on repayment, interest, and collections—just 12 institutions encompassing 1,358 borrowers in the corresponding repayment cohort had rates that were high enough to put them at risk of losing access to title IV aid. That represents approximately 0.03 percent of all borrowers tracked for that measure in that fiscal year. Furthermore, some of these institutions maintained aid access through appeals created by statute and waivers granted by the Department, including those effectuated in response to language inserted in Federal appropriations bills. While paying attention to default rates is important, most colleges face no risk of negative consequences from the existing CDR measure as it does not have significant effect on eligibility for poorly performing institutions or programs.

This rule would also not diminish any potential effect CDRs have on encouraging institutions to keep their default rates generally low to avoid even the possibility of sanctions. That is because the CDR only looks at results for borrowers in their first few years in repayment and institutions face no consequences for borrowers who default outside the measurement window or face long-term repayment challenges. That is partly why there have been concerns raised in the past by entities such as GAO that institutions keep their default rates low by working with companies that encourage borrowers to enter forbearances.[131] Such situations create a short-term solution for the borrower and the school but do not produce the type of long-term assistance that an IDR plan provides. As such, using IDR instead of forbearance for struggling borrowers is a better long-term outcome for borrowers.

Moreover, the payment pause will continue to reduce the already minimal effects of the CDR for the next several years. Already, the cohorts that partly included the pause have seen national default rates fall from 7.3 percent to 2.3 percent between the FY 2018 and FY 2019 cohorts (the most recent rates available).[132] The effects of the payment pause on the CDR will likely continue for the next several years.

The Department has separately proposed other actions that would address the other accountability concerns raised by commenters if finalized in a form similar to the proposed versions. The first is the issue of marketing programs with lower economic returns to borrowers. The Department recognizes that there are programs currently receiving Federal student aid on the condition that they prepare students for gainful employment in a recognized occupation that nevertheless provide undesirable economic returns. This includes programs that result in typical debts that far exceed typical earnings and those that produce graduates who do see no

[130] *www.irs.gov/publications/p504.*

[131] *https://www.gao.gov/products/gao-18-163.*

[132] *fsapartners.ed.gov/knowledge-center/topics/default-management/official-cohort-default-rates-schools.*

benefit from additional wages as a result of their postsecondary experience. To address this issue, the Gainful Employment NPRM released on May 19, 2023, (88 FR 32300) proposes new definitions for what it means for a program to provide training that prepares students for gainful employment in a recognized occupation based on the debt burden and earnings relative to those of high school graduates. We estimate in that NPRM that there are more than 700,000 students who enroll in about 1,800 of these low-financial-value career programs each year. The proposed rule would cut off eligibility for federal student aid when career programs consistently leave graduates with a monthly debt burden that exceeds 8 percent of their annual earnings or 20 percent of their discretionary earnings, or with earnings that are no greater than students with only a high school diploma.

The Department is also proposing steps to address the borrowers enrolled in programs that leave graduates with unaffordable debt burdens that would not be subject to the eligibility loss under the Gainful Employment NPRM (88 FR 32300). We are proposing that students attending programs that have high ratios of debt-to-earnings would have to complete an acknowledgment before they borrow or receive other forms of Federal student aid. We think this approach will have two effects. First, students may consider choosing a program that will produce better outcomes. Second, institutions will not want to have their programs subject to such acknowledgements and will take steps to improve their outcomes.

The Department has also announced that it intends to publish a list of the programs that provide the least financial value. The Department published a request for information around how to best define this list in January 2023 (88 FR 1567). When finalized, such a list would draw national attention to some of the biggest drivers of unaffordable student debt. The Department has also announced that it intends to ask institutions with programs on this list to provide plans to improve their outcomes.

The combined effect of these policies would be that programs which burden their students with unaffordable debt levels will be subject to additional Federal accountability, ranging from ineligibility to a student warning. Notably, these gainful employment requirements and student warnings would be applied each year. That means if an institution raises prices to the point that students take on unaffordable levels of debt, they would face consequences as the debt levels of their students rise. Combined, these actions would represent a significant increase in accountability compared to the status quo.

Changes: None.

Comments: Commenters raised concerns about the effect of the proposed changes to REPAYE on State actions and said the IDR NPRM did not sufficiently account for them. They argued this should have triggered a greater Federalism analysis. Commenters asserted that several States rely on State tax revenue from loans that have been forgiven. As a result, they asserted that this regulation would have significant State-level budgetary implications because of the loan forgiveness provisions, such as the fact that interest that is not charged on a monthly basis would not be part of the forgiven amount at the end of the repayment period that is subject to State taxation. The commenter cited several other ways States could be affected by our regulation. These included the claim that States would choose to spend less on higher education; States would divert subsidies away from alternative pathways to family-sustaining employment; that State performance funding formulas would be weakened by new Federal spending; that States would gain less of an advantage from making significant public investments in postsecondary education; that more students would go out of State for postsecondary education; States that fund higher education on a per capita basis would see expenditures rise believing that the Federal subsidy would result in increased enrollment; and institutions would change their prices. Commenters did not provide evidence to quantify the extent of any effects mentioned.

Discussion: We did not identify any Federalism implications in the proposed rule and do not believe that these final regulations require a Federalism impact statement.

The Department is not persuaded by the concerns about foregone tax revenue on interest that no longer accumulates. The Federal government's reason for providing this Federal benefit is that the accrual of interest can create situations under which a borrower's loans are negatively amortized, which harms borrowers. Moreover, there is no way for the States to know with any certainty what amounts they would or would not collect in the form of foregone tax revenue. REPAYE and other IDR plans base payments on borrowers' incomes. The result is that, if a borrower's income goes up, they will repay more of their loan, including in many cases paying off the loan entirely. In addition, some of the interest that would not be charged on this plan is interest that would otherwise have been paid by the borrower today due to the higher payment amounts on REPAYE. That interest is therefore not a transfer from the potential State tax revenue to the borrower, but rather a transfer from the Department to the borrower. Moreover, a minority of States tax student loan forgiveness, and other IDR plans also provide interest subsidies of varying amounts. Therefore, there is only a small amount of tax on the amount of increased forgiveness over what the borrower would have received on this plan versus another plan. There are also not enough borrowers who have received forgiveness through an IDR plan to date to establish that a State is relying on revenue from these plans. Because only the original ICR plan has been around long enough for borrowers to reach the required number of monthly payments for forgiveness, only a few borrowers have earned forgiveness through an IDR plan. This number will rise through planned actions like the one-time payment count adjustment, but that is not a change States could have planned for.

We are similarly unconvinced on the other arguments about federalism. For instance, the commenters have not outlined how performance-based funding systems would be affected. Only a minority of institutions nationally are subject to performance-funding systems, as not every State has a performance-funding system, most such systems only apply to public institutions, and they often represent only a portion of State dollars for postsecondary education. Beyond that, it is unclear what metrics the commenters expect would be affected in these systems, which commonly consider things like enrollment levels and completion.

The Department also disagrees that the rule would result in States spending less on postsecondary education. The rule does not change the total amount of Federal aid available for enrollment in undergraduate programs, which are the ones most heavily subsidized by States. That means funding reductions that increase prices could not necessarily be backfilled by additional loans. Such concerns also ignore how powerful sticker prices are in affecting student choice. None of those dynamics are changed by this rule.

The same goes for pricing issues raised by commenters. Most public colleges already charge out-of-state tuition that is well above what a typical

undergraduate student can borrow for postsecondary education. This rule is not changing those statutory loan limits.

Changes: None.

Comments: Commenters suggested several types of distributional analyses that they argued the Department should provide in the final rule. These included breaking down who benefits from the rule in terms of income, family background, and demographics to show that the benefits do go to low- and middle-income borrowers. Commenters also argued for separating cost estimates for undergraduate and graduate borrowers and asked the Department to provide annual estimates of gross cancellations.

Discussion: Undergraduate borrowers and borrowers with lower lifetime incomes are projected to see the largest reductions in total payments in the new REPAYE plan relative to the current REPAYE plan. Table 3.3 shows these projections for future cohorts of borrowers by quintiles of lifetime income (measured across all borrowers), calculated using a model that includes relevant lifecycle factors that determine IDR payments (*e.g.,* household size, income, and spousal income when relevant). This model assumes full participation in current REPAYE and the new plan. More details on the model can be found in the discussion of the costs and benefits in this RIA. For example, undergraduate borrowers in the bottom 20 percent of lifetime income (measured across all borrowers) are projected to pay $10,339 in present discounted value terms in current REPAYE, on average, but only $1,209 in the new plan, an 88 percent reduction. In contrast, undergraduate borrowers in the top 20 percent of lifetime income are projected to pay only 1 percent less in the new plan compared to the current REPAYE plan. Low- and middle-income graduate borrowers see the largest reductions in payments as well. Reductions for graduate borrowers are larger in absolute terms than reductions for undergraduates because graduate borrowers have higher average levels of outstanding debt, but the reductions for graduate borrowers are smaller in percentage terms than those for undergraduate borrowers.

TABLE 3.3—PROJECTED PRESENT DISCOUNTED VALUE OF TOTAL PAYMENTS FOR FUTURE REPAYMENT COHORTS BY QUINTILE OF LIFETIME INCOME, ASSUMING FULL TAKE-UP OF SPECIFIED PLAN

	Quintile of lifetime income				
	1	2	3	4	5
Borrowers with only undergraduate debt					
Current REPAYE	$10,339	$16,388	$17,760	$19,649	$19,738
Final Rule REPAYE	$1,209	$6,692	$12,417	$17,292	$19,597
Difference	$9,130	$9,696	$5,344	$2,357	$141
Percent reduction	88%	59%	30%	12%	1%
Borrowers with any graduate debt					
Current REPAYE	$49,412	$67,072	$75,409	$81,662	$95,581
Final Rule REPAYE	$32,936	$48,241	$60,351	$70,180	$89,737
Difference	$16,476	$18,831	$15,058	$11,482	$5,844
Percent reduction	33%	28%	20%	14%	6%

Changes: None.

Comments: Commenters argued that the Department should have run a net budget impact figure that did not include the one-time debt relief program providing up to $20,000 in relief to make sure borrowers are not made worse off with respect to their loans as a result of the pandemic.

Discussion: The Department's cost estimates in the NPRM and this final rule include final agency actions in the baseline. This includes the one-time debt relief program, the final regulations that were issued on November 1, 2022, and the extension of the payment pause. The sensitivity runs we have included represent different possible scenarios that might occur due to this regulation. We do not believe it is necessary in evaluating the effects of this rule to provide sensitivity runs related to other final policies.

Changes: None.

Comments: A commenter raised concerns about statistics used by the Department in rollout materials for the IDR NPRM that were not included in the IDR NPRM itself. These related to modeling by the Department about the potential effects of the proposal on different types of borrowers based upon their race or ethnicity. The commenter argued that the Department should make clear whether it based the proposed rule on considerations of whether certain racial or ethnic groups would be more likely to benefit. A different commenter raised similar concerns about the use of statistics related to racial groupings. They argued that making decisions on the basis of which racial groups win and lose is improper and violates the Constitution and Federal civil rights laws.

Discussion: The Department did not design the proposed or final rule based upon considerations of which types of racial or ethnic groups would benefit more or less from the changes. The figures used in rollout materials were from the same modeling used to produce Table 3 in the IDR NPRM's RIA (what is now Table 3.3 in this RIA). The provided figures simply give greater context of one element of the anticipated effects of the IDR NPRM.

Changes: None.

Comments: One commenter argued that the Department did not account for the connection between the net budget impact in the IDR NPRM with the statements made by the Department's financial statement auditor around certifying the Department's consolidated financial statements for FY 2022. They argued that, because components of the IDR NPRM were announced at the same time as the President's announcement of the one-time debt relief program, any issues related to scores of that program would also affect budget estimates of the IDR NPRM.

Discussion: The audit opinion is a result of the size and newness of the Department's one-time debt relief program and is related to the Department's evidence-based estimation of the take-up rate among borrowers eligible for that program. The IDR NPRM was not released until January 2023 and was not included in the audit. Nor did the audit address the cost

estimate of this rule. In the *Net Budget Impact* section, the Department produces cost estimates related to existing loans as well as loans to be issued in the future. One-time debt relief does not affect future loan costs because those loans are not eligible for that relief.

Changes: None.

Comments: Some commenters argued that the net budget impact did not account for other types of costs including increased spending on Pell Grants from more students enrolling in college, as well as borrowers choosing to spend more time out of the workforce due to the treatment of deferments and forbearances.

Discussion: The Department disagrees with the assertions related to the effect of deferments and forbearances on employment. The types of deferments and forbearances for which the Department would award credit toward forgiveness are largely ones where borrowers would be highly likely to have a $0 monthly payment if they instead enrolled in IDR. For instance, unemployment deferments fall into this category. Furthermore, Sec. 455 of the HEA already allows periods spent in economic hardship deferments to count toward the maximum repayment period. The other periods that will receive credit under this rule are limited to cases where borrowers are engaged in other specified activities like military service, AmeriCorps, or Peace Corps. None of these are situations that would discourage work.

Concerning the potential costs for Pell Grants, the Department does not generally model changes in college-going based on a policy. This is true for both elements that would add costs, as well as policies that would produce savings, such as increased overall tax revenue from a more highly educated populace. Inducement effects are highly unknown and there is not strong data available to model these potential costs and savings. Moreover, national trend data show college enrollment has generally been declining, particularly at the undergraduate level. This reflects a strong economy and fewer students in the core college-going age ranges. The Department will continue to acknowledge these costs in the discussion of costs, benefits, and transfers, but not include them in the net budget impact beyond the existing estimates in the baseline.

Changes: None.

Comments: Some commenters argued that the Department did not sufficiently consider whether the terms of the proposed REPAYE plan would result in more students choosing 4-year institutions instead of lower-cost community colleges and technical schools.

Discussion: We disagree with the commenters that this final rule would result in significant changes in the types of institutions chosen by borrowers who are already enrolled in college or prospective students who are deciding to enroll in college. Moreover, we note the commenter provided no analysis to quantify such an effect. For one, the final rule makes no changes to the overall loan limits set in the Higher Education Act for undergraduate borrowers and does not change the amount of aid available to students. Second, the choice of institution, particularly for community college students, often appears to be motivated by geographic proximity. Among community college students, 50 percent chose an institution within 11 miles of their home.[133] Third, recent trends in enrollment patterns emphasize how much the choice about community college enrollment is motivated by the strength of the underlying labor market. Community college enrollment, in particular, has fallen significantly over the past several years as there are more job opportunities for these students. This rule has no effect on employment options available to these individuals. Finally, this rule does not address the sticker or net prices charged by institutions and the generally higher prices of 4-year institutions relative to two-year public institutions would persist.

Changes: None.

Comments: The Department received a few comments arguing that the estimate in the IDR NPRM that the proposal carried estimated administrative costs of $10 million was too low and that the Department had not fully accounted for the costs of implementing its proposals. Similarly, commenters noted that it was challenging to know if the effects of the rule would be a net benefit or cost to servicers based upon the number of borrowers who continue repaying compared to the number who will receive forgiveness.

Discussion: The publication of the IDR NPRM gave the Department a greater opportunity to engage in discussions internally to gauge the implementation cost of these regulations. Based upon those discussions, we have adjusted the implementation costs of this rule to about $4.7 million for the changes in this rule that are being early implemented in July 2023, including renaming REPAYE to SAVE, and another $12.6 million for the changes that go into effect on July 1, 2024. We believe these are largely one-time costs. Ongoing costs for these changes would be part of the Department's ongoing servicing expenses.

With regard to effects on servicers, we think this approach will ultimately be a net positive for them. The Federal Tax Information (FTI) Module will automatically calculate IDR payments when a borrower provides approval for the sharing of their tax information, so the scope of servicers' work will be reduced to only calculations where automated processing via the FTI Module is not possible. Having one IDR plan that is clearly the best option for most borrowers will make it easier to counsel borrowers about their repayment options. We anticipate that the automatic enrollment of delinquent borrowers in IDR will keep more borrowers current and reduce the number of defaults, providing more accounts for servicers to manage. Reductions to borrowers' payment amounts and the interest benefit should also reduce the number of borrower complaints and increase customer satisfaction.

Changes: We have updated the estimate of administrative costs of this rule to $17.3 million.

Comments: The Department received comments arguing that the IDR NPRM failed to consider the potential effects of the proposed changes on inflation. This included citing one analysis produced after the August 2022 announcement of one-time debt relief and aspects of the IDR NPRM that said inflation would increase over the next year. Relatedly, some commenters said budget estimates should reflect estimated changes on net Federal interest costs.

Discussion: The Department disagrees with the commenters. We have captured the costs and benefits that we think are most likely to be affected by this final rule. There has been no evidence to date that Federal student loans affected larger government borrowing costs and we do not think that would change in this rule.

Changes: None.

Comments: We received comments arguing that the analysis of the effects of the IDR NPRM on small businesses was insufficient. The comments argued that the terms of the repayment plan could harm small nonprofit organizations, because borrowers may now be less inclined to pursue Public Service Loan Forgiveness (PSLF) since the greater generosity of the proposed plan would make that kind of relief less necessary.

[133] *nces.ed.gov/pubsearch/pubsinfo.asp?pubid=2019467.*

Discussion: We disagree with the commenters, who did not provide any analyses of these potential effects. For one, the benefits discussed in this regulation would also be available to those seeking PSLF. That means these borrowers would also see a payment reduction during the 10-year repayment period prior to receiving forgiveness. Moreover, the typical balances forgiven in PSLF are significantly higher than the amounts that would be subject to the early forgiveness provision in this rule. The result is that most borrowers would still receive greater benefits from PSLF than the early forgiveness provision here. For those with balances not subject to early forgiveness, the shorter time to forgiveness for PSLF would make that option still more attractive than use of REPAYE for 20 or 25 years.

Changes: None.

Comments: One commenter suggested that the net budget impact should also be measured using ''fair value accounting.'' This is an alternative approach to cost estimation that uses different interest rates and methodologies from what the Department traditionally employs.

Discussion: The Department disagrees. Our process for cost estimation is spelled out by policies and procedures established by the Department's Budget Service and the Office of Management and Budget. Model assumptions are approved by a mix of career and appointed Department leadership. The model is also audited on an annual basis. We do not think it would be appropriate to deviate from the consistent approach taken in all our regulatory packages.

Changes: None.

4. Discussion of Costs and Benefits

The final regulations would expand access to affordable monthly payments on the REPAYE plan by increasing the amount of income exempted from the calculation of payments from 150 percent of the Federal poverty guidelines to 225 percent of the Federal poverty guidelines, lowering the share of discretionary income put toward monthly payments to 5 percent for a borrower's total original loan principal volume attributable to loans received for an undergraduate program, not charging any monthly unpaid interest remaining after applying a borrower's payment, and providing for a shorter repayment period and earlier forgiveness for borrowers with smaller original principal balances (starting at 10 years for borrowers with original principal balances of $12,000 or less, and increasing by 1 year for each additional $1,000 up to 20 or 25 years).

To better understand the impact of these rules, the Department simulated how future cohorts of borrowers would benefit from enrolling in REPAYE under the new provisions. To do so, the Department used data from the College Scorecard and Integrated Postsecondary Education Data System (IPEDS) to create a synthetic cohort of borrowers that is representative of borrowers who entered repayment in 2017 in terms of institution attended, education attainment, race/ethnicity, and gender. Using Census data, the Department projected earnings and employment, marriage, spousal debt, spousal earnings, and childbearing for each borrower up to age 60. Using these projections, payments under a given loan repayment plan can be calculated for the full length of time between repayment entry and full repayment or forgiveness. To provide an estimate of how much borrowers in a given group (*e.g.,* lifetime income, education level) would benefit from enrolling in REPAYE under the new provisions, total payments per $10,000 of debt at repayment entry were calculated for each borrower in the group and compared to total payments that the borrower would make if they were to enroll in the standard 10-year repayment plan or the current REPAYE plan. Payments made after repayment entry are discounted using the Office of Management and Budget's Present Value Factors for Official Yield Curve (Budget 2023) so that the resulting amounts are all provided in present discounted terms.

These projections are different from the estimates of the budgetary costs of the changes to REPAYE. These estimates reflect changes in simulated payments that would occur if all borrowers enrolled and paid their full monthly obligation in different plans to highlight the types of borrowers who could benefit most under different repayment plans. They also do not account for the possibility of borrowers being delinquent or defaulting, which could affect assumptions of amounts repaid.

On average, if all borrowers in future cohorts were to enroll in the 10-year standard repayment plan or the current REPAYE plan and make all of their required payments on time, we estimate that borrowers would repay approximately $11,800 per $10,000 of debt at repayment entry in both the standard 10-year plan and under the current provisions of REPAYE. The changes to REPAYE will reduce the amount repaid per $10,000 of debt at repayment entry to approximately $7,000. On average, borrowers with only undergraduate debt are projected to see expected payments per $10,000 borrowed drop from $11,844 under the standard 10-year plan and $10,956 under the current REPAYE plan to $6,121 under the new REPAYE plan. The average borrower with graduate debt, whose incomes and debt levels tend to be higher, is projected to have much smaller reductions in payments per $10,000 borrowed, from $11,995 under the 10-year standard plan and $12,506 under the current REPAYE plan to $11,645.

TABLE 4.1—PROJECTED PRESENT DISCOUNTED VALUE OF TOTAL PAYMENTS PER $10,000 BORROWED FOR FUTURE REPAYMENT COHORTS, ASSUMING ALL BORROWERS ENROLL IN THE SPECIFIED REPAYMENT PLANS

	All borrowers	Borrowers with only undergraduate debt	Borrowers with any graduate debt
Standard 10-year plan	$11,880	$11,844	$11,995
Current REPAYE	11,844	10,956	12,506
Final Rule REPAYE	$7,069	6,121	11,645

The Department has also estimated how payments per $10,000 borrowed would change for borrowers in future repayment cohorts who are projected to have different levels of lifetime individual earnings. For this estimate borrowers are divided into quintiles based on projected earnings from repayment entry until age 60. Borrowers in the first quintile are projected to have lower lifetime earnings than at least 80 percent of all borrowers in the cohort,

while those in the top quintile are projected to have higher earnings than at least 80 percent of all borrowers.

On average, borrowers in every quintile of the lifetime income distribution are projected to repay less (in present discounted terms) in the new REPAYE plan than in the existing REPAYE plan. However, differences in projected payments per $10,000 borrowed are largest for borrowers with only undergraduate debt in the bottom two quintiles (*i.e.,* those with projected lifetime earnings less than at least 60 percent of all borrowers in the cohort). Borrowers with only undergraduate debt who have lifetime income in the bottom quintile are projected to repay $873 per $10,000 in the new REPAYE plan compared to $8,724 per $10,000 in the current REPAYE plan, and borrowers in the second quintile of lifetime income with only undergraduate debt are projected to repay $4,129 per $10,000 compared to $11,813 per $10,000 in the current REPAYE plan. Borrowers in the top 40 percent of the lifetime income distribution (quintiles 4 and 5) are projected to see only small reductions in payments per $10,000 borrowed.

TABLE 4.2—PROJECTED PRESENT DISCOUNTED VALUE OF TOTAL PAYMENTS PER $10,000 BORROWED FOR FUTURE REPAYMENT COHORTS BY QUINTILE OF LIFETIME INCOME, ASSUMING ALL BORROWERS ENROLL IN SPECIFIED PLAN

	Quintile of lifetime income				
	1	2	3	4	5
Borrowers with only undergraduate debt					
Current REPAYE	$8,724	$11,813	$11,799	$11,654	$11,411
Final Rule REPAYE	873	4,129	7,825	10,084	11,151
Average annual earnings in year of repayment entry	18,620	27,119	33,665	39,565	50,112
Average annual family earnings in year of repayment entry	40,600	42,469	49,312	53,524	67,748
Borrowers with any graduate debt					
Current REPAYE	$7,002	$10,259	$11,849	$12,592	$12,901
Final Rule REPAYE	6,267	8,689	10,476	11,344	12,248
Average annual earnings in year of repayment entry	19,145	28,099	35,316	42,226	54,039
Average annual family earnings in year of repayment entry	41,174	43,753	52,144	59,351	79,368

To compare the potential benefits for future borrowers from the new REPAYE plan, these simulations abstract from repayment plan choice and instead assume that all future borrowers enroll in a given plan (*i.e.,* the current or new REPAYE plan) and make their scheduled payments. Future borrowers' actual realized benefits will depend on the extent to which enrollment in IDR increases, which borrowers choose to enroll in IDR, and whether borrowers make their required payments. In general, the new REPAYE plan should reduce rates of delinquency and default by providing more borrowers with a $0 payment and automatically enrolling eligible borrowers into REPAYE once they are 75 days late on their payments. That said, borrowers could still end up delinquent or in default if they either owe a non-$0 payment or the Department cannot access their income information and cannot automatically enroll them in IDR.

The final regulations will make additional improvements to help borrowers navigate their repayment options by allowing more forms of deferments and forbearances to count toward IDR forgiveness. This protects borrowers from having to choose between pausing payments and earning progress toward forgiveness by making IDR payments and allows borrowers to keep progress toward forgiveness when consolidating.

The final regulations streamline and standardize the Direct Loan Program repayment regulations by housing all repayment plan provisions within sections that are listed by repayment plan type: fixed payment, income-driven, and alternative repayment plans. The regulations will also provide clarity for borrowers about their repayment plan options and reduce complexity in the student loan repayment system, including by phasing out some of the existing IDR plans to the extent the current law allows.

4.1 Benefits of the Regulatory Changes

The final regulations would benefit multiple groups of stakeholders, especially Federal student loan borrowers.

One of the key benefits of the changes made in the final rule to the IDR plans is to reduce the incidence of student loan default. The final rule does this in three ways. First, it increases the benefits of REPAYE in a way that would make this plan more attractive for the borrowers who are at greatest risk of delinquency and default, borrowers who are largely not using IDR plans today. Second, it simplifies the choice of whether to enroll in an IDR plan as well as which plan to select among the IDR options. That will make it easier to counsel at-risk borrowers and reduce confusion. Third, it contains operational improvements that will make it easier to automatically enroll borrowers in REPAYE and keep them there instead of having borrowers fall out during recertification.

Increasing the amount of income protected to 225 percent of the Federal poverty guidelines is one step to better serve borrowers at risk of delinquency or default. The larger protection amount will result in more borrowers having a $0 monthly payment instead of owing relatively small payments. For instance, using the 2023 Federal poverty guidelines, an individual borrower with no dependents who makes $32,805 a year will no longer have to make a payment, with the same true of a family of four that earns $67,500 or less. By contrast, under the current REPAYE threshold of 150 percent of the Federal poverty guidelines, borrowers have to make a payment once their income exceeds $21,870 for a single individual and $45,000 for a family of four. This change protects relatively low-wage borrowers from having to make a monthly loan payment. Income information currently on file suggests that more than 1 million borrowers on IDR could see their payments go to $0 based upon the parameters of the plan in this final rule, including more than 400,000 that are already on REPAYE whose payment amounts would be updated automatically to $0.

Greater income protection will further help borrowers who may have a non-$0

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monthly payment and are at risk of default. It also caps the total monthly savings, as a borrower who makes 226 percent of FPL saves the same as someone who makes 400 percent of FPL. The result is that the benefits of this change are better targeted on borrowers with incomes closer to 225 percent of FPL, since they would see larger savings as a percentage of their total income. In particular, the higher poverty threshold would provide a maximum additional savings of $91 a month for a single individual and $188 a month for a family of four compared to the existing REPAYE plan.

The targeting of reductions in the share of discretionary income that goes toward undergraduate loan payments will further assist with the goals of making loans more manageable and helping borrowers who would otherwise struggle with their payments. As noted in the IDR NPRM, Department data show that 90 percent of borrowers who are in default on their Federal student loans had only borrowed for their undergraduate education. By contrast, just 1 percent of borrowers who are in default had loans only for graduate studies. Similarly, 5 percent of borrowers who only have graduate debt are in default on their loans, compared with 19 percent of those who have debt from undergraduate programs.[134] The payment relief provided in the final rule will further help borrowers manage the loans that they are more likely to struggle to repay.

A recent study found that, among borrowers who were at least 15 days late on their payments, switching to an IDR plan reduced the likelihood of delinquency by 22 percentage points and decreased borrowers' outstanding balances over the following 8 months.[135] It is reasonable to expect that more generous IDR plans will decrease the delinquency rate further.

Reductions in delinquency and default may also lead to overall improvements in borrowers' credit scores. Higher credit scores can allow borrowers to access other forms of credit, such as for a home mortgage, and to obtain lower interest rates on other loans.[136] Further, avoiding the credit impacts of a sustained delinquency or default can improve a borrower's ability to obtain a lease, acquire a job, or accomplish other milestones for which a credit background check may be required. Prevention of default also allows borrowers continued access to Federal financial aid (as borrowers in default must remedy the default before they are eligible for additional Federal grants or loans), and prevents the possibility of other default consequences, such as a loss of a professional license.

The second way the final rule targets default is through a set of changes that simplify the process of choosing whether to use an IDR plan and which one to choose. This is partly accomplished by phasing out some of the existing IDR plans to the extent the current law allows. Student borrowers seeking an IDR plan will only be able to choose between the IBR Plan established by section 493C of the HEA and the REPAYE plan. Borrowers already enrolled on the PAYE or ICR plan will maintain their access to those plans. It is estimated that, because of the significantly larger benefits available through the REPAYE plan, most student borrowers will not be worse off by losing access to PAYE or ICR, especially since these would be borrowers not currently enrolled in one of those plans and not all borrowers are eligible for PAYE. The possible exceptions will generally be either graduate borrowers who would prefer higher payments in exchange for forgiveness after 20 years or borrowers who anticipate having payments based upon their income that would be above what they would pay on the 10-year standard plan. Overall, the Department thinks the benefits from simplification exceed the potential higher costs for these borrowers. For the first group, they will still have access to lower monthly payments than they would under either the standard 10-year plan or other IDR plans. For the second group, they will still have lower monthly payments until they reached an amount equal to what they would owe on the 10-year standard plan. These efforts to simplify the available IDR plans would help borrowers easily identify plans that are affordable and appropriate for their circumstances.

Additional improvements that can help borrowers make the choice about how to navigate repayment relate to benefits to borrowers in the form of more opportunities to earn credit toward forgiveness and a shorter repayment period for borrowers with smaller original loan principal balances. By counting certain deferments and forbearances toward forgiveness and allowing borrowers to maintain their progress toward forgiveness after they consolidate, borrowers will face fewer instances in which they inadvertently make choices that either give them no credit toward forgiveness or reset all progress made to date. Borrowers who benefit from these changes will receive forgiveness faster than they would have without these regulations. These changes will also reduce complexity in seeking IDR forgiveness, which could help more borrowers successfully navigate repayment and reduce the likelihood that a borrower is so overwhelmed by the process that they choose not to pursue IDR. The shorter time to forgiveness will provide small-dollar borrowers—often borrowers who did not complete college and who struggle most to afford their loans and avoid default—with a greater incentive to enroll in the IDR plan, increasing the likelihood they avoid delinquency and default. Reductions in the time for forgiveness for those who borrow smaller amounts may also generate an incentive for some borrowers to borrow only what they need, so as to minimize the amount of time in repayment under the new REPAYE plan.

The third way the final rule targets delinquency and default is through operational improvements that automatically allow the Department to enroll any borrowers who are at least 75 days delinquent on their loan payments and who have previously provided approval for the IRS to share their income information into the IDR plan that is most affordable for them. The Department believes that this will increase the likelihood that struggling borrowers will be enrolled in an IDR plan and will be able to avoid late-stage delinquency or default and the associated consequences. These changes will also reduce administrative burden on borrowers, who otherwise must complete new IDR applications at least every 12 months. Using statutory authority to automatically recalculate the IDR monthly payment amount for the borrowers who have provided approval for tax information disclosure will also help address the fact that large numbers of borrowers currently fail to recertify on time. This both puts borrowers at risk of seeing their payment suddenly jump and means that the Department and its contractors must expend resources to re-enroll borrowers

[134] Department of Education analysis of loan data by academic level for total borrower population and defaulted borrower population, conducted in FSA's Enterprise Data Warehouse, with data as of December 31, 2021.

[135] Herbst, D. The Impact of Income-Driven Repayment on Student Borrower Outcomes. American Economic Journal: Applied Economics. *www.aeaweb.org/articles?id=10.1257/app.20200362*.

[136] Musto, David K. & Souleles, Nicholas S., 2006. "A portfolio view of consumer credit," Journal of Monetary Economics, Elsevier, vol. 53(1), pages 59–84, January.

Edelberg, Wendy. Risk-based pricing of interest rates for consumer loans. Journal of Monetary Economics, Volume 53, Issue 8, November 2006, Pages 2283–2298.

who would otherwise not struggle with their loan payments. That reduces resources that can go toward supporting and counseling the most at-risk borrowers that are not currently on an IDR plan.

The final rule will also provide broader benefits to help borrowers. A study found that borrowers who enrolled in an existing IDR plan saw their monthly payments decrease by $355 compared with a standard non-IDR plan.[137] That study also found that those borrowers saw an increase in consumer spending that was roughly equal to the decrease in monthly student loan payments.[138] The increase in consumption suggests these borrowers faced liquidity constraints before they enrolled in IDR and that the reduction in payments in IDR freed up resources for essential goods and services. Another study estimated that the benefits—the ''welfare gains''—of moving from a loan system without IDR plans to a system with IDR plans, if ideally implemented, are ''significant,'' ranging from about 0.2 percent to 0.6 percent of lifetime consumption.[139]

The increased liquidity that comes from reduced loan payments could also facilitate savings and loan eligibility for larger purchases, such as an automobile or a home. Borrowers who use IDR plans see reductions in their delinquencies and outstanding balances, compared to those not on IDR plans, and may be more likely to see increases in credit scores and mortgage rates.[140] And evidence from the student loan pause suggests that borrowers who experienced a pause in repayment were more likely to increase borrowing for mortgages and auto debt.[141] Further, decreases in the monthly payment amount under IDR could lead to a lower debt-to-income (DTI) ratio calculation for some borrowers. For example, borrowers using a Federal Housing Administration (FHA) loan, commonly used by first-time homebuyers, have a DTI ratio calculated based on actual monthly payment, rather than on the total loan amount, for borrowers who pay at least $1 monthly.[142] The REPAYE plan could as much as halve this DTI calculation for borrowers who only have student debt. For borrowers with a $0 monthly payment, DTI is calculated as 0.5 percent of the outstanding balance on the loan.[143] Given that the new REPAYE plan limits the accrual of interest through negative amortization, even borrowers who make $0 payments will also experience improvements in DTI on the new plan.

Not charging unpaid monthly interest after applying a borrower's payment will provide both financial and non-financial benefits for borrowers. For some borrowers, particularly those who have low incomes for the duration of their time in repayment, this interest benefit results in not charging interest that would otherwise be forgiven after 20 or 25 years of qualifying monthly payments. This policy also provides a non-financial benefit because borrowers will not see their balances otherwise grow.[144] Qualitative research and borrower complaints received by the Department have shown that interest growth on IDR plans is a significant concern for borrowers.[145] Research has similarly shown that interest accumulation may discourage repayment.[146] The Department expects that this benefit may encourage borrowers to keep repaying.

As discussed in the *Net Budget Impact* section, the Department's main budget estimate includes an increase in the total volume being repaid on IDR as well as several alternative budget scenarios that generally involve an increase in the amount of loans being repaid on IDR, either due to greater usage of the plan by existing borrowers, increased amounts of debt taken out by existing borrowers, or additional borrowing from individuals who would not otherwise take out loans. The benefits discussed in this section would generally remain the same under any of these scenarios. Borrowers would be protected from a greater risk of delinquency or default; they would have an easier time deciding whether to choose an IDR plan and staying enrolled on such a plan.

There are, however, some additional benefits that could possibly accrue under some of the scenarios. For instance, there are benefits to additional borrowing in the future by students who would otherwise avoid loans.[147] When student loans were packaged as part of a financial aid letter for borrowers attending a community college, students were more likely to borrow for their education. This increased borrowing—about $4,000—led to increases in GPA and completed credits among students and increased transfers by 11 percentage points.[148] When students use loans, they may be less likely to rely on higher interest credit card debt, or substitute in longer working hours; both of these choices could interfere with a student's ability to complete a degree.[149] Reduction in student loan repayment risk may also induce more institutions that previously did not package loans or offer them as part of Federal student financial aid to do so. Researchers estimate that in the 2012–13 school year, more than 5 million students attended community colleges that did not offer Federal student loans.[150]

The final rule will also provide benefits to the Federal government. The Federal government benefits from increases in borrowers' improved economic stability and potential for

[137] Mueller, H., & Yannelis, C. (2022). Increasing Enrollment in Income-Driven Student Loan Repayment Plans: Evidence from the Navient Field Experiment. The Journal of Finance, 77(1), 367–402. doi.org/10.1111/jofi.13088.

[138] Ibid.

[139] Findeisen, S., & Sachs, D. (2016). Education and optimal dynamic taxation: The role of income-contingent student loans. Journal of Public Economics, 138, 1–21. doi.org/10.1016/j.jpubeco.2016.03.009.

[140] Herbst, Daniel. 2023. ''The Impact of Income-Driven Repayment on Student Borrower Outcomes.'' *American Economic Journal: Applied Economics,* 15 (1): 1–25.

[141] Dinerstein, Michael and Yannelis, Constantine and Chen, Ching-Tse, Debt Moratoria: Evidence from Student Loan Forbearance (December 24, 2022). Available at SSRN: ssrn.com/abstract=4314984 or dx.doi.org/10.2139/ssrn.4314984, Blagg, Kristin, and Jason Cohn. ''Student Loan Borrowers and Home and Auto Loans during the Pandemic.'' (2022). Urban Institute, Washington DC, *www.urban.org/sites/default/files/2022-02/student-loan-borrowers-and-home-and-auto-loans-during-the-pandemic.pdf.*

[142] Blagg, Kristin, Jung Hyun Choi, Sandy Baum, Jason Cohn, Liam Reynolds, Fanny Terrones, and Caitlin Young. ''Student Loan Debt and Access to Homeownership for Borrowers of Color.'' (2022). Urban Institute, Washington, DC. *www.urban.org/sites/default/files/2023-02/Student%20Loan%20Debt%20and%20Access%20to%20Homeownership%20for%20Borrowers%20of%20Color.pdf.*

[143] *www.hud.gov/sites/dfiles/OCHCO/documents/2021-13hsgml.pdf.*

[144] The Pew Charitable Trusts. Borrowers Discuss the Challenges of Student Loan Repayment. (2020). *www.pewtrusts.org/en/research-and-analysis/reports/2020/05/borrowers-discuss-the-challenges-of-student-loan-repayment.*

[145] Ibid.; FDR Group. Taking Out and Repaying Student Loans: A Report on Focus Groups with Struggling Student Loan Borrowers. (2015). *static.newamerica.org/attachments/2358-why-student-loans-are-different/FDR_Group_Updated.dc7218ab247a4650902f7afd52d6cae1.pdf.* The Department has also received many comments regarding IDR or student loan interest during the rulemaking process and through the FSA Ombudsman's office.

[146] Ibid.

[147] Boatman, Angela, Brent J. Evans, and Adela Soliz. ''Understanding loan aversion in education: Evidence from high school seniors, community college students, and adults.'' *Aera Open* 3, no. 1 (2017): 2332858416683649.

[148] Marx, Benjamin M., and Lesley J. Turner. 2019. ''Student Loan Nudges: Experimental Evidence on Borrowing and Educational Attainment.'' *American Economic Journal: Economic Policy,* 11 (2): 108–41.

[149] Avery, Christopher, and Sarah Turner. ''Student loans: Do college students borrow too much—or not enough?.'' Journal of Economic Perspectives 26, no. 1 (2012): 165–192.

[150] Marx, Benjamin M., and Lesley J. Turner. 2019. ''Student Loan Nudges: Experimental Evidence on Borrowing and Educational Attainment.'' *American Economic Journal: Economic Policy,* 11 (2): 108–41.

economic growth that comes from them being less likely to default and be subject to the conditions that can constrain economic success after default, such as challenges in getting a job or securing housing.[151] These benefits are returned to taxpayers in the form of increased economic activity and growth. The improved repayment terms in the new REPAYE plan, including limitations on interest accrual, will make careers in non-profit and public service industries more appealing to borrowers who are seeking PSLF. This will be particularly relevant in instances where there is a substantial pay difference relative to the private sector. This allows State and Federal governments to better attract and retain talent in their workforces. Although the potential effects of these IDR changes are hard to project, a study of the impact of waivers for PSLF indicated that the broad take up of these waivers particularly benefited those in occupations like teaching, social work, law enforcement, and firefighting.[152]

By reducing defaults through the adoption of the new REPAYE plan, the Department will reduce the incidence of involuntary collections which inhibit the effectiveness of other government programs that act to support low-income families. For example, the Department collects more in Federal non-tax delinquent debt than any other Federal agency, collecting $14.5 billion in the 2019 fiscal year, 54 percent of the total amount collected by all agencies.[153] These debts may be collected through involuntary transfers, such as through Treasury offsets of tax refunds and benefit payments. Treasury offsets can directly reduce Federal payments intended to help lower-income households. For example, some older borrowers may have their Social Security benefits offset, sometimes to the point where their benefits are reduced to payments below 100 percent of FPL.[154] Offsets to tax refunds can affect a household's receipt of the earned income tax credit, a benefit for low- and middle-income workers and families which has been shown to create incentives for employment, improve children's math and reading achievement, and lift some families out of poverty.[155]

Another form of involuntary payment for defaulted student debt, administrative wage garnishment, can result in the garnishment of an average of 10 percent of a worker's monthly gross pay.[156] By the end of 2019, about 0.4 percent of workers were subject to wage garnishment for at least one student loan.[157] Wage garnishment also appears to be associated with an increased rate of job turnover,[158] which could result in more volatility in earnings and in long-run career trajectory, which may cause individuals to rely more on other Federal social safety nets, such as the Supplemental Nutrition Assistance Program and Medicaid.

The Department will also benefit operationally from this final rule. While there will be costs to implement these changes, the changes to REPAYE will make it easier for the Department to counsel borrowers about their repayment options. This includes both the decision of whether to enroll in IDR or not, and then which plan to pick among the IDR options. This is a significant improvement from current rules, in which there are multiple IDR plans with very similar terms and some that have confusing tradeoffs that can be hard to explain. For example, borrowers today must decide whether to take the benefit on REPAYE that results in the Department not charging 50 percent of the monthly unpaid interest in exchange for provisions that require a married borrower who files separately to include their spouse's income. Simpler and clearer choices that establish REPAYE as the best option for essentially all undergraduate borrowers and the best payment on a monthly basis for all but the graduate borrowers with the highest income will make it easier to guide borrowers. Moreover, the expanded interest benefit will remove a major potential downside to using IDR, which can help assuage concerns about the plan that might otherwise dissuade a borrower who needs help from reduced payments.

On net, the final regulations will likely present a benefit to servicers. They would have some upfront costs to administer the program and retrain their call center representatives, but the Department pays servicers through the contract change process when it asks them to implement new benefits. That means the cost of implementing new provisions will ultimately be paid for by the Department. After this transitionary period, servicers will be more likely to benefit. For one, the reduced payments will help more borrowers stay current, a benefit for servicers who are paid more when loans are not delinquent. The treatment of interest as well as counting progress toward forgiveness from certain deferments and forbearances will also reduce frustration and concerns from borrowers, which may mean fewer cases that need to be escalated to more experienced (and expensive) staff. While the new REPAYE plan will result in increased levels of forgiveness, we do not project that it would result immediately in significant amounts of forgiveness. That's because the one-time payment count adjustment will be providing discharges for borrowers who already have enough time in repayment to get them to the equivalent of 20 or 25 years in repayment, while only about 16 percent of all borrowers have original principal balances that make them eligible for forgiveness after as few as 120 payments, as shown in Table 5.4. Moreover, it is not a given that all these borrowers would sign up for the new REPAYE plan or that all who do would have their loans forgiven instead of being repaid within the 10-year maximum repayment period.

The Department believes that, despite the additional costs to taxpayers of the new REPAYE plan, both borrowers and the Department will greatly benefit from a plan that helps borrowers avoid delinquency and default, which are loan statuses that create negative, long-lasting challenges, costs, and administrative complexities for collection, as well as carry additional consequences for borrowers. This includes the possibility of having their wages garnished, their tax refunds or Social Security seized, and declines in their credit scores.

[151] Kiviat, B. (2019). The art of deciding with data: evidence from how employers translate credit reports into hiring decisions. Socio-Economic Review, 17(2), 283–309.

So, W. (2022). Which Information Matters? Measuring Landlord Assessment of Tenant Screening Reports. Housing Policy Debate, 1–27.

[152] Briones, Diego A., Nathaniel Ruby & Sarah Turner. (2022). Waivers for the Public Service Loan Forgiveness Program: Who Would Benefit from Takeup? Working paper 30208. *www.nber.org/papers/w30208.*

[153] FY 2019 Report to the Congress: U.S. Government Non-Tax Receivables and Debt Collection Activities of Federal Agencies. *fiscal.treasury.gov/files/dms/debt19.pdf.*

[154] U.S. Government Accountability Office. December 2016. Social Security Offsets. Improvements to Program Design Could Better Assist Older Student Loan Borrowers with Obtaining Permitted Relief. *www.gao.gov/assets/690/682476.pdf.*

[155] Schanzenbach, Diane Whitmore and Michael R. Strain. (October 2020).''Employment Effects of the Earned Income Tax Credit: Taking the Long View.'' IZA Institute of Labor Economics. *docs.iza.org/dp13818.pdf.* Dahl, Gordon B., and Lance Lochner. 2012. ''The Impact of Family Income on Child Achievement: Evidence from the Earned Income Tax Credit.'' American Economic Review, 102 (5): 1927–56. *www.aeaweb.org/articles?id=10.1257/aer.102.5.1927.*

[156] DeFusco, Anthony A., Random M. Enriquez, and Margaret B. Yellen. (December 2022). Wage Garnishment in the United States: New Facts from Administrative Payroll Records. NBER working paper 30714. *www.nber.org/papers/w30724.*

[157] Ibid.

[158] Ibid.

In sum, borrowers will benefit from a more affordable plan that limits their loan payments, reduces the amount of time over which they need to repay, provides more protected income for borrowers to meet their family's basic needs, and reduces the chances of default. The Department and its contracted servicers will benefit from streamlining administration, and taxpayers will benefit from the lower rates of delinquent and defaulted loans.

4.2 Costs of the Regulatory Changes

The increased benefits on the new REPAYE plan, including reduced monthly payments, a shorter repayment period for some borrowers, and not charging unpaid monthly interest, all represent costs in the form of transfers to borrowers. This will result in transfers to borrowers currently enrolled on an IDR plan, as well as those who choose to sign up for one in the future.

This plan may also result in changes in students' decisions to borrow and how much to borrow, which could have additional future effects on the size of transfers to borrowers. This could result in increased costs to taxpayers in the form of transfers to borrowers if there is an increase in borrowing rates or amounts and those borrowers then fail to fully repay that additional debt. Some of these transfers to borrowers may be offset if the increased borrowing results in higher rates of postsecondary program completion and higher subsequent earnings, which would generate additional Federal income tax revenue.[159]

The changes to the regulations may also result in costs resulting from reduced accountability for student loan outcomes at institutions of higher education, which would show up as increased transfers to some poor-performing schools. In particular, the provisions that result in more borrowers having a $0 monthly payment and automatically enrolling borrowers who are delinquent onto an IDR plan could significantly reduce the rate at which students default. This could in turn lead to fewer institutions losing access to Federal financial aid due to having high cohort default rates. However, the existing cohort default rate standards currently cause very few institutions to lose access to Federal aid. In the years before the national pause on repayment, only about a dozen institutions a year faced sanctions due to high cohort default rates. Most of these institutions had small enrollments, and many still maintained access to aid as a result of successful appeals. The most recent rates released in fall 2022 showed just eight institutions potentially subject to the loss of eligibility.[160] The effect of the cohort default rate will also remain small for several years into the future because of the pause on payments, interest, and collections that was put in place in March 2020.

The small reduction in accountability from the cohort default metric could be mitigated by other actions by the Department to increase accountability for programs that are required to provide training that prepares students for gainful employment in a recognized occupation, but instead leave graduates with student debt that outweighs their typical earnings or with earnings that are less than those of high school graduates. If finalized, these accountability measures would likely reduce the transfers to borrowers under the new REPAYE plan, as students would be unable to use title IV aid to enroll in career programs with low economic returns.

Additional efforts by the Department to inform students about debt burden and typical earnings for graduates from programs not subject to the gainful employment rule may also reduce transfers to poor-performing programs. As a result of additional information, students may consider choosing a program with better earnings or loan burden outcomes, and programs may take steps to reduce students' debt burdens or improve earnings after graduation.[161] Whether the new REPAYE plan, combined with accountability changes, results in an increased transfer to borrowers, and the size of that transfer, depends on the likelihood that an aid recipient would have enrolled elsewhere and whether their alternative options would have resulted in higher or lower earnings. It also depends on institution and program action in response to the implementation of new accountability rules. An additional concern is the possibility that additional assistance for borrowers through the updated REPAYE plan may result in more aggressive recruiting by institutions that do not provide valuable returns on the premise that borrowers who do not find a job do not have to repay their loans. This concern already exists with IDR plans, but could increase with the more generous benefits available under the new REPAYE provisions. Relatedly, institutions may be more inclined to raise tuition to shift costs to students when loans are more affordable. This effect may be more pronounced at graduate-level programs than at the undergraduate level because of differences in loan limits. At the same time, this plan targets its benefits at undergraduate students, so the change in incentives for graduate schools relative to the existing IDR plans are smaller. Increases in tuition would not solely affect borrowers and, indirectly, taxpayers; students who do not borrow would face higher education costs as well.

The alternative budget scenarios discussed in the *Net Budget Impact* also have potential implications for the costs of this final rule. Similar to the discussion of this issue in the *Benefits of the Regulatory Changes* section, the costs associated with any additional borrowing will depend based upon what types of individuals take on additional debt, what outcomes are achieved with that debt, and whether it is likely to be ultimately repaid. For instance, additional borrowing that leads more students to successfully complete their education will result in lower net costs since it would produce additional benefits, such as increased earnings and higher Federal tax revenues. By contrast, additional borrowing that does not affect completion and is not repaid would carry a greater cost because there are not additional benefits to offset the expense.

The final regulations will also result in short-run administrative costs to the Department to implement the changes to the plan, which would require modifications to contracts with servicers. As discussed in the responses to comments in this RIA, we estimate that this will be approximately $17.3 million. This includes an initial cost of $4.7 million to implement the changes that will go into effect on July 30, 2023,

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[159] Some research has found evidence that reduced borrowing results in worse academic outcomes and lower levels of retention and completion, and that increased borrowing led to better performance and higher rates of credit completion. See, for example, Barr, Andrew, Kelli Bird, and Benjamin L. Castleman, The Effect of Reduced Student Loan Borrowing on Academic Performance and Default: Evidence from a Loan Counseling Experiment, EdWorkingPaper No. 19–89 (June 2019), *www.edworkingpapers.com/sites/default/files/ai19-89.pdf;* and Marx, Benjamin M. and Turner, Lesley, Student Loan Nudges: Experimental Evidence on Borrowing and Educational Attainment (May 2019). American Economic Journal: Economic Policy, Volume 11, Issue 2, *www.aeaweb.org/articles?id=10.1257/pol.20180279.* Black et al. 2020 *www.nber.org/papers/w27658.*

[160] *www2.ed.gov/offices/OSFAP/defaultmanagement/cdr.html.*

[161] Joselynn Hawkins Fountain, 2019. ''The Effect of the Gainful Employment Regulatory Uncertainty on Student Enrollment at For-Profit Institutions of Higher Education,'' Research in Higher Education, Springer; Association for Institutional Research, vol. 60(8), pages 1065–1089, December.; Hentschke, G.C., Parry, S.C. Innovation in Times of Regulatory Uncertainty: Responses to the Threat of ''Gainful Employment''. *Innov High Educ* 40, 97–109 (2015). doi.org/10.1007/s10755-014-9298-z.

including rebranding the plan from REPAYE to SAVE. The remaining $12.6 million is related to standing up other changes in time for the rest of this regulation to go into effect on July 1, 2024. Ongoing costs beyond this amount would be part of the Department's annual expenses for student loan servicing.

5. Net Budget Impacts

These regulations are estimated to have a net Federal budget impact in costs over the affected loan cohorts of $156.0 billion, consisting of a modification of $70.9 billion for loan cohorts through 2023 and estimated costs of $85.1 billion for loan cohorts 2024 to 2033. The Department's primary estimate updates the IDR NPRM estimate to include assumptions about increased undergraduate loan volume being repaid on IDR and for the President's Budget for FY 2024 with small updates. There are also additional sensitivities that address points raised in comments or the Department's internal review. A cohort reflects all loans originated in a given fiscal year. Consistent with the requirements of the Credit Reform Act of 1990, budget cost estimates for the student loan programs reflect the estimated net present value of all future non-administrative Federal costs associated with a cohort of loans.

IDR Plan Changes

The changes to the REPAYE plan offer borrowers a more generous IDR plan that would have a net budget impact of approximately $156.0 billion, consisting of a modification of $70.9 billion for cohorts through 2023 and $85.1 for cohorts 2024–2033. This estimate is based on the President's Budget for 2024 baseline that includes the PSLF waiver, the one-time payment count adjustment, the payment pause extension to August 2023, and the August 2022 announcement that the Department will discharge up to $20,000 in Federal student loans for borrowers who make under $125,000 as an individual or $250,000 as a family. It also includes the regulatory changes included in the final regulations for Institutional Eligibility Under the Higher Education Act of 1965, as Amended; Student Assistance General Provisions; Federal Perkins Loan Program; Federal Family Education Loan Program; and William D. Ford Federal Direct Loan Program published on November 1, 2022 (87 FR 65904), and the final regulations for Pell Grants for Prison Education Programs; Determining the Amount of Federal Education Assistance Funds Received by Institutions of Higher Education (90/10); Change in Ownership and Change in Control published on October 28, 2022 (87 FR 65426) that made changes to several other areas related to Federal student loans including interest capitalization, loan forgiveness programs, loan discharges, and the 90/10 rule.

The most significant reasons for the change in the net budget impact estimate from the IDR NPRM to the final regulations are changes that increase the share of future loan volume that we project to be repaid through the new plan. There are also underlying changes in the baseline against which the changes to IDR are costed against. In addition, the Department updated its methodology related to plan switching to reflect that approximately 25 percent of the 800,000 borrowers currently on ICR have Direct Consolidation loans that repaid a parent PLUS loan and are therefore ineligible to switch to REPAYE. Since the subsidy rate on REPAYE is greater than on ICR, this reduces costs for taxpayers by a small amount.

As noted in the IDR NPRM, the Department has significant data limitations that create challenges in estimating many of the other factors identified by commenters in the primary budget estimate. In particular, we lack information on the incomes, income trajectories, and household sizes of borrowers who are not enrolled on an IDR plan. For these reasons, the Department's past regulations under the ICR authority have not incorporated estimates in changes in the percent of volume using IDR.

We also noted in the IDR NPRM that we would continue to assess the issue of potential increased usage of IDR plans in response to this rule based upon the public comments received. We agree with the commenters that it is reasonable to expect an increase in the amount of loan volume being repaid on IDR, particularly in the revised REPAYE plan, which is now also being referred to as the SAVE plan. Such a situation is consistent with the Department's stated goals of having IDR plans better serve as protection against delinquency and default and to make certain we do not return to a world where more than 1 million borrowers default on their loans each year.

The Department is still concerned that properly determining potential take-up of the IDR plan is challenging, particularly given the difficulty in forecasting future income, family size, and marital status for borrowers who were not estimated to enroll in IDR under the baseline. The effect of provisions like the automatic enrollment of borrowers who are at least 75 days delinquent is also hard to project because it is dependent on how many borrowers provide approval for the disclosure of their Federal tax information and that functionality is not yet available.

Given these challenges, the Department decided in the final rule to adopt estimates for increased loan volume for undergraduate borrowers based upon the share of undergraduate loan volume held by borrowers that are projected to be able to benefit from lower payments under the current REPAYE plan (the most generous IDR option that is currently available to all borrowers) who actually enroll in an IDR plan. Specifically, we used the model discussed in both the IDR NPRM and this final rule that projects the present discounted value of lifetime payments for all future borrowers if they were to enroll in REPAYE, the standard 10-year plan, and the graduated repayment plan. If a borrower is projected to pay less in present discounted value terms in REPAYE than the PDV of their payments in the other two plans, then we project that they would benefit from REPAYE and calculated the share of loan volume associated these borrowers. While this analysis is based upon REPAYE, that plan is the most generous plan available to student borrowers with Direct Loans to all but some graduate borrowers with high ratios of their income to their debt.[162] We grouped these borrowers into categories that mirror the risk categories used in budget modeling. These are 2-year proprietary; 2-year nonprofit; 4-year freshman or sophomore; and 4-year junior or senior. We then looked at the share of volume from each of those risk categories that are currently enrolled in IDR. These figures can be thought as the ''Current REPAYE usage rate.'' The results of those calculations are displayed below in Table 5.1.

[162] REPAYE has the same formula for calculating payments as PAYE and IBR for new borrowers, but also does not charge half of unpaid monthly interest. REPAYE does not cap payments at the standard 10-year plan as PAYE and IBR do, but those plans have an upfront eligibility requirement that a borrower must see a payment reduction relative to the standard 10-year plan.

TABLE 5.1—SHARE OF LOAN VOLUME HELD BY BORROWERS PROJECTED TO BENEFIT FROM REPAYE THAT ARE ESTIMATED TO ENROLL IN IDR

Risk category and loan type	Share that would benefit from current REPAYE (percent)	Share that enroll in IDR (percent)	Estimated current IDR usage rate (percent)
2-year proprietary, subsidized	56	25	45
2-year proprietary, unsubsidized	56	27	49
2-year nonprofit, subsidized	72	29	40
2-year nonprofit, unsubsidized	72	29	41
4-year fresh/soph, subsidized	45	28	62
4-year fresh/soph, unsubsidized	45	28	63
4-year junior/senior, subsidized	45	30	67
4-year junior/senior, unsubsidized	45	32	71

We next used the same model to estimate what share of volume would be associated with borrowers who are projected to have the lowest PDV of payments in the SAVE plan/the final rule version of REPAYE, again compared to the standard 10-year and graduated plans. We multiplied this percentage by the Current REPAYE usage rate to determine the percentage of future volume that we estimated would enroll in the final rule's version of REPAYE. Those numbers are shown below in Table 5.2.

TABLE 5.2—PROJECTED USAGE OF FINAL RULE REPAYE PLAN

Risk category and loan type	Share estimated to benefit from SAVE (percent)	Estimated current IDR usage rate (percent)	Estimated share enrolling in SAVE (percent)	Increased volume in SAVE compared to current IDR volume (% points)
2-year proprietary, subsidized	89	45	40	15
2-year proprietary, unsubsidized	89	49	43	1
2-year nonprofit, subsidized	84	40	34	5
2-year nonprofit, unsubsidized	84	41	34	5
4-year fresh/soph, subsidized	72	62	45	17
4-year fresh/soph, unsubsidized	72	63	46	17
4-year junior/senior, subsidized	72	67	48	18
4-year junior/senior, unsubsidized	72	71	51	19

The Department believes this is the best approach for estimating the possible increased usage of the plan within the limitations of the Department's data and concerns about properly estimating behavioral effects. It does not presume that borrowers use the plan at a greater rate because of a behavioral effect, but rather acknowledges that the share of volume associated with borrowers that would benefit from the plan has increased.

The Department did not apply this approach to two of its risk groups—graduate borrowers and consolidation volume. We did not include the latter because our modeling of the plan's benefits does not group borrowers in that manner. The Department also already attributes that a higher share of consolidation loan volume will be repaid in IDR than any other risk group. For instance, starting with cohort 2014 and going forward, the Department has projected that more than 70 percent of consolidated volume from subsidized loans and 80 percent of consolidated volume from unsubsidized loans volume will be repaid in an IDR plan. These figures do not include consolidation loan volume from borrowers exiting default, which since 2015 has been projected to be more than 80 percent of loan volume. We also did not use this approach for graduate borrowers because since 2013 the Department has projected around 60 percent of graduate PLUS volume and 50 percent of unsubsidized graduate volume will be repaid in an IDR plan. These figures are higher than undergraduate borrower IDR enrollment. In fact, we already project a higher share of graduate loan volume enrolling in IDR than would come from this formula.

We believe that graduate enrollment in IDR is much higher under than undergraduate IDR enrollment under the baseline primarily for two reasons.

First, graduate borrowers—who are more likely to have been through years of interaction with Federal student aid system and institutional financial aid offices—are likely to have a greater awareness of repayment options than undergraduate borrowers. This increased knowledge of repayment options likely contributes to higher IDR take-up under the baseline.

Second, graduate borrowers may be able to draw greater benefits from current IDR plans than undergraduate borrowers. Graduate borrowers have higher average loan balances than undergraduate borrowers—and in many cases higher interest rates—meaning that they may be more likely to benefit from greater reductions in monthly payments than undergraduate borrowers in current IDR plans. The potential for greater benefits perhaps increases the relative propensity of graduate borrowers to enroll in IDR compared to undergraduate borrowers. In other words, the structure of the existing IDR plans may provide a stronger incentive for graduate borrowers to enroll.

The changes to the REPAYE plan resulting in the new SAVE plan, meanwhile, are primarily geared toward

undergraduate borrowers. Undergraduate borrowers will owe a lower percentage of their discretionary income each month, while payments on graduate debt will remain at 10 percent. Undergraduate borrowers with low original principal balances will also be eligible for forgiveness much sooner than under existing plans. Graduate borrowers, by contrast, would be relatively less likely to have balances small enough to benefit from this provision.

While the provisions in the SAVE plan related to the higher discretionary income protection and no longer charging unpaid monthly interest apply to graduate and undergraduate borrowers, we believe that most graduate borrowers in position to substantially benefit from these provisions would already derive large benefits from existing IDR plans and therefore would already be likely to enroll in IDR under the baseline. The relative benefits of both these changes are greater for borrowers whose debt payments represent a larger share of their household income compared to those for whom their debt payments are a smaller share of their household income. But the same is true for IDR more generally. REPAYE also already had a version of the interest benefit in place. That means the magnitude of the effects of the interest benefit are greater under the SAVE plan, but the basic incentives to use this plan to receive some help with accumulating unpaid interest are the same as what currently exists.

Finally, we note that prior to this final rule, REPAYE was not the most popular IDR option for graduate borrowers. Those borrowers were more likely to choose IBR or PAYE because those plans provide forgiveness after 20 years of payments instead of the 25 years on REPAYE. They also cap payments at the 10-year standard plan, while REPAYE has no cap. While the SAVE plan will produce lower monthly payments than those other plans for most borrowers, the longer time to forgiveness and lack of a payment cap are still present in the SAVE plan. That means graduate borrowers will face a trade-off between the benefits of SAVE (*e.g.* a higher discretionary income threshold) and the less beneficial aspects of SAVE relative to IBR—particularly the longer maximum repayment period. Undergraduate borrowers on the other hand will have the same maximum repayment period on the SAVE plan as they have under existing IDR plans—the SAVE plan is almost entirely beneficial to them relative to existing IDR plans.

Overall, we therefore expect that the final rule will create a greater change in the incentives for undergraduate borrowers to enroll in IDR relative to graduate borrowers. As noted, we already have estimates of significant IDR usage by graduate borrowers and do not think the changes in this rule appreciably change the existing incentives. There are also still some downsides to the plan in this final rule that would be most relevant for graduate borrowers. Due to all of these factors we have not increased the expected graduate volume being repaid in IDR that already exists in the baseline.

This additional IDR usage only applies to the outyears in our budget estimates. This approach best captures the effect of the plan resulting in greater usage from future borrowers. It also reflects data and modeling limitations that would overstate the effects of the IDR change if we were to move existing borrowers into an IDR plan. In the Department's current model, switching a percent of volume from one repayment plan to another applies from the time that volume entered repayment, changing the payment stream more than would be the case for borrowers changing plans several years into repayment. Given the higher subsidy costs for IDR plans, this would overstate the costs of the modification for past cohorts and cause changes to cashflows to past years, which is not possible. We have done this in one sensitivity for illustrative purposes, but do not believe it is appropriate for the primary estimate.

We have modeled other proposals from commenters related to increases in overall loan volume or changes in borrower behavior as alternative budget scenarios.

The final regulations would result in costs for taxpayers in the form of transfers to borrowers, as borrowers enrolled in the REPAYE plan would generally make lower payments on the new plan as compared to current IDR plans. The revision to the REPAYE plan will also provide that the borrower will not be charged any remaining accrued interest each month after the borrower's payment is applied under the REPAYE plan. That provision also increases costs for taxpayers in the form of transfers, as borrowers may otherwise eventually repay some of the accumulating interest prior to forgiveness on current IDR plans. Costs to taxpayers would also increase if the availability of improved repayment options leads future cohorts of students to increase the volume and quantity of loans they obtain. The primary budget estimate assumes that there will be no change in volume or quantity of loans issued due to the improved terms. As noted in the IDR NPRM and by several commenters, additional borrowing would increase costs of the regulations, with the magnitude of the impact depending on the characteristics of those borrowing more. Data limitations make it challenging to anticipate who such borrowers would be, so the Department has developed the Low Additional Volume and High Additional volume scenarios described in the Sensitivities discussion of this Net Budget Impact section.

To estimate the effect of the rule changes, the Department revised the payment calculations in the IDR sub-model used for cost estimates for the IDR plans. Changing the percentage of income applied to a payment is a straightforward change with a significant effect on the cashflows when compared to the baseline. The element that is less clear is what decision about plan choice existing borrowers will make when the new REPAYE plan is available. As in the case of the current REPAYE plan, the new REPAYE plan does not include a standard repayment cap that limits borrowers' maximum monthly payment. In this case, the Department has run the payment calculations twice for each borrower—once under the new REPAYE option and again under the borrower's baseline plan—and assumed each borrower chooses the option with the lowest net present value (NPV) of costs. For this final rule, the Department keeps 25 percent of ICR borrowers in that plan to represent parent borrowers who will not have access to the new REPAYE plan. Table 5.3 shows the result of this plan assignment, which is that more than 93 percent of future volume that enrolls in IDR is projected to enroll in the new REPAYE plan.

TABLE 5.3—PLAN ASSIGNMENT FOR BORROWERS ENTERING REPAYMENT IN FY 2024

[Percent distribution of borrowers in baseline plan when new REPAYE is available]

Baseline plan	ICR	IBR	PAYE	Final rule REPAYE
ICR	27.27			72.73
IBR		20.33		79.67
PAYE			6.5	93.5
REPAYE				100
Total	0.01	1.09	5.4	93.5

In categorizing plans, we combine the 10-percent IBR plans with PAYE borrowers, as the key characteristics of those plans are very similar. The IBR row and columns refers to those remaining in 15 percent IBR, which represents approximately 5 percent of borrowers who first borrowed prior to 2008 and entered repayment for the last time in 2024.

This approach assumes borrowers know their income and family profile trajectories over the life of their loans and choose the plan that offers the lowest lifetime, present-discounted payments. The payment comparison for plan assignment assumes borrowers do not experience any events that disrupt their time to forgiveness or payoff, such as prepayment, discharge, or default, under either the baseline or plan revisions. It does, however, consider the effect of the one-time debt relief program announced in August 2022. Possible alternatives include choosing the plan that has the most favorable monthly payments in 2023 or another near-term year, assuming a graduate borrower whose estimated income in a given year or averaged across their repayment period would result in payment at the standard repayment cap would remain in their existing plan and setting a minimum amount of payment reduction that would trigger borrowers to change plans. The Department recognizes that borrowers may use different logic when choosing a repayment plan, such as comparing near-term monthly payments, and will not have information about their future incomes and family patterns to match this type of analysis, but we believe any decision logic would result in a high percentage of borrowers electing to participate in the new REPAYE plan. By assuming IDR borrowers select the plan with the lowest long-run cost, this generates a higher-end estimate of the net budget impact of the changes for borrowers currently enrolled in IDR plans, though there are alternative budget scenarios explored that could present a higher possible cost. While it is possible that more people may be willing to take on student loan debt with the safety net of the more generous IDR plan, we have not estimated the extent to which there could be increases in loan volumes or Pell Grants from potential new students in the primary estimate. Absent evidence of the magnitude of increase, loan type distribution, risk group profiles, and future income profiles of these potential borrowers, whose postsecondary educational decisions likely involve more than just concern about repayment of debt, the net budget impact of this potential volume increase is unknown. The main budget estimate does include a projection that additional undergraduate borrowing will switch into IDR plans from non-IDR plans as explained above. We also further model other versions of plan switching in the sensitivity runs. This change in the main estimate results in projecting 45 percent of volume from four-year freshmen and sophomores being repaid on IDR, around 50 percent for four-year juniors and seniors, and just over 40 percent of future volume for two-year proprietary students. Administrative issues, lack of information, or simply sticking with the default option may be the reason many of these borrowers are not in an IDR plan already, but others may have made the choice that a non-IDR plan is preferable for them. Depending on their anticipated income profiles or comfort with their existing plan, the potential shift of these borrowers is very uncertain. That is why we have presented additional possible increases in the usage of IDR or increased borrowing in the alternative budget scenarios. We reviewed this issue in response to public comments on the NRPM and the data points and analysis received was helpful in developing the revisions to the main budget estimate and the sensitivity scenarios. Regardless, to the extent such increases in volume and increases in IDR participation are observed, they will be reflected in future loan program initial subsidy estimates and re-estimates.

With the significant budget impact from these final regulations, the Department seeks to show the effects of the various changes individually. Table 5.4 details the scores for the modification cohorts through 2023 and the outyears through 2033 when the changes are run with one or more elements kept as in the baseline. This provides an indication of the impact of the specific changes. The scores for each component will not sum to the total because of the significant interaction between elements of the changes. For example, when the change to 5 percent of income and to 225 percent of the Federal poverty level are combined, the estimated impact is $126.3 billion compared to $130.6 billion when adding the individual savings together. These estimates are removing the change from the estimate of the total package, so a negative value represents a savings from the total policy estimate. This negative value indicates that the element has a cost when included, by reducing transfers from borrowers to the government and taxpayers.

TABLE 5.4—IDR COMPONENT ESTIMATES

[$ in billions]

	Income protection kept at 150% of FPL	No 5% of income payment	No unpaid interest benefit	No balance-based shortened forgiveness	Other provisions
Modification through cohort 2023	($36.55)	($28.08)	($6.60)	($0.96)	($3.77)

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TABLE 5.4—IDR COMPONENT ESTIMATES—Continued

[$ in billions]

	Income protection kept at 150% of FPL	No 5% of income payment	No unpaid interest benefit	No balance-based shortened forgiveness	Other provisions
Outlays for cohorts 2024–2033	($35.04)	($30.98)	($10.59)	($2.71)	($4.52)
Total	($71.59)	($59.06)	($17.19)	($3.67)	($8.29)

Note: Savings are relative to the scenario in which the final rule is implemented in full, so a negative number reflects a smaller increase in costs.

As can be seen in Table 5.4, the increase in the income protection to 225 percent of the Federal poverty guidelines and the percentage of income on which payments are based are the most significant factors in the estimated impact of the changes. Borrowers' projected incomes are another important element for cost estimates for IDR plans, so we have run two sensitivity analyses that shift borrower incomes, one that increases incomes by 5 percent and the other that decreases them by 10 percent. From past sensitivity runs, we know that increasing and decreasing the incomes by the same factor results in similar changes in costs, so the different variations here provide a sense of two different shifts in incomes. When compared to the same baseline, we estimate that regulations with a 5 percent increase in incomes would cost a total of $129.0 billion and the 10 percent decrease would cost $203.1 billion. Recall that our central estimate of the rule's net budget impact is $156.0 billion above baseline. Incomes are likely the factor in the IDR model with the greatest effect, but other aspects, such as projected family size, and events such as defaults or discharges, also affect the estimates.

We also wanted to consider the distributional effects of the changes to the extent we have information. One benefit we hope to see from the regulations is reduced delinquency and default, which should particularly benefit lower-income borrowers, but these potential benefits are not included in the primary estimate. The sample of borrowers used to estimate costs in IDR plans have projected income profiles of 31 years of AGIs for the borrower or household, depending on tax filing status. Table 5.5 summarizes the change in payments between the President's budget baseline for FY 2024 including waivers, one-time debt relief, and recent regulatory packages and the final regulations for a representative cohort of borrowers (*i.e.,* those entering repayment in FY 2024).

TABLE 5.5—ESTIMATED EFFECTS OF IDR PROPOSALS BY INCOME RANGE AND GRADUATE STUDENT STATUS FOR BORROWERS ENTERING REPAYMENT IN FY 2024

	<$65,000	$65,000 to $100,000	Above $100,000
Borrowed only as an undergraduate student			
% of Pop.	16.40%	22.46%	24.25%
% of Debt	5.74%	10.30%	13.59%
Mean Debt	$26,492	$34,681	$42,372
Mean Reduction in Payments	$10,270	$18,246	$20,065
Borrowed as both an undergraduate and graduate student			
% of Pop.	1.76%	5.21%	20.56%
% of Debt	3.02%	9.09%	38.54%
Mean Debt	$129,814	$131,995	$141,752
Mean Reduction in Payments	$19,693	$25,412	$3,675
Borrowed only as a graduate student			
% of Pop.	0.46%	1.55%	7.36%
% of Debt	0.94%	3.05%	15.73%
Mean Debt	$155,844	$148,791	$161,673
Mean Reduction in Payments	$12,874	$11,293	($12,253)

Note: Debt is measured as the outstanding balance when the borrower enters repayment, reductions in payments are measured over the life of the loan, and income is the average income over the potential repayment period for borrowers entering repayment in FY 2024.

All groups would see significant reductions in average payments, except those who borrowed as graduate students and have over $100,000 in average annual income. There are some limitations to the savings for the borrowers with earnings at or below $65,000, because a portion of these borrowers already have a $0 payment under the current REPAYE plan. Once their payment drops to $0, they cannot receive any greater savings under the new plan. Moreover, borrowers in this category generally have lower loan balances; therefore, the amount of potential savings is also smaller.

Since graduate student borrowers have higher debt, on average, they are less likely to benefit from the reduced time to forgiveness based on a low balance, as shown in Table 5.6. The high-income, high-debt graduate students may not benefit from the rate reduction and the continued absence of

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the standard payment cap on REPAYE will likely affect them more. Some may still choose the new REPAYE plan if their payments are lower in the beginning and then get higher at the end of the repayment period. Table 5.6 does not account for any timing effects, as such effects are likely to be idiosyncratic and challenging to model in a systemic manner. Payments on loans attributed to graduate programs would remain at a 10 percent discretionary income level and these borrowers have high balances so would not benefit from reduced time to forgiveness. That means two of the drivers of reductions in borrower payments from the regulations—early forgiveness and the reduction to 5 percent for payments attributed to undergraduate loans—are less likely to apply to that population. The number of expected years to forgiveness in Table 5.6 is based on the borrower's balance and does not take into account any deferments, forbearances, or early payoffs.

TABLE 5.6—YEARS TO FORGIVENESS AND DISTRIBUTION OF BALANCES FOR BORROWERS ENTERING REPAYMENT IN FY 2024 UNDER FINAL RULE

Expected years to forgiveness	Undergraduate borrowers	Any graduate borrowing	Overall
10	23.53	0.99	15.78
11	1.83	0.11	1.24
12	2.04	0.12	1.38
13	2.07	0.12	1.4
14	2.24	0.19	1.54
15	2.12	0.21	1.46
16	2.31	0.2	1.58
17	2.13	0.15	1.45
18	2.25	0.16	1.53
19	2.27	0.18	1.55
20	57.2	0.24	37.6
21		0.31	0.11
22		0.16	0.06
23		0.27	0.09
24		0.34	0.12
25		96.25	33.12

As noted, the Department received a significant number of comments about the budget impact estimates in the IDR NPRM, several of which included analysis of the proposed rule. With respect to the budget impact estimate, many comments indicated the Department underestimated the effect of the rule by not accounting for increased take-up of IDR and failing to account for new borrowing.

Increased take-up would be from borrowers choosing the new plan for its lower payments, increased income protection, reduced time to forgiveness, or other benefits. The policy to switch delinquent borrowers into IDR will also contribute to increased use of the plan. Several commenters referenced the Penn-Wharton Budget model analysis that analyzed a range of IDR take-up from 70–90 percent of loan volume while another analysis found that 85 percent of borrowers could benefit from the new plan. The Department's projections of payments made by future cohorts of borrowers by institutional level and control found that 72 percent of loan volume at 4-year institutions was associated with borrowers who could benefit from the new REPAYE plan in terms of reductions in the present discounted value of total payments made. However, the same analysis suggested that 45 percent of loan volume is owed by borrowers from 4-year institutions who would benefit from the current REPAYE plan, but actual take up of any IDR plan is only around 30 percent. The results are similar for loan volume from 2-year institutions, where the Department's model estimates that approximately 56 percent of volume at 2-year proprietary institutions and 72 percent at 2-year private nonprofit institutions is owed by borrowers who would benefit from REPAYE, yet the President's FY24 baseline, which is based upon actual historical data, projects that only about 26 percent and 29 percent of volume from those types of schools, respectively, is enrolled in an IDR plan. Therefore, as described above, the Department adjusted the main budget estimate to include increased usage of IDR by undergraduate borrowers based upon assuming the share of volume associated with borrowers that would benefit from IDR enroll in those plans as is observed under current plans. This results in an increase of volume on IDR since the total amount of volume that would benefit from an IDR plan is higher under this final rule.

To further explore a range of possible outcomes in terms of take up we developed Sensitivities 1 and 2 with two take-up increases, the first increasing take-up even further for existing undergraduate and graduate cohorts and future cohorts with no ramp-up and the second being an increase that ramps up across seven outyear cohorts to maximum levels between 67 percent and 77 percent depending on loan type and risk group.

The treatment of past cohorts varies between the two IDR take-up sensitivity runs. The Department recognizes that borrowers from past cohorts may switch to the new REPAYE plan. However, the Department's scoring model handles plan switching between non-IDR and IDR plans for past cohorts from the time when the loan enters repayment. Therefore, when we increase take-up of IDR plans for past cohort borrowers, the change is applied from the time they enter repayment and will overstate the cost of the modification. Only the first budget sensitivity shows the potential effect on past cohorts.

Analysis provided by the commenters and Department analysis indicates if every or nearly every borrower that would benefit from the new REPAYE plan joins it then IDR take-up would increase significantly to around 70–85 percent of volume. Therefore, the maximum take-up adjustment factor was calculated as the percentage point increase that would bring the baseline IDR percentage into that range. The percentage point increase applied to various cohorts for Sensitivity 1, the maximum take-up adjustment factor, is presented in Table 5.7. Baseline rates for

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selected cohorts and the resulting IDR percentages are presented in Tables 5.10 and 5.11.

TABLE 5.7—TAKE-UP PERCENTAGE POINT INCREASE FOR SENSITIVITY 1

Proposal: cohort range	Past cohort take-up sensitivity				Outyear take-up
	Pre-2008	2008–2012	2013–2017	2018–2023	2024 and out
2yr prop	No change	0.15	0.3	0.3	0.4
2yr NFP	No change	0.15	0.3	0.3	0.4
4yr Fr/SO	No change	0.2	0.35	0.35	0.45
4yr JR/SR	No change	0.2	0.35	0.35	0.45
GRAD	No change	0.2	0.2	0.2	0.25

For Sensitivity 2, the additional element determining the IDR take-up increase is the ramp-up factor shown in Table 5.8. The ramp-up factor is multiplied by the maximum take-up adjustment factor for cohorts 2024 and beyond in Table 5.7 to generate the percentage point change added to the baseline IDR percentage to get the new IDR percentage. For example, the 2-year proprietary risk group IDR percentage would be increased by 17.64 points (.4 * .4409). Added to the baseline IDR percentage of 25.37 percent, this generates the new IDR percentage of 43.01 percent for subsidized loans for cohort 2024.

TABLE 5.8—SENSITIVITY 2 IDR TAKE-UP RAMP-UP FACTOR

2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
44.09%	63.85%	74.98%	84.14%	91.43%	96.52%	99.99%	100.0%	100.0%	100.0%

The ramp-up factor is based on pre-covid information about the timing of when borrowers first change into an IDR plan with over 43 percent in year one and above 98 percent by year 7. This ramp-up is based on the timing of borrowers' first change to an IDR plan, it is not tied to introduction of new repayment plans and the effect of new plans on the percent of the portfolio choosing IDR. To evaluate if a cohort-based ramp-up was reasonable, we also looked at the baseline IDR percentages for cohorts surrounding previous IDR plan changes, especially the introduction of PAYE and REPAYE. The percent volume assumption used in the President's Budget for FY 2024 has a difference of a few percentage points in each cohort from 2008 to 2013, after which the percentage stays around 27 percent for several cohorts as seen in Table 5.9. This indicates that even years after the introduction of PAYE, a difference in the percent of volume in IDR persists across cohorts (18.85 percent for 2008 and 27.40 percent for 2014).

TABLE 5.9—FY2024 COHORT NON-CONSOLIDATED LOAN REPAYMENT PLAN DISTRIBUTION FOR SENSITIVITIES 1 AND 2

Risk group	Repayment plan	Sensitivity 1: FY2024 cohort			Sensitivity 2: FY2024 cohort		
		Sub (percent)	Uns (percent)	PLUS (percent)	Sub (percent)	Uns (percent)	PLUS (percent)
2 Yr Proprietary							
	Standard	28.51	26.57	86.12	46.93	44.71	86.12
	Extended	0.21	0.22	1.47	0.35	0.36	1.47
	Graduated	5.90	5.98	12.41	9.71	10.06	12.41
	IDR	65.37	67.23	0.00	43.01	44.87	0.00
2 Yr Not for Profit							
	Standard	25.57	24.74	86.47	43.97	42.82	86.47
	Extended	0.59	0.76	2.53	1.02	1.32	2.53
	Graduated	4.91	5.09	11.00	8.45	8.81	11.00
	IDR	68.92	69.41	0.00	46.55	47.05	0.00
4-Year FR/SO							
	Standard	22.10	21.25	90.78	42.57	41.39	90.78
	Extended	0.71	0.86	2.29	1.37	1.67	2.29
	Graduated	4.34	4.44	6.93	8.37	8.65	6.93
	IDR	72.85	73.45	0.00	47.69	48.29	0.00
4 Yr Jr/Sr							
	Standard	18.77	16.78	78.31	37.77	35.11	78.31
	Extended	0.99	1.20	5.75	1.99	2.51	5.75
	Graduated	5.09	5.05	15.94	10.25	10.56	15.94
	IDR	75.15	76.98	0.00	49.99	51.82	0.00
Graduate							
	Standard	100.00	17.33	11.41	100.00	27.16	21.89
	Extended	0.00	2.01	1.28	0.00	3.14	2.45
	Graduated	0.00	5.31	2.54	0.00	8.32	4.86
	IDR	0.00	75.36	84.77	0.00	61.38	70.79

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Tables 5.10 and 5.11 provide additional information on the baseline take-up rates by loan type and risk group for selected cohorts as well as the IDR take-up rates applied to outyear cohorts in various scenarios.

TABLE 5.10—BASELINE NON-CONSOLIDATED LOAN REPAYMENT PLAN DISTRIBUTION FOR SELECTED COHORTS

Loan type	Risk group	2007 (percent)	2010 (percent)	2015 (percent)	2020 (percent)	2030 (percent)
Subsidized						
	2 Yr Proprietary	15.44	23.16	27.48	25.37	25.37
	2 Yr Not for Profit	20.09	26.25	30.77	28.92	28.92
	4 Yr Freshman Sophomore	21.89	28.51	29.04	27.85	27.85
	4 Yr Jr/Sr	21.23	29.95	32.06	30.15	30.15
Unsubsidized						
	2 Yr Proprietary	16.74	24.34	29.07	27.23	27.23
	2 Yr Not for Profit	19.88	27.78	31.68	29.41	29.41
	4 Yr Freshman Sophomore	21.47	28.82	29.66	28.45	28.45
	4 Yr Jr/Sr	20.94	31.07	34.09	31.98	31.98
	Graduate	21.97	38.21	50.24	50.36	50.36
Plus						
	2 Yr Proprietary	0.00	0.00	0.00	0.00	0.00
	2 Yr Not for Profit	0.00	0.00	0.00	0.00	0.00
	4 Yr Freshman Sophomore	0.00	0.00	0.00	0.00	0.00
	4 Yr Jr/Sr	0.00	0.00	0.00	0.00	0.00
	Graduate	23.68	47.43	60.72	59.77	59.77

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Table 5.11: Non-Consolidated Loan Repayment Plan Distribution for Cohorts 2023-2033 by Loan Type, Risk Group, and Scenario

Risk Group, Loan Type and Run	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
2-year Proprietary											
Subsidized											
Baseline (used for NPRM run)	25.37%	25.37%	25.37%	25.37%	25.37%	25.37%	25.37%	25.37%	25.37%	25.37%	25.37%
Primary	25.37%	40.32%	40.32%	40.32%	40.32%	40.32%	40.32%	40.32%	40.32%	40.32%	40.32%
Sens 1: Full Take-Up	25.37%	65.37%	65.37%	65.37%	65.37%	65.37%	65.37%	65.37%	65.37%	65.37%	65.37%
Sens 2: Ramped take-up	25.37%	43.01%	50.91%	55.36%	59.03%	61.94%	63.98%	65.37%	65.37%	65.37%	65.37%
Unsubsidized											
Baseline (used for NPRM run)	27.23%	27.23%	27.23%	27.23%	27.23%	27.23%	27.23%	27.23%	27.23%	27.23%	27.23%
Primary	27.23%	43.28%	43.28%	43.28%	43.28%	43.28%	43.28%	43.28%	43.28%	43.28%	43.28%
Sens 1: Full Take-Up	27.23%	67.23%	67.23%	67.23%	67.23%	67.23%	67.23%	67.23%	67.23%	67.23%	67.23%
Sens 2: Ramped take-up	27.23%	44.87%	52.77%	57.22%	60.89%	63.80%	65.84%	67.23%	67.23%	67.23%	67.23%
2-year Private/Public											
Subsidized											
Baseline (used for NPRM run)	28.92%	28.92%	28.92%	28.92%	28.92%	28.92%	28.92%	28.92%	28.92%	28.92%	28.92%
Primary	28.92%	33.74%	33.74%	33.74%	33.74%	33.74%	33.74%	33.74%	33.74%	33.74%	33.74%
Sens 1: Full Take-Up	28.92%	68.92%	68.92%	68.92%	68.92%	68.92%	68.92%	68.92%	68.92%	68.92%	68.92%
Sens 2: Ramped take-up	28.92%	46.55%	54.46%	58.91%	62.57%	65.49%	67.53%	68.91%	68.92%	68.92%	68.92%
Unsubsidized											
Baseline (used for NPRM run)	29.41%	29.41%	29.41%	29.41%	29.41%	29.41%	29.41%	29.41%	29.41%	29.41%	29.41%
Primary	29.41%	34.31%	34.31%	34.31%	34.31%	34.31%	34.31%	34.31%	34.31%	34.31%	34.31%
Sens 1: Full Take-Up	29.41%	69.41%	69.41%	69.41%	69.41%	69.41%	69.41%	69.41%	69.41%	69.41%	69.41%
Sens 2: Ramped take-up	29.41%	47.05%	54.95%	59.40%	63.07%	65.98%	68.02%	69.41%	69.41%	69.41%	69.41%
4-year Freshman/Sophmore											
Subsidized											
Baseline (used for NPRM run)	27.85%	27.85%	27.85%	27.85%	27.85%	27.85%	27.85%	27.85%	27.85%	27.85%	27.85%
Primary	27.85%	44.56%	44.56%	44.56%	44.56%	44.56%	44.56%	44.56%	44.56%	44.56%	44.56%
Sens 1: Full Take-Up	27.85%	72.85%	72.85%	72.85%	72.85%	72.85%	72.85%	72.85%	72.85%	72.85%	72.85%
Sens 2: Ramped take-up	27.85%	47.69%	56.58%	61.59%	65.71%	68.99%	71.28%	72.85%	72.85%	72.85%	72.85%
Unsubsidized											
Baseline (used for NPRM run)	28.45%	28.45%	28.45%	28.45%	28.45%	28.45%	28.45%	28.45%	28.45%	28.45%	28.45%
Primary	28.45%	45.52%	45.52%	45.52%	45.52%	45.52%	45.52%	45.52%	45.52%	45.52%	45.52%
Sens 1: Full Take-Up	28.45%	73.45%	73.45%	73.45%	73.45%	73.45%	73.45%	73.45%	73.45%	73.45%	73.45%
Sens 2: Ramped take-up	28.45%	48.29%	57.18%	62.19%	66.31%	69.59%	71.88%	73.45%	73.45%	73.45%	73.45%
4-year Junior/Senior											
Subsidized											
Baseline (used for NPRM run)	30.15%	30.15%	30.15%	30.15%	30.15%	30.15%	30.15%	30.15%	30.15%	30.15%	30.15%
Primary	30.15%	48.24%	48.24%	48.24%	48.24%	48.24%	48.24%	48.24%	48.24%	48.24%	48.24%
Sens 1: Full Take-Up	30.15%	75.15%	75.15%	75.15%	75.15%	75.15%	75.15%	75.15%	75.15%	75.15%	75.15%
Sens 2: Ramped take-up	30.15%	49.99%	58.89%	63.89%	68.02%	71.30%	73.59%	75.15%	75.15%	75.15%	75.15%
Unsubsidized											
Baseline (used for NPRM run)	31.98%	31.98%	31.98%	31.98%	31.98%	31.98%	31.98%	31.98%	31.98%	31.98%	31.98%
Primary	31.98%	51.16%	51.16%	51.16%	51.16%	51.16%	51.16%	51.16%	51.16%	51.16%	51.16%
Sens 1: Full Take-Up	31.98%	76.98%	76.98%	76.98%	76.98%	76.98%	76.98%	76.98%	76.98%	76.98%	76.98%
Sens 2: Ramped take-up	31.98%	51.82%	60.71%	65.72%	69.84%	73.12%	75.41%	76.97%	76.98%	76.98%	76.98%
Graduate											
Unsubsidized											
Baseline (used for NPRM run)	50.36%	50.36%	50.36%	50.36%	50.36%	50.36%	50.36%	50.36%	50.36%	50.36%	50.36%
Primary	50.36%	50.36%	50.36%	50.36%	50.36%	50.36%	50.36%	50.36%	50.36%	50.36%	50.36%
Sens 1: Full Take-Up	50.36%	75.36%	75.36%	75.36%	75.36%	75.36%	75.36%	75.36%	75.36%	75.36%	75.36%
Sens 2: Ramped take-up	50.36%	61.38%	66.32%	69.11%	71.40%	73.22%	74.49%	75.36%	75.36%	75.36%	75.36%
PLUS											
Baseline (used for NPRM run)	59.77%	59.77%	59.77%	59.77%	59.77%	59.77%	59.77%	59.77%	59.77%	59.77%	59.77%
Primary	59.77%	59.77%	59.77%	59.77%	59.77%	59.77%	59.77%	59.77%	59.77%	59.77%	59.77%
Sens 1: Full Take-Up	59.77%	84.77%	84.77%	84.77%	84.77%	84.77%	84.77%	84.77%	84.77%	84.77%	84.77%
Sens 2: Ramped take-up	59.77%	70.79%	75.73%	78.52%	80.81%	82.63%	83.90%	84.77%	84.77%	84.77%	84.77%

Sensitivities 3 and 4 estimate the costs of additional borrowing related to the regulation. Additional borrowing could come from future borrowers in the baseline who take out more loans or new borrowers who substitute loans for other sources of funding because of the reduced cost of borrowing. Institutions could also raise tuition because of the lower borrowing costs, which could also increase future loan volumes. To develop the low and high additional volume options in Sensitivities 3 and 4, the Department analyzed National Student Loan Data System information

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about borrowing in FY 2021 to estimate additional capacity for subsidized and unsubsidized loans. The analysis aggregated borrowers' loans by academic level and compared the total to the applicable borrowing limit for that loan type at that academic level. It accounted for additional capacity for independents and dependent borrowers whose parents were unable to obtain PLUS loans. Grad PLUS loans were not included because those students can borrow up to the cost of attendance and that information was not available in our data. Table 5.12 summarizes this additional capacity, which was the basis for the low end of our additional volume range.

TABLE 5.12—ANNUAL ADDITIONAL BORROWING CAPACITY OF EXISTING BORROWERS

[$ in billions]

	Total subsidized and unsubsidized borrowing	Additional subsidized and unsubsidized borrowing capacity
2-Year Proprietary	$2.5	$8.1
2-Year Priv/Pub	2.9	1.5
4-Year FR/SO	13.8	4.1
4-Year JR/SR	15.7	8.2
Graduate	26.7	6.1

As this additional capacity does not account for new borrowers or tuition increases, we developed Sensitivity 4 with higher additional volume, as seen in Table 5.13. The additional volume does increase in cohorts 2027 and beyond to allow some time for borrowers to react to the changes in the borrowing costs.

TABLE 5.13—ADDITIONAL ANNUAL VOLUME SENSITIVITY SCENARIOS

[$ in billions]

	Sensitivity 3: low additional volume scenario		Sensitivity 4: high additional volume scenario	
	2024–26	2027 Out	2024–26	2027 Out
Undergraduate	$10	$14	$20	$26
Graduate	7	10	16	20

The amount of additional volume generated by the individual factors leading to the increase, such as tuition increases or new borrowers taking on loans, is not specified. The additional volume was attributed to risk groups based on the percentage of additional capacity in Table 5.13 represented by the risk group. The split between loan types was based on the percentage of total subsidized and unsubsidized loans borrowed in 2021–22 represented by each loan type, with 47 percent going to subsidized loan volume. The graduate loans were split to PLUS and unsubsidized loan volume on the same basis, with 32 percent going to additional PLUS volume.

Sensitivity 5 estimates the effects of reduced defaults from the provision that moves delinquent borrowers into IDR, where a significant percentage are expected to have low or zero payments and potentially avoid default. Additionally, within IDR, the increased income protection to 225 percent of the Federal poverty line and the lower payment of 5 percent for undergraduate loans provides relief that could allow borrowers to avoid default. To estimate the effect in IDR, we looked at the percentage of borrowers projected to default in our baseline IDR model that have incomes between 150 and 225 percent of the federal poverty level in the year of their default. This was approximately 8 percent of defaulters and we increased that to 10 percent for our default reduction sensitivity for IDR borrowers.

Switching delinquent borrowers to IDR should also reduce the default risk of those remaining in non-IDR plans. Some reduction in defaults will occur in the model estimates just from switching volume to IDR plans, which have lower default rates than the non-IDR plans. To estimate the effect of the reduced risk of remaining non-IDR borrowers, the Department reduced non-IDR defaults 25 percent as seen in Sensitivities 5.

There is a significant interaction between volume, take-up, and the default reduction, so Sensitivity 6 combines the low additional volume, ramped take-up increase, and 25 percent default reduction for an overall alternate scenario.

Finally, Sensitivity 7 removes the increases in estimated additional undergraduate volume that would be repaid on IDR. This sensitivity is roughly comparable to the main budget estimate in IDR NPRM, with the additional adjustments related to the President's budget, extension of the payment pause, and revised treatment of some ICR borrowers included.

All the cost estimates presented in this document are focused on impact of the new repayment rules, without also considering other policy changes. For example, the Department recently proposed regulations to establish a new minimum earnings threshold and a maximum debt-to-earnings ratio for career programs (88 FR 32300), which could constrain some of the additional borrowing envisioned in Sensitivities 3, 4, and 6. The Department is expanding consumer information on student debt and earnings to better inform student choices. And the President's Budget seeks hundreds of billions of dollars in new investments in Pell Grants; free community college; and tuition assistance for students at Historically Black Colleges and Universities, Tribally Controlled Colleges and Universities, and Minority-Serving Institutions. The potential effects of these proposed policy changes are not

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reflected in the estimates contained in this RIA.

Table 5.14 displays the taxpayer costs associated with the various sensitivity runs.

TABLE 5.11—SENSITIVITY RUN COST ESTIMATES

	Sens 1: Full IDR take-up increase	Sens 2: Ramped IDR take-up increase	Sens 3: Low additional volume	Sens 4: High additional volume	Sens 5: 25 percent default reduction	Sens 6: Ramped take-up, low additional volume, 25% default reduction combination	Sens 7: No increase in projected volume repaid on IDR
Modification through cohort 2023	$75.89	$70.91	$70.91	$70.91	$70.91	$70.91	$70.91
Outlays for cohorts 2024–2033	194.00	173.20	171.90	312.68	78.25	256.66	56.50
Total	269.89	244.11	242.81	383.59	149.16	327.57	127.40

6. Accounting Statement

As required by OMB Circular A–4, we have prepared an accounting statement showing the classification of the expenditures associated with the provisions of these regulations. These effects occur over the lifetime of the first ten loan cohorts following implementation of this rule. The cashflows are discounted to the year of the origination cohort in the modeling process and then those amounts are discounted at 3 and 7 percent to the present year in this Accounting Statement. This table provides our best estimate of the changes in annualized monetized transfers as a result of these final regulations. Expenditures are classified as transfers from the Federal government to affected student loan borrowers.

TABLE 6.1—ACCOUNTING STATEMENT: CLASSIFICATION OF ESTIMATED ANNUALIZED EXPENDITURES

[in millions]

Category	Benefits
Improved options for affordable loan repayment	Not quantified.
Increased college enrollment, attainment, and degree completion	Not quantified.
Reduced risk of delinquency and default for borrowers	Not quantified.
Reduced administrative burden for Department due to reduced default and collection actions	Not quantified.

Category	Costs	
	7%	3%
Costs of compliance with paperwork requirements	TBD	TBD
Increased administrative costs to Federal government to updates systems and contracts to implement the final regulations	$2.3	$2.0

Category	Transfers	
	7%	3%
Reduced transfers from IDR borrowers due to increased income protection, lower income percentage for payment, potential early forgiveness based on balance, and other IDR program changes	17,871.0	16,551.60

7. Alternatives Considered

The Department considered the following items, many of which are also discussed in the preamble to this final rule.

The Department considered suggestions by commenters to provide payments equal to 5 percent of discretionary income on all loan types. However, we believe that doing so would not address the Department's goals of targeting benefits on the types of loans that are most likely to experience delinquency and default. The result would be expending additional transfers to loans that have a higher likelihood of being successfully repaid.

The Department also considered whether to permit borrowers with a consolidation loan that repaid a Parent PLUS loan to access REPAYE. However, we do not believe that extending benefits to these borrowers would accomplish our goal of focusing on the loans at the greatest risk of delinquency and default. Moreover, we are concerned that extending such benefits could create a high risk of moral hazard for borrowers who are close to retirement age. Instead, we think broader reforms of the Parent PLUS loan program would be a better solution.

As noted in the IDR NPRM, we considered suggestions made during negotiated rulemaking to provide partial principal forgiveness to borrowers as they repaid. We lack the legal authority to enact such a policy change.

Relatedly, we considered alternative proposals for calculating time to forgiveness, including different formulas for early forgiveness that started sooner than 10 years, forgiveness after a shorter period for borrowers with very low incomes or those who receive public assistance, or a proposal in which borrowers would receive differing periods of credit toward forgiveness if they had lower incomes.

For the periods shorter than 10 years, we do not think it would be appropriate to provide forgiveness sooner than the 10 years offered by the standard 10-year repayment plan. For the other proposals, we are concerned about complexity, particularly any structure that would only provide benefits after a consecutive period in a status, since that could create situations where a borrower on the cusp of forgiveness would paradoxically be worse off for earning more money.

We also considered suggestions by commenters to both increase or decrease the amount of income protected from loan payments. We discuss our reasons for not changing this level upward or downward in the preamble to this final rule.

Finally, we considered suggestions by commenters to provide credit for all periods in deferment or forbearance. However, we are concerned that doing so would create disincentives for borrowers to choose IDR over other types of deferments or forbearances when they would have a non-$0 payment on IDR. For instance, a borrower might be incentivized to pick a discretionary forbearance, which can be obtained without the need to provide any documentation of hardship. Therefore, we believe the deferments and forbearances we are proposing to credit are the correct ones.

8. Regulatory Flexibility Act

The Secretary certifies, under the Regulatory Flexibility Act (5 U.S.C. 601 *et seq.*), that this final regulatory action would not have a significant economic impact on a substantial number of ''small entities.''

The Small Business Administration (SBA) defines ''small institution'' using data on revenue, market dominance, tax filing status, governing body, and population. The majority of entities to which the Office of Postsecondary Education's (OPE) regulations apply are postsecondary institutions, however, which do not report such data to the Department. As a result, for purposes of this IDR NPRM, the Department proposes to continue defining ''small entities'' by reference to enrollment, to allow meaningful comparison of regulatory impact across all types of higher education institutions. The enrollment standard for a small two-year institution is less than 500 full-time-equivalent (FTE) students and for a small 4-year institution, less than 1,000 FTE students.[163]

Table 8.1. Small Institutions Under Enrollment-Based Definition

	Small	Total	Percent
Proprietary	1,973	2,331	85%
2-year	1,734	1,990	87%
4-year	239	341	70%
Private not-for-profit	983	1,831	54%
2-year	185	203	91%
4-year	798	1,628	49%
Public	380	1,924	20%
2-year	317	1,145	28%
4-year	63	779	8%
Total	3,336	6,086	55%

Source: 2020-21 IPEDS data reported to the Department.

Table 8.1 summarizes the number of institutions affected by these final regulations. The Department has determined that there would be no economic impact on small entities affected by the regulations because IDR plans are between borrowers and the Department. As seen in Table 8.2, the average total revenue at small institutions ranges from $2.3 million for proprietary institutions to $21.3 million at private institutions.

[163] In previous regulations, the Department categorized small businesses based on tax status. Those regulations defined ''non-profit organizations'' as ''small organizations'' if they were independently owned and operated and not dominant in their field of operation, or as ''small entities'' if they were institutions controlled by governmental entities with populations below 50,000. Those definitions resulted in the categorization of all private nonprofit organizations as small and no public institutions as small. Under the previous definition, proprietary institutions were considered small if they are independently owned and operated and not dominant in their field of operation with total annual revenue below $7,000,000. Using FY 2017 IPEDs finance data for proprietary institutions, 50 percent of 4-year and 90 percent of 2-year or less proprietary institutions would be considered small. By contrast, an enrollment-based definition applies the same metric to all types of institutions, allowing consistent comparison across all types.

Table 8.2: Total Revenues at Small Institutions

	Average	Total
Proprietary	2,593,382	5,116,742,179
2-year	1,782,969	3,091,667,694
4-year	8,473,115	2,025,074,485
Private not-for-profit	16,608,849	16,326,498,534
2-year	3,101,962	573,862,938
4-year	19,740,145	15,752,635,596
Public	8,644,387	3,284,866,903
2-year	4,153,842	1,316,767,990
4-year	31,239,665	1,968,098,913
Total	7,412,502	24,728,107,616

Note: Based on analysis of IPEDS enrollment and revenue data for 2020-21.

The IDR regulations will not have a significant impact on a substantial number of small entities because IDR plans are arrangements between the borrower and the Department. As noted in the Paperwork Reduction Act section, burden related to the final regulations will be assessed in a separate information collection process and that burden is expected to involve individuals more than institutions of any size.

9. Paperwork Reduction Act of 1995

As part of its continuing effort to reduce paperwork and respondent burden, the Department provides the general public and Federal agencies with an opportunity to comment on proposed and continuing collections of information in accordance with the Paperwork Reduction Act of 1995 (PRA) (44 U.S.C. 3506(c)(2)(A)). This helps make certain that the public understands the Department's collection instructions, respondents can provide the requested data in the desired format, reporting burden (time and financial resources) is minimized, collection instruments are clearly understood, and the Department can properly assess the impact of collection requirements on respondents.

Section 685.209 of this final rule contains information collection requirements. Under the PRA, the Department has or will at the required time submit a copy of the section and an Information Collections Request to OMB for its review. PRA approval will be sought via a separate information collection process. The Department will publish these information collections in the **Federal Register** and seek public comment on those documents. A Federal agency may not conduct or sponsor a collection of information unless OMB approves the collection under the PRA and the corresponding information collection instrument displays a currently valid OMB control number. Notwithstanding any other provision of law, no person is required to comply with, or is subject to penalty for failure to comply with, a collection of information if the collection instrument does not display a currently valid OMB control number.

Section 685.209—Income-driven repayment plans.

Requirements: The Department amended § 685.209 to include regulations for all of the IDR plans, which are plans with monthly payments based in whole or in part on income and family size. These amendments include changes to the PAYE, REPAYE, IBR and ICR plans. Specifically, § 685.209 is amended to: modify the terms of the REPAYE plan to reduce monthly payment amounts to 5 percent of discretionary income for the percent of a borrower's total original loan volume attributable to loans received for their undergraduate study; under the modified REPAYE plan, increase the amount of discretionary income exempted from the calculation of payments to 225 percent; under the modified REPAYE plan, do not charge unpaid accrued interest each month after applying a borrower's payment; simplify the alternative repayment plan that a borrower is placed on if they fail to recertify their income and allow up to 12 payments on this plan to count toward forgiveness; reduce the time to forgiveness under the REPAYE plan for borrowers with low original loan balances; modify the IBR plan regulations to clarify that borrowers in default are eligible to make payments under the plan under some conditions; modify the regulations for all IDR plans to allow for periods under certain deferments and forbearances to count toward forgiveness; modify the regulations applicable to all IDR plans to allow borrowers an opportunity to make catch-up payments for all other periods in deferment or forbearance; modify the regulations for all IDR plans to clarify that a borrower's progress toward forgiveness does not fully reset when a borrower consolidates loans on which a borrower had previously made qualifying payments; modify the regulations for all IDR plans to provide that any borrowers who are at least 75 days delinquent on their loan payments will be automatically enrolled in the IDR plan for which the borrower is eligible and that produces the lowest monthly payments for them; and limit eligibility for the ICR plan to (1) borrowers who began repaying under the ICR plan before the effective date of the regulations, and (2) borrowers whose loans include a Direct Consolidation Loan made on or after July 1, 2006, that repaid a parent PLUS loan.

Burden Calculation: These changes will require an update to the current IDR plan request form used by borrowers to sign up for IDR, complete annual recertification, or have their payment amount recalculated. The form update will be completed and made

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available for comment through a full public clearance package before being made available for use by the effective date of the regulations. The burden changes will be assessed to OMB Control Number 1845–0102, Income Driven Repayment Plan Request for the William D. Ford Federal Direct Loans and Federal Family Education Loan Programs.

Consistent with the discussions above, Table 9.1 describes the sections of the final regulations involving information collections, the information being collected and the collections that the Department will submit to OMB for approval and public comment under the PRA, and the estimated costs associated with the information collections.

TABLE 9.1—PRA INFORMATION COLLECTION

Regulatory section	Information collection	OMB Control No. and estimated burden	Estimated cost unless otherwise noted
§ 685.209 IDR Plans	The final regulations at § 685.209 will be amended to include regulations for all of the IDR plans. These amendments include changes to the PAYE, IBR, and ICR plans, and primarily to the REPAYE plan.	1845–0102 Burden will be cleared at a later date through a separate information collection for the form.	Costs will be cleared through separate information collection for the form.

We will prepare an Information Collection Request for the information collection requirements following the finalization of this Final Rule. A notice will be published in the **Federal Register** at that time providing a draft version of the form for public review and inviting public comment. The collection associated with this IDR NPRM is 1845–0102.

10. Intergovernmental Review

This program is subject to Executive Order 12372 and the regulations in 34 CFR part 79. One of the objectives of the Executive Order is to foster an intergovernmental partnership and a strengthened Federalism. The Executive order relies on processes developed by State and local governments for coordination and review of proposed Federal financial assistance.

This document provides early notification of our specific plans and actions for this program.

11. Assessment of Education Impact

In accordance with section 411 of the General Education Provisions Act, 20 U.S.C. 1221e–4, the Secretary particularly requests comments on whether these final regulations would require transmission of information that any other agency or authority of the United States gathers or makes available.

12. Federalism

Executive Order 13132 requires us to provide meaningful and timely input by State and local elected officials in the development of regulatory policies that have Federalism implications. ‘‘Federalism implications’’ means substantial direct effects on the States, on the relationship between the National Government and the States, or on the distribution of power and responsibilities among the various levels of government. The regulations do not have Federalism implications.

Regulatory Flexibility Act Certification

Pursuant to 5 U.S.C. 601(2), the Regulatory Flexibility Act applies only to rules for which an agency publishes a general notice of proposed rulemaking.

Accessible Format: On request to the program contact person listed under **FOR FURTHER INFORMATION CONTACT**, individuals with disabilities can obtain this document in an accessible format. The Department will provide the requestor with an accessible format that may include Rich Text Format (RTF) or text format (txt), a thumb drive, an MP3 file, braille, large print, audiotape, or compact disc, or other accessible format.

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List of Subjects

34 CFR Part 682

Administrative practice and procedure, Colleges and universities, Loan programs—education, Reporting and recordkeeping requirements, Student aid, Vocational education.

34 CFR Part 685

Administrative practice and procedure, Colleges and universities, Education, Loan programs-education, Reporting and recordkeeping requirements, Student aid, Vocational education.

Miguel A. Cardona,
Secretary of Education.

For the reasons discussed in the preamble, the Secretary amends parts 682 and 685 of title 34 of the Code of Federal Regulations as follows:

PART 682—FEDERAL FAMILY EDUCATION LOAN (FFEL) PROGRAM

■ 1. The authority citation for part 682 continues to read as follows:

Authority: 20 U.S.C. 1071–1087–4, unless otherwise noted.

■ 2. Section 682.215 is amended by revising paragraph (a)(3) to read as follows:

§ 682.215 Income-based repayment plan.

(a) * * *

(3) *Family size* means the number of individuals that is determined by adding together—

(i) The borrower;

(ii) The borrower's spouse, for a married borrower filing a joint Federal income tax return;

(iii) The borrower's children, including unborn children who will be born during the year the borrower certifies family size, if the children receive more than half their support from the borrower and are not included in the family size for any other borrower except the borrower's spouse who filed jointly with the borrower; and

(iv) Other individuals if, at the time the borrower certifies family size, the

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other individuals live with the borrower and receive more than half their support from the borrower and will continue to receive this support from the borrower for the year for which the borrower certifies family size.

* * * * *

PART 685—WILLIAM D. FORD FEDERAL DIRECT LOAN PROGRAM

■ 3. The authority citation for part 685 continues to read as follows:

Authority: 20 U.S.C. 1070g, 1087a, *et seq.*, unless otherwise noted.

■ 4. In § 685.102, in paragraph (b), the definition of ''Satisfactory repayment arrangement'' is amended by revising paragraph (2)(ii) to read as follows:

§ 685.102 Definitions.

* * * * *

(b) * * *

Satisfactory repayment arrangement: * * *

(2) * * *

(ii) Agreeing to repay the Direct Consolidation Loan under one of the income-driven repayment plans described in § 685.209.

* * * * *

■ 5. Section 685.208 is amended by:

■ a. Revising the section heading;

■ b. Revising paragraphs (a) and (k); and

■ c. Removing paragraphs (l) and (m).

The revisions read as follows:

§ 685.208 Fixed payment repayment plans.

(a) *General.* Under a fixed payment repayment plan, the borrower's required monthly payment amount is determined based on the amount of the borrower's Direct Loans, the interest rates on the loans, and the repayment plan's maximum repayment period.

* * * * *

(k) The repayment period for any of the repayment plans described in this section does not include periods of authorized deferment or forbearance.

■ 6. Section 685.209 is revised to read as follows:

§ 685.209 Income-driven repayment plans.

(a) *General.* Income-driven repayment (IDR) plans are repayment plans that base the borrower's monthly payment amount on the borrower's income and family size. The four IDR plans are—

(1) The Revised Pay As You Earn (REPAYE) plan, which may also be referred to as the Saving on a Valuable Education (SAVE) plan;

(2) The Income-Based Repayment (IBR) plan;

(3) The Pay As You Earn (PAYE) Repayment plan; and

(4) The Income-Contingent Repayment (ICR) plan;

(b) *Definitions.* The following definitions apply to this section:

Discretionary income means the greater of $0 or the difference between the borrower's income as determined under paragraph (e)(1) of this section and—

(i) For the REPAYE plan, 225 percent of the applicable Federal poverty guideline;

(ii) For the IBR and PAYE plans, 150 percent of the applicable Federal poverty guideline; and

(iii) For the ICR plan, 100 percent of the applicable Federal poverty guideline.

Eligible loan, for purposes of determining partial financial hardship status and for adjusting the monthly payment amount in accordance with paragraph (g) of this section means—

(i) Any outstanding loan made to a borrower under the Direct Loan Program, except for a Direct PLUS Loan made to a parent borrower, or a Direct Consolidation Loan that repaid a Direct PLUS Loan or a Federal PLUS Loan made to a parent borrower; and

(ii) Any outstanding loan made to a borrower under the FFEL Program, except for a Federal PLUS Loan made to a parent borrower, or a Federal Consolidation Loan that repaid a Federal PLUS Loan or a Direct PLUS Loan made to a parent borrower.

Family size means, for all IDR plans, the number of individuals that is determined by adding together—

(i)(A) The borrower;

(B) The borrower's spouse, for a married borrower filing a joint Federal income tax return;

(C) The borrower's children, including unborn children who will be born during the year the borrower certifies family size, if the children receive more than half their support from the borrower and are not included in the family size for any other borrower except the borrower's spouse who filed jointly with the borrower; and

(D) Other individuals if, at the time the borrower certifies family size, the other individuals live with the borrower and receive more than half their support from the borrower and will continue to receive this support from the borrower for the year for which the borrower certifies family size.

(ii) The Department may calculate family size based on Federal tax information reported to the Internal Revenue Service.

Income means either—

(i) The borrower's and, if applicable, the spouse's, Adjusted Gross Income (AGI) as reported to the Internal Revenue Service; or

(ii) The amount calculated based on alternative documentation of all forms of taxable income received by the borrower and provided to the Secretary.

Income-driven repayment plan means a repayment plan in which the monthly payment amount is primarily determined by the borrower's income.

Monthly payment or the equivalent means—

(i) A required monthly payment as determined in accordance with paragraphs (k)(4)(i) through (iii) of this section;

(ii) A month in which a borrower receives a deferment or forbearance of repayment under one of the deferment or forbearance conditions listed in paragraphs (k)(4)(iv) of this section; or

(iii) A month in which a borrower makes a payment in accordance with procedures in paragraph (k)(6) of this section.

New borrower means—

(i) For the purpose of the PAYE plan, an individual who—

(A) Has no outstanding balance on a Direct Loan Program loan or a FFEL Program loan as of October 1, 2007, or who has no outstanding balance on such a loan on the date the borrower receives a new loan after October 1, 2007; and

(B) Receives a disbursement of a Direct Subsidized Loan, a Direct Unsubsidized Loan, a Direct PLUS Loan made to a graduate or professional student, or a Direct Consolidation Loan on or after October 1, 2011, except that a borrower is not considered a new borrower if the Direct Consolidation Loan repaid a loan that would otherwise make the borrower ineligible under paragraph (1) of this definition.

(ii) For the purposes of the IBR plan, an individual who has no outstanding balance on a Direct Loan or FFEL Program loan on July 1, 2014, or who has no outstanding balance on such a loan on the date the borrower obtains a loan after July 1, 2014.

Partial financial hardship means—

(i) For an unmarried borrower or for a married borrower whose spouse's income and eligible loan debt are excluded for purposes of determining a payment amount under the IBR or PAYE plans in accordance with paragraph (e) of this section, a circumstance in which the Secretary determines that the annual amount the borrower would be required to pay on the borrower's eligible loans under the 10-year standard repayment plan is more than what the borrower would pay under the IBR or PAYE plan as determined in accordance with paragraph (f) of this section. The Secretary determines the annual amount that would be due under the 10-year Standard Repayment plan based on the greater of the balances of the borrower's eligible loans that were outstanding at

the time the borrower entered repayment on the loans or the balances on those loans that were outstanding at the time the borrower selected the IBR or PAYE plan.

(ii) For a married borrower whose spouse's income and eligible loan debt are included for purposes of determining a payment amount under the IBR or PAYE plan in accordance with paragraph (e) of this section, the Secretary's determination of partial financial hardship as described in paragraph (1) of this definition is based on the income and eligible loan debt of the borrower and the borrower's spouse.

Poverty guideline refers to the income categorized by State and family size in the Federal poverty guidelines published annually by the United States Department of Health and Human Services pursuant to 42 U.S.C. 9902(2). If a borrower is not a resident of a State identified in the Federal poverty guidelines, the Federal poverty guideline to be used for the borrower is the Federal poverty guideline (for the relevant family size) used for the 48 contiguous States.

Support includes money, gifts, loans, housing, food, clothes, car, medical and dental care, and payment of college costs.

(c) *Borrower eligibility for IDR plans.* (1) Except as provided in paragraph (d)(2) of this section, defaulted loans may not be repaid under an IDR plan.

(2) Any Direct Loan borrower may repay under the REPAYE plan if the borrower has loans eligible for repayment under the plan;

(3)(i) Except as provided in paragraph (c)(3)(ii) of this section, any Direct Loan borrower may repay under the IBR plan if the borrower has loans eligible for repayment under the plan and has a partial financial hardship when the borrower initially enters the plan.

(ii) A borrower who has made 60 or more qualifying repayments under the REPAYE plan on or after July 1, 2024, may not enroll in the IBR plan.

(4) A borrower may repay under the PAYE plan only if the borrower—

(i) Has loans eligible for repayment under the plan;

(ii) Is a new borrower;

(iii) Has a partial financial hardship when the borrower initially enters the plan; and

(iv) Was repaying a loan under the PAYE plan on July 1, 2024. A borrower who was repaying under the PAYE plan on or after July 1, 2024 and changes to a different repayment plan in accordance with § 685.210(b) may not re-enroll in the PAYE plan.

(5)(i) Except as provided in paragraph (c)(4)(ii) of this section, a borrower may repay under the ICR plan only if the borrower—

(A) Has loans eligible for repayment under the plan; and

(B) Was repaying a loan under the ICR plan on July 1, 2024. A borrower who was repaying under the ICR plan on or after July 1, 2024 and changes to a different repayment plan in accordance with § 685.210(b) may not re-enroll in the ICR plan unless they meet the criteria in paragraph (c)(4)(ii) of this section.

(ii) A borrower may choose the ICR plan to repay a Direct Consolidation Loan disbursed on or after July 1, 2006 and that repaid a parent Direct PLUS Loan or a parent Federal PLUS Loan.

(iii) A borrower who has a Direct Consolidation Loan disbursed on or after July 1, 2025, which repaid a Direct parent PLUS loan, a FFEL parent PLUS loan, or a Direct Consolidation Loan that repaid a consolidation loan that included a Direct PLUS or FFEL PLUS loan may not choose any IDR plan except the ICR plan.

(d) *Loans eligible to be repaid under an IDR plan.* (1) The following loans are eligible to be repaid under the REPAYE and PAYE plans: Direct Subsidized Loans, Direct Unsubsidized Loans, Direct PLUS Loans made to graduate or professional students, and Direct Consolidation Loans that did not repay a Direct parent PLUS Loan or a Federal parent PLUS Loan;

(2) The following loans, including defaulted loans, are eligible to be repaid under the IBR plan: Direct Subsidized Loans, Direct Unsubsidized Loans, Direct PLUS Loans made to graduate or professional students, and Direct Consolidation Loans that did not repay a Direct parent PLUS Loan or a Federal parent PLUS Loan.

(3) The following loans are eligible to be repaid under the ICR plan: Direct Subsidized Loans, Direct Unsubsidized Loans, Direct PLUS Loans made to graduate or professional students, and all Direct Consolidation Loans (including Direct Consolidation Loans that repaid Direct parent PLUS Loans or Federal parent PLUS Loans), except for Direct PLUS Consolidation Loans made before July 1, 2006.

(e) *Treatment of income and loan debt.* (1) *Income.* (i) For purposes of calculating the borrower's monthly payment amount under the REPAYE, IBR, and PAYE plans—

(A) For an unmarried borrower, a married borrower filing a separate Federal income tax return, or a married borrower filing a joint Federal tax return who certifies that the borrower is currently separated from the borrower's spouse or is currently unable to reasonably access the spouse's income, only the borrower's income is used in the calculation.

(B) For a married borrower filing a joint Federal income tax return, except as provided in paragraph (e)(1)(i)(A) of this section, the combined income of the borrower and spouse is used in the calculation.

(ii) For purposes of calculating the monthly payment amount under the ICR plan—

(A) For an unmarried borrower, a married borrower filing a separate Federal income tax return, or a married borrower filing a joint Federal tax return who certifies that the borrower is currently separated from the borrower's spouse or is currently unable to reasonably access the spouse's income, only the borrower's income is used in the calculation.

(B) For married borrowers (regardless of tax filing status) who elect to repay their Direct Loans jointly under the ICR Plan or (except as provided in paragraph (e)(1)(ii)(A) of this section) for a married borrower filing a joint Federal income tax return, the combined income of the borrower and spouse is used in the calculation.

(2) *Loan debt.* (i) For the REPAYE, IBR, and PAYE plans, the spouse's eligible loan debt is included for the purposes of adjusting the borrower's monthly payment amount as described in paragraph (g) of this section if the spouse's income is included in the calculation of the borrower's monthly payment amount in accordance with paragraph (e)(1) of this section.

(ii) For the ICR plan, the spouse's loans that are eligible for repayment under the ICR plan in accordance with paragraph (d)(3) of this section are included in the calculation of the borrower's monthly payment amount only if the borrower and the borrower's spouse elect to repay their eligible Direct Loans jointly under the ICR plan.

(f) *Monthly payment amounts.* (1) For the REPAYE plan, the borrower's monthly payments are—

(i) $0 for the portion of the borrower's income, as determined under paragraph (e)(1) of this section, that is less than or equal to 225 percent of the applicable Federal poverty guideline; plus

(ii) 5 percent of the portion of income as determined under paragraph (e)(1) of this section that is greater than 225 percent of the applicable poverty guideline, prorated by the percentage that is the result of dividing the borrower's original total loan balance attributable to eligible loans received for the borrower's undergraduate study by the original total loan balance

attributable to all eligible loans, divided by 12; plus

(iii) For loans not subject to paragraph (f)(1)(ii) of this section, 10 percent of the portion of income as determined under paragraph (e)(1) of this section that is greater than 225 percent of the applicable Federal poverty guidelines, prorated by the percentage that is the result of dividing the borrower's original total loan balance minus the original total loan balance of loans subject to paragraph (f)(1)(ii) of this section by the borrower's original total loan balance attributable to all eligible loans, divided by 12.

(2) For new borrowers under the IBR plan and for all borrowers on the PAYE plan, the borrower's monthly payments are the lesser of—

(i) 10 percent of the borrower's discretionary income, divided by 12; or

(ii) What the borrower would have paid on a 10-year standard repayment plan based on the eligible loan balances and interest rates on the loans at the time the borrower began paying under the IBR or PAYE plans.

(3) For those who are not new borrowers under the IBR plan, the borrower's monthly payments are the lesser of—

(i) 15 percent of the borrower's discretionary income, divided by 12; or

(ii) What the borrower would have paid on a 10-year standard repayment plan based on the eligible loan balances and interest rates on the loans at the time the borrower began paying under the IBR plan.

(4)(i) For the ICR plan, the borrower's monthly payments are the lesser of—

(A) What the borrower would have paid under a repayment plan with fixed monthly payments over a 12-year repayment period, based on the amount that the borrower owed when the borrower began repaying under the ICR plan, multiplied by a percentage based on the borrower's income as established by the Secretary in a **Federal Register** notice published annually to account for inflation; or

(B) 20 percent of the borrower's discretionary income, divided by 12.

(ii)(A) Married borrowers may repay their loans jointly under the ICR plan. The outstanding balances on the loans of each borrower are added together to determine the borrowers' combined monthly payment amount under paragraph (f)(4)(i) of this section;

(B) The amount of the payment applied to each borrower's debt is the proportion of the payments that equals the same proportion as that borrower's debt to the total outstanding balance, except that the payment is credited toward outstanding interest on any loan before any payment is credited toward principal.

(g) *Adjustments to monthly payment amounts.* (1) Monthly payment amounts calculated under paragraphs (f)(1) through (3) of this section will be adjusted in the following circumstances:

(i) In cases where the spouse's loan debt is included in accordance with paragraph (e)(2)(i) of this section, the borrower's payment is adjusted by—

(A) Dividing the outstanding principal and interest balance of the borrower's eligible loans by the couple's combined outstanding principal and interest balance on eligible loans; and

(B) Multiplying the borrower's payment amount as calculated in accordance with paragraphs (f)(1) through (3) of this section by the percentage determined under paragraph (g)(1)(i) of this section.

(C) If the borrower's calculated payment amount is—

(*1*) Less than $5, the monthly payment is $0; or

(*2*) Equal to or greater than $5 but less than $10, the monthly payment is $10.

(ii) In cases where the borrower has outstanding eligible loans made under the FFEL Program, the borrower's calculated monthly payment amount, as determined in accordance with paragraphs (f)(1) through (3) of this section or, if applicable, the borrower's adjusted payment as determined in accordance with paragraph (g)(1) of this section is adjusted by—

(A) Dividing the outstanding principal and interest balance of the borrower's eligible loans that are Direct Loans by the borrower's total outstanding principal and interest balance on eligible loans; and

(B) Multiplying the borrower's payment amount as calculated in accordance with paragraphs (f)(1) through (3) of this section or the borrower's adjusted payment amount as determined in accordance with paragraph (g)(1) of this section by the percentage determined under paragraph (g)(2)(i) of this section.

(C) If the borrower's calculated payment amount is—

(*1*) Less than $5, the monthly payment is $0; or

(*2*) Equal to or greater than $5 but less than $10, the monthly payment is $10.

(2) Monthly payment amounts calculated under paragraph (f)(4) of this section will be adjusted to $5 in circumstances where the borrower's calculated payment amount is greater than $0 but less than or equal to $5.

(h) *Interest.* If a borrower's calculated monthly payment under an IDR plan is insufficient to pay the accrued interest on the borrower's loans, the Secretary charges the remaining accrued interest to the borrower in accordance with paragraphs (h)(1) through (3) of this section.

(1) Under the REPAYE plan, during all periods of repayment on all loans being repaid under the REPAYE plan, the Secretary does not charge the borrower's account any accrued interest that is not covered by the borrower's payment;

(2)(i) Under the IBR and PAYE plans, the Secretary does not charge the borrower's account with an amount equal to the amount of accrued interest on the borrower's Direct Subsidized Loans and Direct Subsidized Consolidation Loans that is not covered by the borrower's payment for the first three consecutive years of repayment under the plan, except as provided for the IBR and PAYE plans in paragraph (h)(2)(ii) of this section;

(ii) Under the IBR and PAYE plans, the 3-year period described in paragraph (h)(2)(i) of this section excludes any period during which the borrower receives an economic hardship deferment under § 685.204(g); and

(3) Under the ICR plan, the Secretary charges all accrued interest to the borrower.

(i) *Changing repayment plans.* A borrower who is repaying under an IDR plan may change at any time to any other repayment plan for which the borrower is eligible, except as otherwise provided in § 685.210(b).

(j) *Interest capitalization.* (1) Under the REPAYE, PAYE, and ICR plans, the Secretary capitalizes unpaid accrued interest in accordance with § 685.202(b).

(2) Under the IBR plan, the Secretary capitalizes unpaid accrued interest—

(i) In accordance with § 685.202(b);

(ii) When a borrower's payment is the amount described in paragraphs (f)(2)(ii) and (f)(3)(ii) of this section; and

(iii) When a borrower leaves the IBR plan.

(k) *Forgiveness timeline.* (1) In the case of a borrower repaying under the REPAYE plan who is repaying at least one loan received for graduate or professional study, or a Direct Consolidation Loan that repaid one or more loans received for graduate or professional study, a borrower repaying under the IBR plan who is not a new borrower, or a borrower repaying under the ICR plan, the borrower receives forgiveness of the remaining balance of the borrower's loan after the borrower has satisfied 300 monthly payments or the equivalent in accordance with paragraph (k)(4) of this section over a period of at least 25 years;

(2) In the case of a borrower repaying under the REPAYE plan who is repaying

only loans received for undergraduate study, or a Direct Consolidation Loan that repaid only loans received for undergraduate study, a borrower repaying under the IBR plan who is a new borrower, or a borrower repaying under the PAYE plan, the borrower receives forgiveness of the remaining balance of the borrower's loans after the borrower has satisfied 240 monthly payments or the equivalent in accordance with paragraph (k)(4) of this section over a period of at least 20 years;

(3) Notwithstanding paragraphs (k)(1) and (k)(2) of this section, a borrower receives forgiveness if the borrower's total original principal balance on all loans that are being paid under the REPAYE plan was less than or equal to $12,000, after the borrower has satisfied 120 monthly payments or the equivalent, plus an additional 12 monthly payments or the equivalent over a period of at least 1 year for every $1,000 if the total original principal balance is above $12,000.

(4) For all IDR plans, a borrower receives a month of credit toward forgiveness by—

(i) Making a payment under an IDR plan or having a monthly payment obligation of $0;

(ii) Making a payment under the 10-year standard repayment plan under § 685.208(b);

(iii) Making a payment under a repayment plan with payments that are as least as much as they would have been under the 10-year standard repayment plan under § 685.208(b), except that no more than 12 payments made under paragraph (l)(9)(iii) of this section may count toward forgiveness under the REPAYE plan;

(iv) Deferring or forbearing monthly payments under the following provisions:

(A) A cancer treatment deferment under section 455(f)(3) of the Act;

(B) A rehabilitation training program deferment under § 685.204(e);

(C) An unemployment deferment under § 685.204(f);

(D) An economic hardship deferment under § 685.204(g), which includes volunteer service in the Peace Corps as an economic hardship condition;

(E) A military service deferment under § 685.204(h);

(F) A post active-duty student deferment under § 685.204(i);

(G) A national service forbearance under § 685.205(a)(4) on or after July 1, 2024;

(H) A national guard duty forbearance under § 685.205(a)(7) on or after July 1, 2024;

(I) A Department of Defense Student Loan Repayment forbearance under § 685.205(a)(9) on or after July 1, 2024;

(J) An administrative forbearance under § 685.205(b)(8) or (9) on or after July 1, 2024; or

(K) A bankruptcy forbearance under § 685.205(b)(6)(viii) on or after July 1, 2024 if the borrower made the required payments on a confirmed bankruptcy plan.

(v) Making a qualifying payment as described under § 685.219(c)(2),

(vi) (A) Counting payments a borrower of a Direct Consolidation Loan made on the Direct Loans or FFEL program loans repaid by the Direct Consolidation Loan if the payments met the criteria in paragraph (k)(4) of this section, the criteria in § 682.209(a)(6)(vi) that were based on a 10-year repayment period, or the criteria in § 682.215.

(B) For a borrower whose Direct Consolidation Loan repaid loans with more than one period of qualifying payments, the borrower receives credit for the number of months equal to the weighted average of qualifying payments made rounded up to the nearest whole month.

(C) For borrowers whose Joint Direct Consolidation Loan is separated into individual Direct Consolidation loans, each borrower receives credit for the number of months equal to the number of months that was credited prior to the separation; or,

(vii) Making payments under paragraph (k)(6) of this section.

(5) For the IBR plan only, a monthly repayment obligation for the purposes of forgiveness includes—

(i) A payment made pursuant to paragraph (k)(4)(i) or (k)(4)(ii) of this section on a loan in default;

(ii) An amount collected through administrative wage garnishment or Federal Offset that is equivalent to the amount a borrower would owe under paragraph (k)(4)(i) of this section, except that the number of monthly payment obligations satisfied by the borrower cannot exceed the number of months from the Secretary's receipt of the collected amount until the borrower's next annual repayment plan recertification date under IBR; or

(iii) An amount collected through administrative wage garnishment or Federal Offset that is equivalent to the amount a borrower would owe on the 10-year standard plan.

(6)(i) A borrower may obtain credit toward forgiveness as defined in paragraph (k) of this section for any months in which a borrower was in a deferment or forbearance not listed in paragraph (k)(4)(iv) of this section by making an additional payment equal to or greater than their current IDR payment, including a payment of $0, for a deferment or forbearance that ended within 3 years of the additional repayment date and occurred after July 1, 2024.

(ii) Upon request, the Secretary informs the borrower of the months for which the borrower can make payments under paragraph (k)(6)(i) of this section.

(l) *Application and annual recertification procedures.* (1) To initially enter or recertify their intent to repay under an IDR plan, a borrower provides approval for the disclosure of applicable tax information to the Secretary either as part of the process of completing a Direct Loan Master Promissory Note or a Direct Consolidation Loan Application and Promissory Note in accordance with sections 455(e)(8) and 493C(c)(2) of the Act or on application form approved by the Secretary;

(2) If a borrower does not provide approval for the disclosure of applicable tax information under sections 455(e)(8) and 493C(c)(2) of the Act when completing the promissory note or on the application form for an IDR plan, the borrower must provide documentation of the borrower's income and family size to the Secretary;

(3) If the Secretary has received approval for disclosure of applicable tax information, but cannot obtain the borrower's AGI and family size from the Internal Revenue Service, the borrower and, if applicable, the borrower's spouse, must provide documentation of income and family size to the Secretary;

(4) After the Secretary obtains sufficient information to calculate the borrower's monthly payment amount, the Secretary calculates the borrower's payment and establishes the 12-month period during which the borrower will be obligated to make a payment in that amount;

(5) The Secretary then sends to the borrower a repayment disclosure that—

(i) Specifies the borrower's calculated monthly payment amount;

(ii) Explains how the payment was calculated;

(iii) Informs the borrower of the terms and conditions of the borrower's selected repayment plan; and

(iv) Informs the borrower of how to contact the Secretary if the calculated payment amount is not reflective of the borrower's current income or family size;

(6) If the borrower believes that the payment amount is not reflective of the borrower's current income or family size, the borrower may request that the Secretary recalculate the payment amount. To support the request, the

borrower must also submit alternative documentation of income or family size not based on tax information to account for circumstances such as a decrease in income since the borrower last filed a tax return, the borrower's separation from a spouse with whom the borrower had previously filed a joint tax return, the birth or impending birth of a child, or other comparable circumstances;

(7) If the borrower provides alternative documentation under paragraph (l)(6) of this section or if the Secretary obtains documentation from the borrower or spouse under paragraph (l)(3) of this section, the Secretary grants forbearance under § 685.205(b)(9) to provide time for the Secretary to recalculate the borrower's monthly payment amount based on the documentation obtained from the borrower or spouse;

(8) Once the borrower has 3 monthly payments remaining under the 12-month period specified in paragraph (l)(4) of this section, the Secretary follows the procedures in paragraphs (l)(3) through (l)(7) of this section.

(9) If the Secretary requires information from the borrower under paragraph (l)(3) of this section to recalculate the borrower's monthly repayment amount under paragraph (l)(8) of this section, and the borrower does not provide the necessary documentation to the Secretary by the time the last payment is due under the 12-month period specified under paragraph (l)(4) of this section—

(i) For the IBR and PAYE plans, the borrower's monthly payment amount is the amount determined under paragraph (f)(2)(ii) or (f)(3)(ii) of this section;

(ii) For the ICR plan, the borrower's monthly payment amount is the amount the borrower would have paid under a 10-year standard repayment plan based on the total balance of the loans being repaid under the ICR Plan when the borrower initially entered the ICR Plan; and

(iii) For the REPAYE plan, the Secretary removes the borrower from the REPAYE plan and places the borrower on an alternative repayment plan under which the borrower's required monthly payment is the amount the borrower would have paid on a 10-year standard repayment plan based on the current loan balances and interest rates on the loans at the time the borrower is removed from the REPAYE plan.

(10) At any point during the 12-month period specified under paragraph (l)(4) of this section, the borrower may request that the Secretary recalculate the borrower's payment earlier than would have otherwise been the case to account for a change in the borrower's circumstances, such as a loss of income or employment or divorce. In such cases, the 12-month period specified under paragraph (l)(4) of this section is reset based on the borrower's new information.

(11) The Secretary tracks a borrower's progress toward eligibility for forgiveness under paragraph (k) of this section and forgives loans that meet the criteria under paragraph (k) of this section without the need for an application or documentation from the borrower.

(m) *Automatic enrollment in an IDR plan.* The Secretary places a borrower on the IDR plan under this section that results in the lowest monthly payment based on the borrower's income and family size if—

(1) The borrower is otherwise eligible for the plan;

(2) The borrower has approved the disclosure of tax information under paragraph (l)(1) or (l)(2) of this section;

(3) The borrower has not made a scheduled payment on the loan for at least 75 days or is in default on the loan and is not subject to a Federal offset, administrative wage garnishment under section 488A of the Act, or to a judgment secured through litigation; and

(4) The Secretary determines that the borrower's payment under the IDR plan would be lower than or equal to the payment on the plan in which the borrower is enrolled.

(n) *Removal from default.* The Secretary will no longer consider a borrower in default on a loan if—

(1) The borrower provides information necessary to calculate a payment under paragraph (f) of this section;

(2) The payment calculated pursuant to paragraph (f) of this section is $0; and

(3) The income information used to calculate the payment under paragraph (f) of this section includes the point at which the loan defaulted.

■ 7. Section 685.210 is revised to read as follows:

§ 685.210 Choice of repayment plan.

(a) *Initial selection of a repayment plan.* (1) Before a Direct Loan enters into repayment, the Secretary provides a borrower with a description of the available repayment plans and requests that the borrower select one. A borrower may select a repayment plan before the loan enters repayment by notifying the Secretary of the borrower's selection in writing.

(2) If a borrower does not select a repayment plan, the Secretary designates the standard repayment plan described in § 685.208(b) or (c) for the borrower, as applicable.

(3) All Direct Loans obtained by one borrower must be repaid together under the same repayment plan, except that—

(i) A borrower of a Direct PLUS Loan or a Direct Consolidation Loan that is not eligible for repayment under an IDR plan may repay the Direct PLUS Loan or Direct Consolidation Loan separately from other Direct Loans obtained by the borrower; and

(ii) A borrower of a Direct PLUS Consolidation Loan that entered repayment before July 1, 2006, may repay the Direct PLUS Consolidation Loan separately from other Direct Loans obtained by that borrower.

(b) *Changing repayment plans.* (1) A borrower who has entered repayment may change to any other repayment plan for which the borrower is eligible at any time by notifying the Secretary. However, a borrower who is repaying a defaulted loan under the IBR plan or who is repaying a Direct Consolidation Loan under an IDR plan in accordance with § 685.220(d)(1)(i)(A)(*3*) may not change to another repayment plan unless—

(i) The borrower was required to and did make a payment under the IBR plan or other IDR plan in each of the prior three months; or

(ii) The borrower was not required to make payments but made three reasonable and affordable payments in each of the prior 3 months; and

(iii) The borrower makes, and the Secretary approves, a request to change plans.

(2)(i) A borrower may not change to a repayment plan that would cause the borrower to have a remaining repayment period that is less than zero months, except that an eligible borrower may change to an IDR plan under § 685.209 at any time.

(ii) For the purposes of paragraph (b)(2)(i) of this section, the remaining repayment period is—

(A) For a fixed repayment plan under § 685.208 or an alternative repayment plan under § 685.221, the maximum repayment period for the repayment plan the borrower is seeking to enter, less the period of time since the loan has entered repayment, plus any periods of deferment and forbearance; and

(B) For an IDR plan under § 685.209, as determined under § 685.209(k).

(3) A borrower who made payments under the IBR plan and successfully completed rehabilitation of a defaulted loan may chose the REPAYE plan when the loan is returned to current repayment if the borrower is otherwise eligible for the REPAYE plan and if the monthly payment under the REPAYE

plan is equal to or less than their payment on IBR.

(4)(i) If a borrower no longer wishes to pay under the IBR plan, the borrower must pay under the standard repayment plan and the Secretary recalculates the borrower's monthly payment based on—

(A) For a Direct Subsidized Loan, a Direct Unsubsidized Loan, or a Direct PLUS Loan, the time remaining under the maximum ten-year repayment period for the amount of the borrower's loans that were outstanding at the time the borrower discontinued paying under the IBR plan; or

(B) For a Direct Consolidation Loan, the time remaining under the applicable repayment period as initially determined under § 685.208(j) and the amount of that loan that was outstanding at the time the borrower discontinued paying under the IBR plan.

(ii) A borrower who no longer wishes to repay under the IBR plan and who is required to repay under the Direct Loan standard repayment plan in accordance with paragraph (b)(4)(i) of this section may request a change to a different repayment plan after making one monthly payment under the Direct Loan standard repayment plan. For this purpose, a monthly payment may include one payment made under a forbearance that provides for accepting smaller payments than previously scheduled, in accordance with § 685.205(a).

■ 8. Section 685.211 is amended by:
■ a. Revising paragraph (a)(1);
■ b. Revising paragraph (f)(1)(i);
■ c. Revising paragraph (f)(3)(ii); and
■ d. Adding paragraph (f)(13).

The revisions and addition read as follows:

§ 685.211 Miscellaneous repayment provisions.

(a) *Payment application and prepayment.* (1)(i) Except as provided for the Income-Based Repayment plan in paragraph (a)(1)(ii) of this section, the Secretary applies any payment in the following order:

(A) Accrued charges and collection costs.

(B) Outstanding interest.

(C) Outstanding principal.

(ii) The Secretary applies any payment made under the Income-Based Repayment plan in the following order:

(A) Accrued interest.

(B) Collection costs.

(C) Late charges.

(D) Loan principal.

* * * * *

(f) * * *

(1) * * *

(i) The Secretary initially considers the borrower's reasonable and affordable payment amount to be an amount equal to the minimum payment required under the IBR plan, except that if this amount is less than $5, the borrower's monthly payment is $5.

* * * * *

(3) * * *

(ii) Family size as defined in § 685.209; and

* * * * *

(13) A borrower who has a Direct Loan that is rehabilitated and which has been returned to repayment status on or after July 1, 2024, may be transferred to REPAYE by the Secretary if the borrower's minimum payment amount on REPAYE would be equal to or less than the minimum payment amount on the Income-Based Repayment Plan.

* * * * *

■ 9. Amend § 685.219 by:
■ a. Revising paragraph (i) of the definition of ''Qualifying repayment plan'' in paragraph (b).
■ b. Revising paragraph (c)(2)(iii).
■ c. Revising paragraph (g)(6)(ii).

The revisions read as follows:

§ 685.219 Public Service Loan Forgiveness Program (PSLF).

* * * * *

(b) * * *

Qualifying repayment plan * * *

(i) An income-driven repayment plan under § 685.209;

* * * * *

(c) * * *

(2) * * *

(iii) For a borrower on an income-driven repayment plan under § 685.209, paying a lump sum or monthly payment amount that is equal to or greater than the full scheduled amount in advance of the borrower's scheduled payment due date for a period of months not to exceed the period from the Secretary's receipt of the payment until the borrower's next annual repayment plan recertification date under the qualifying repayment plan in which the borrower is enrolled;

* * * * *

(g) * * *

(6) * * *

(ii) Otherwise qualified for a $0 payment on an income-driven repayment plan under § 685.209.

§ 685.220 [Amended]

■ 10. In § 685.220 amend paragraph (h) by adding ''§ 685.209, and § 685.221,'' after ''§ 685.208,''.

■ 11. Section 685.221 is revised to read as follows:

§ 685.221 Alternative repayment plan.

(a) The Secretary may provide an alternative repayment plan to a borrower who demonstrates to the Secretary's satisfaction that the terms and conditions of the repayment plans specified in §§ 685.208 and 685.209 are not adequate to accommodate the borrower's exceptional circumstances.

(b) The Secretary may require a borrower to provide evidence of the borrower's exceptional circumstances before permitting the borrower to repay a loan under an alternative repayment plan.

(c) If the Secretary agrees to permit a borrower to repay a loan under an alternative repayment plan, the Secretary notifies the borrower in writing of the terms of the plan. After the borrower receives notification of the terms of the plan, the borrower may accept the plan or choose another repayment plan.

(d) A borrower must repay a loan under an alternative repayment plan within 30 years of the date the loan entered repayment, not including periods of deferment and forbearance.

■ 12. Section 685.222 is amended by revising paragraph (e)(2)(ii) to read as follows:

§ 685.222 Borrower defenses and procedures for loans first disbursed on or after July 1, 2017, and before July 1, 2020, and procedures for loans first disbursed prior to July 1, 2017.

* * * * *

(e) * * *

(2) * * *

(ii) Provides the borrower with information about the availability of the income-driven repayment plans under § 685.209;

* * * * *

■ 13. Amend § 685.403 by revising paragraph(d)(1) to read as follows:

§ 685.403 Individual process for borrower defense.

* * * * *

(d) * * *

(1) Provides the borrower with information about the availability of the income-driven repayment plans under § 685.209;

* * * * *

[FR Doc. 2023–13112 Filed 7–3–23; 8:45 am]

BILLING CODE 4000–01–P

EXHIBIT 2

DECLARATION OF JASON LEWIS

I, Jason Lewis, hereby declare as follows:

1. I am over 18 years old and I am competent to make this declaration. This declaration is based on my personal knowledge of the facts stated herein.

2. I am a resident of the State of Missouri in Saint Louis County.

3. I am currently employed as the General Counsel in the Missouri Attorney General's Office ("AGO").

4. I began my employment at the AGO on February 1, 2016, as an Assistant Attorney General in the Governmental Affairs Section. In approximately July 2019, I became Assistant Deputy Attorney General for Special Litigation. In approximately July 2021, I became Chief Counsel for the Governmental Affairs Section. In approximately December 2023, I became the AGO's General Counsel.

5. Given my current position and my history in the AGO, I understand the strategies the AGO uses to recruit and retain attorneys, as well as the motivations of many applicants and employees to join the AGO and work in government service.

6. Prior to attending law school, I had aspired to work in public service for a government agency. I believe that it is important for citizens, and especially attorneys, to devote time to serving the public and contributing to the functions of government.

7. There are not many government-agency attorney positions in the St. Louis metropolitan region that matched my interests when I joined the AGO or even now.

8. Following my graduation from law school in 2013, I began working as an Associate at a large law firm in St. Louis, Greensfelder, Hemker & Gale (now UB Greensfelder). I started at Greensfelder in approximately late August or early September 2013. I stayed at the firm until I left to join a smaller law firm in St. Louis County, Dolley Law LLC, where I started on February 2, 2015.

9. Eventually, I was hired by the Attorney General's Office in early 2016, when a position became available that matched my interests and I was lucky enough to receive an offer after applying. My starting salary was $45,000, which was consistent with the starting salary of an Assistant Attorney General in the AGO with my years of practice at that point. My salary was substantially less than the salary I earned in private practice.

10. In order to attend law school, I needed to assume debt to finance my education.

11. During the course of my law school education, I took out federal Perkins loans, unsubsidized Stafford loans, subsidized Stafford loans, and Graduate PLUS loans. I did not take out any private loans. I did not have, and still do not have, any undergraduate student loans.

12. Shortly after my law school graduation date, I had approximately $150,000 in outstanding federal student loans.

13. In late 2013, after making regular monthly payments and additional large one-time payments to further reduce my loan balance, I consolidated my loans into a direct federal consolidation loan.

14. I know many current and former colleagues who were initially attracted to public service not only because of the rewarding and valuable work, but also because eventual public-service loan forgiveness ("PSLF").

15. When I joined the Attorney General's Office, I was drawn by two things. First, I intended to work in government service for about two years in order to do the rewarding work of a government attorney. Second, I knew that if I enjoyed the work, PSLF would be a long-term option that would permit me to stay. It would not be financially feasible for me to have continued to work at a comparatively lower salary without the prospect of student loan forgiveness in 10 years. At the time I joined the Attorney General's Office, I still had over $100,000 in loans even though I was making regular payments.

16. While the comparative benefits of the PSLF program was not the primary factor to my decision to join the AGO unlike with some of my colleagues, it has been critical to my decision to continue to work in public service. The longer I have stayed, the more the comparative benefits of the PSLF program have grown. Those comparative benefits have become a significant part of why I have continued to work in public service.

17. I understand those benefits to be incentivizing employment at lower or comparable wages in public service, which facilitates lower monthly debt payments and the prospect of forgiveness substantially earlier than what is possible via private-industry employment. At any point during my career in the AGO, if programs were rolled out that would have reduced my lower monthly payments or allowed my loans

to be forgiven earlier, it would have been less likely that I would have chosen to advance my career in public service and the AGO.

18. I have no reason to believe that my student loan balance will not be forgiven. I used the federal government's consolidation program to consolidate the different types of loans I had, I did not have any disqualifying private loans, I have consistently worked in qualifying public service employment, and I have been making qualifying payments (or any payment obligations were subject to administrative forbearance) for approximately eight years.

19. The closer I get to making the qualifying 120 payments in order to achieve student loan forgiveness, the more the unique benefits of the PSLF program matter. I have approximately 24 payments left in order to achieve that point.

20. Presently, my student loan balance is at approximately $112,078.11 in principal plus $14,006.13 in accrued interest, with a payoff amount of approximately $126,084.24 as of today's date. The time value of money means that forgiveness of that sum is more valuable at this point than it was over eight years ago when I joined the AGO. In other words, leaving public service when forgiveness is on the horizon would require a substantially higher offer from private-practice law firms in order to make up for losing out on the unique benefits of the PSLF program and public service employment.

21. During the course of my employment in the AGO, I have occasionally searched for other employment opportunities mostly to ensure the benefits of remaining in public service and the AGO (e.g., lower monthly student loan payments

through a comparatively lower salary, and the time value of public service loan forgiveness) is still as, or more, financially attractive as it was when I started in the AGO, and I also have been approached by private firms looking to hire me. For example, in late 2021, one private law firm offered me a position that came with a salary, plus a bonus, that was more than I was earning at the AGO. However, it made more financial sense to continue working in public service and the AGO, as at that point I was just over 4 years away from achieving public-service loan forgiveness. My student loan balance at the time was not substantially different than it is now, as most of my regular monthly payments go towards reducing interest and not a meaningful reduction in principal. Thus, at that point, the law firm would have needed to present an offer that was at least $30,000 per year greater than it did in order to offset the benefits of PSLF forgiveness, or a one-time bonus larger than my student loan balance payoff amount. That needed amount is certainly higher now.

22. If my monthly student loan payments were reduced significantly enough without needing to work in qualifying public service employment, then there would also be less financial reason for me to continue employment with the AGO or public service more generally. Furthermore, if my loans would be forgiven between 10 and 20 years, I would also have less reason to continue employment with the AGO or public service more generally.

23. If there were other forms of student loan forgiveness available that would be less generous than the benefits of PSLF (and the generally lower monthly payments through lower salaries in public service) but more generous than existing

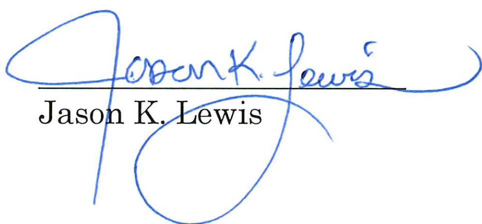
income-driven repayment programs like the Income-Based Repayment program, I would have less incentive to join the AGO or stay as long as I have.

24. The work of the AGO and public service is extremely rewarding, but it comes at a financial cost. For many of my colleagues, the comparatively lower student loan payments with the prospect of forgiveness is a significant part of the decision to join and stay at the AGO, and thus allows those employees to perform that rewarding work even though the annual salary is often a comparative disadvantage to other forms of legal employment. The AGO relies heavily on promoting those benefits when recruiting law school graduates and experienced lawyers.

25. For me, those were some of the reasons why I did choose to join the office. And the longer I am with the AGO and employed in public service, the more important PSLF's benefits are.

I declare under penalty of perjury that the foregoing is true and correct.

Executed on April 8, 2024 in the State of Missouri.



Jason K. Lewis

EXHIBIT 3

IN THE UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF MISSOURI
EASTERN DIVISION

STATE OF MISSOURI,
STATE OF ARKANSAS, et al.,

Plaintiffs,

v.

JOSEPH R. BIDEN, Jr.,
in his official capacity as the President of
the United States of America, et al.

Defendants.

No. ______________

DECLARATION OF DAWNETTA CALHOUN

I, Dawnetta Calhoun, hereby declare and state as follows:

1. I am over the age of 21 and make this declaration based on my own personal knowledge.

2. I am currently employed as the Director of Human Resources for the Office of the Arkansas Attorney General. I have held that position since 2019. I have been employed by the Arkansas Attorney General's Office since 2017. In my current role, I oversee employment matters including recruitment, payroll, onboarding, and offboarding of employees.

3. The Arkansas Attorney General's Office is an Arkansas state constitutional office. *See* Ark. Const. Art. 6, sec. 1. Under Arkansas law, it is the duty of the Attorney General to "maintain and defend the interests of the state in matters before the United States Supreme Court and all other federal courts and shall be the legal representative of all state officers, boards, and commissions in all litigation where the interests of the state are involved." Ark Code Ann. 25-16-703. The current Attorney General of Arkansas is Tim Griffin. He has served in that role since January 10, 2023.

4. To assist the Attorney General in carrying out his duties, the Arkansas Attorney General's Office employs lawyers, paralegals, and others in various roles. Individuals employed directly by the Arkansas Attorney General's Office are employees of the State of Arkansas, and the compensation they receive is paid by the State of Arkansas.

5. To attract and retain employees, the Arkansas Attorney General's Office strives to offer the most competitive benefits packages possible. Those compensation packages include base salary, health insurance, vacation time, 401k participation, retirement benefits, and student loan benefits. Potential and current employees consider all of those items in evaluating employment options.

6. As of March 31, 2024, the Arkansas Attorney General's Office employs 159 employees.

7. As part of my duties as Director of Human Resources, I am also familiar with the Public Service Loan Forgiveness (PSLF) program. That program forgives the remaining balance on direct federal loans where, among other things, an individual works for a certain time for a qualified nonprofit or government employer.

8. The Arkansas Attorney General's Office is a qualified employer under the PSLF program. The Arkansas Attorney General's Office actively advertises its participation in the PSLF program on its website to attract potential applications for employment. *See* Exhibit A. The State of Arkansas also advertises the participation of state agencies in the PSLF program on its websites to attract potential employees. *See* Exhibit B.

9. In my role as Director of Human Resources, I am responsible for certifying that employees seeking to participate in the PSLF program are currently employed by the Arkansas Attorney General's Office. As part of that process, I am responsible for completing the employer-

certification section of the Public Service Loan Forgiveness & Temporary Expanded PSLF Certification and Application form prepared by the Department of Education. A true and accurate blank copy of that form is attached to this affidavit as Exhibit C.

10. Like many other legal offices, the Arkansas Attorney General's Office employs numerous individuals who incurred substantial student loans to finance their education. Those individuals include lawyers and other professional staff.

11. The Arkansas Attorney General's Office, like other public sector employers, uses its participation in the PSLF program to help attract and retain legal and other professional talent. That program is a huge benefit to the Arkansas Attorney General's Office and an important and valuable recruitment tool. Indeed, both current and potential employees consider the office's participation in the PSLF program—and the corresponding loan forgiveness and financial benefits associated with it—in determining overall compensation and making decisions about whether to join or remain with the office.

12. Currently, approximately 23 employees of the Arkansas Attorney General's Office participate in that program. In addition to those participants, other past and current employees have likewise participated in the PSLF program.

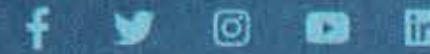
13. It is my understanding that the federal government has published a rule that seeks to forgive student debt that might otherwise be covered by the PSLF program. A reduction in student loan obligations otherwise eligible for relief under the PSLF program will make participation in that program less attractive to current and potential employees. Thus, if the published rule takes effect, the Arkansas Attorney General's Office will lose a valuable tool for recruiting potential employees and retaining existing employees because the PSLF program will no longer carry the same comparative benefit that it once did.

Pursuant to 28 U.S.C. 1746, I declare under penalty of perjury that the foregoing is true and correct.

Executed on April 5, 2024.

Exhibit A

TIM GRIFFIN
ATTORNEY GENERAL OF ARKANSAS



OFFICE

CAREERS

The Office of the Attorney General is an equal opportunity employer. Our office strives to offer the most competitive benefits packages possible. Those compensation packages include base salary, group health insurance, vacation time, sick time, 401k (ARDiamond), retirement (APERS) benefits, and student loan benefits (PSLF) to eligible employees.
State of Arkansas job applications will not be accepted in lieu of resumes. Resumes received after the deadline will not be considered.

Currently accepting resumes for the following positions:

ASSISTANT SOLICITOR GENERAL – OFFICE OF SOLICITOR GENERAL
ASSISTANT ATTORNEY GENERAL – STATE AGENCY DIVISION

Exhibit B

Call us today 855.288.2094

Tools Forms

Loan Forgiveness and Discharge Programs

The U.S. Department of Education currently offers two loan forgiveness programs for borrowers who either work in public service (Public Service Loan Forgiveness) or are teaching at a Title 1 school (Teacher Loan Forgiveness). Some physical or mental impairments can qualify you for a total and permanent disability discharge (TPD) on your federal student loans, and there are other types of discharge programs described below.

Public Service Loan Forgiveness (PSLF)

If you are employed by a government or not-for-profit organization, you may be able to receive loan forgiveness under the Public Service Loan Forgiveness Program.

The Public Service Loan Forgiveness (PSLF) Program forgives the remaining balance on your Direct Loans after you have made 120 qualifying monthly payments under a qualifying repayment plan while working full-time for a qualifying employer.

Learn more to see whether you might qualify.

Teacher Loan Forgiveness (TLF)

If you teach full-time for five complete and consecutive academic years in a low-income elementary school, secondary school, or educational service agency, you may be eligible for forgiveness of up to $17,500 on your Direct Loan or FFEL program loans. See https://studentaid.gov/teach-forgive for more information and for a form you can fill out when you have completed your teaching service. You can also find more information on our TLF page.

Total and Permanent Disability (TPD)

If you think you might qualify and want to apply for a TPD discharge, you must provide the information the Department of Education needs to make a determination by completing a TPD discharge application and gathering supporting documentation that shows you are totally and permanently disabled. For complete information about TPD discharge, including

the TPD discharge application, visit the Total and Permanent Disability (TPD) Discharge website at DisabilityDischarge.com. You can find more information on our TPD page.

False Certification (Disqualifying Status)

You may qualify for this discharge if, at the time your school certified or originated your loan, you were unable to meet the legal requirements for employment in your state of residence in the occupation for which your program of study was intended. If you think you may be eligible for the False Certification (Disqualifying Status) Discharge you may download and print a copy of the appropriate discharge application from the Forms section on our website.

False Certification of Ability to Benefit

You may qualify for this discharge if the school you attended falsely certified your ability to benefit from the education offered by the school. A school is required to certify that students who lack a high school diploma or GED still have the ability to benefit from the training offered by the school. If you think you may be eligible for the False Certification of Ability to Benefit Discharge, you may download and print a copy of the appropriate discharge application from the Forms section on our website.

False Certification (Unauthorized Signature/Payment)

You may qualify for loan discharge if the school, without your authorization, signed your name on a loan application, promissory note, loan check, electronic funds transfer application, or master check. If you think you may be eligible for the False Certification (Unauthorized Signature/Payment) Discharge, you may download and print a copy of the appropriate discharge application from the Forms section on our website.

School Closure

You may qualify for loan discharge if your school closed while you were enrolled and you were not able to complete the program of study for which your student loan was intended. In order to qualify, you must have been attending the school within 120 days of the closure date or on an approved leave of absence when the school closed. If you think you may be eligible for the School Closure Discharge, you may download and print a copy of the appropriate discharge application from the Forms section on our website.

Spouses and Parents of September 11, 2001 Victims

You may qualify for loan discharge if you are the spouse or parent of an eligible public servant or eligible victim who died or became permanently and totally disabled due to injuries suffered in the terrorist attacks on September 11, 2001. If you think you may be eligible for Spouses and parents of September 11, 2001 Victims Discharge, you may download and print a copy of the appropriate discharge application from the Forms section on our website.

Unpaid Refund

You may qualify for loan discharge if your school failed to pay a tuition refund required under federal law if you withdrew during the refund period published by the school. If you think you may be eligible for this discharge program, you may download and print a copy of the appropriate discharge application from the Forms section on our website.

MORE
Helpful Links

- Repayment Options for Federal Student Loans
- Ways To Pay
- Deferment and Forbearance Options
- Make Your Payments On Time
- Is consolidation for me?
- Get Ahead On Payments
- **Loan Forgiveness and Discharge Programs**
- Public Service Loan Forgiveness (PSLF)
- Total and Permanent Disability Discharge
- Teacher Loan Forgiveness

MORE
Helpful Topics

- Managing Student Loans
- Money Basics
- Help Center
- Getting Ready to Repay
- Repaying Student Loans
- Behind on payments?
- Understanding Student Loans

Servicing Partner:

© 2024 Arkansas Student Loan Authority, All rights reserved.

3801 Woodland Hts, Ste 200 • Little Rock, AR 72212
800.443.6030 | Default Prevention Call Center: 855.288.2094

Exhibit C

PSLF

PUBLIC SERVICE LOAN FORGIVENESS (PSLF) & TEMPORARY EXPANDED PSLF (TEPSLF) CERTIFICATION & APPLICATION

William D. Ford Federal Direct Loan (Direct Loan) Program

OMB No. 1845-0110
Form Approved
Exp. Date 11/30/2023

WARNING: Any person who knowingly makes a false statement or misrepresentation on this form or on any accompanying document is subject to penalties that may include fines, imprisonment, or both, under the U.S. Criminal Code and 20 U.S.C. 1097.

SECTION 1: BORROWER INFORMATION

Please enter the following information:

SSN: ____________________

Date of Birth: ____________________

Name: ____

Address: ____

City: ______________ State: _____ Zip Code: ____________

Telephone – Primary: ____

Email: ____

For more information on PSLF, visit **StudentAid.gov/publicservice**. To apply online, visit **StudentAid.gov/PSLF**.

SECTION 2: BORROWER REQUEST, UNDERSTANDINGS, AND CERTIFICATION

I request (1) that the U.S. Department of Education (the Department) consider this form an application for loan forgiveness to determine whether I qualify for PSLF or TEPSLF, and discharge any qualifying loans that I have, and **(2)** if none of my loans qualify for PSLF or TEPSLF forgiveness when I submit this form, determine how many qualifying payments I have made toward PSLF and TEPSLF.

☐ I believe I qualify for forgiveness now and request a forbearance while my application is being processed. I understand this period of forbearance will not count toward forgiveness, if the Department determines I am not yet eligible for forgiveness.

I understand that:

1. To qualify for forgiveness, I must have made 120 qualifying payments on my Direct Loans while employed full-time by a qualifying employer. Neither the 120 qualifying payments nor the qualifying employment have to be consecutive.
2. To qualify for forgiveness, I must be employed full-time by a qualifying employer when I apply for forgiveness.
3. By submitting this form, my student loans held by the Department may be transferred to a different loan servicer.
4. If the Department determines that I appear to be eligible for forgiveness, the Department may contact my employer before granting forgiveness to ensure that I was employed by the employer at the time I applied for forgiveness.
5. If I am eligible for forgiveness, the amount forgiven will be the principal and interest that was due on my eligible Direct Loans when I made my final qualifying payment. Any amount that I pay on those loans after I have made my final qualifying payment will be treated as an overpayment. I must continue to make payments on any of my other loans.
6. If I am not yet eligible for forgiveness, I will be notified of the determination, why it was made, and how many qualifying payments I have made toward PSLF and TEPSLF. If I requested my loans be placed in forbearance while this determination was being made, they will be placed back into repayment.

I certify that all the information I have provided on this form and in any accompanying document is true, complete, and correct to the best of my knowledge and belief.

Borrower's Signature ____ **Date** ____________________ (mm/dd/yyyy)

Pages 1 and 2 of this form must be completed in their entirety.

Borrower Name ______________________ **Borrower SSN** ______________

SECTION 3: BEFORE YOU BEGIN

- We highly recommend that you complete this form online by going to **StudentAid.gov/pslf**. Doing so allows you to search for your employer using the PSLF Employer Database to prepopulate this form. You are also able to submit this form if your employer electronically certifies your employment.
- You should complete this form annually or any time you change employers or have a change in your employment status.
- Review the instructions in Section 6 before you complete the remainder of this form.

SECTION 4: EMPLOYER INFORMATION (TO BE COMPLETED BY THE BORROWER OR EMPLOYER)

1. Federal Employer Identification Number (FEIN/EIN): ______________________

2. Employer Name: ______________________

3. Employer Address:

Street: ______________________

City, State, Zip Code: ______________________

Employer Website (if any): ______________________

4. Employment Period:

Employment or Certification Begin Date: ______________ (mm/dd/yyyy)

Employment or Certification End Date: ______________ (mm/dd/yyyy) **OR** ☐ Still Employed

5. Employment Status: ☐ Full-Time ☐ Part-Time

6. Average hours per week: ______________

☐ Check this box if your employer cannot be contacted because the organization has closed or is unable to certify your employment, and skip to Section 5B.

SECTION 5A: EMPLOYER CERTIFICATION (TO BE COMPLETED BY THE EMPLOYER)

Terms in **Bold** are defined in Section 7.

By providing an **acceptable signature** below, I certify that (1) the information in Section 4 is true, complete, and correct to the best of my knowledge and belief (see Section 6 for instructions), (2) I am an **authorized official** of the organization named in Section 4, and (3) the borrower named in Section 1 is or was a **direct employee** of the organization named in Section 4; or is or was employed under a contract or by a **contracted organization** in a position or providing services that, under applicable state law, cannot be filled or provided by a direct employee of the organization named in Section 4.

Note: If any of the information is crossed out or altered in Section 4 or 5A, the authorized official must initial those changes.

Official's Name: ______________________ Official's Phone: ______________________

Official's Title: ______________________ Official's Email: ______________________

Authorized Official's Signature ______________________ **Date** ______________ (mm/dd/yyyy)

SECTION 5B: ALTERNATIVE DOCUMENTATION FOR EMPLOYMENT CERTIFICATION (*only* if Section 5A cannot be completed)

If you cannot obtain certification from your employer because the organization is closed or because the organization is unable to certify your employment and indicated that by checking the box above on this form, you can submit alternative documentation that may allow your employment to be certified. See Section 6 for more information. If this form is submitted without the necessary supporting documents, the PSLF servicer will contact you to request additional information before your employment can be certified.

SECTION 6: INSTRUCTIONS FOR COMPLETING THIS FORM

When completing this form, type or print using dark ink. Enter dates as month/day/year (mm/dd/yyyy). Use only numbers. Example: March 14, 2023 = 03/14/2023. If you need to correct any answer on this form, cross through the original answer, provide the correct answer, AND initial the change. This form can be completed and submitted online at **StudentAid.gov/pslf**. If this form is being completed manually or was generated to sign manually, it must be signed using an **acceptable signature.** Terms in **BOLD** are defined in Section 7.

Notes for completing Section 4:

Question 1: **The Federal Employer Identification Number (FEIN/EIN)** is a 9-digit number that can generally be found in box b of your IRS Form W-2 (W-2). However, if your employer uses a **Professional Employer Organization (PEO)** or you are a **contracted employee** in a position or providing services that, under applicable state law, cannot be filled or provided by a **direct employee** of your employer, you will need to obtain your employer's **FEIN/EIN** directly, because the **FEIN/EIN** on your W-2 may be that of a different organization. An FEIN/EIN that is found using an internet search or on an IRS Form other than a W-2 (for example an IRS Form 1099), may not be the **FEIN/EIN** that an employer uses for payroll purposes and will not be included in the **PSLF Employer Database.**

Question 2: If this form was generated by the **Help Tool,** the employer name selected from the **PSLF Employer Database** or name you manually entered will be pre-populated. If this form is being completed manually, enter the name of your employer as it appears on your W-2 (unless your employer uses a PEO, in which case provide your non-PEO employer's name).

Question 3: If this form is being completed manually, enter the address of your employer. If your form was generated by the Help Tool, that information will be prepopulated on this form.

Question 4: *Employment or Certification Begin Date* Enter the date that you began your employment with the employer whose **FEIN/EIN** appears in Question 1:

- If this is the first time you are submitting this employer for certification, or
- If you have continued to be employed in the same **employment status** (Question 5) began employment with this employer.

Enter the begin date that you would like to be evaluated with the employer whose **FEIN/EIN** appears in Question 1:

- If your **employment status** has changed since you last had your employment certified with this employer, or
- If you have had a break in employment since you last had your employment certified with this employer.

Notes for completing Section 4 (Continued):

Question 4 (Continued): Employment or Certification *End Date*

Enter the date that you:

- Ended employment with the employer whose FEIN/EIN appears in Question 1, or
- Ceased to be in the **employment status** reported in Question 5.

Check the box labeled "Still Employed", if you are still employed with the employer whose **FEIN/EIN** appears in Question 1 at the time you are completing this form.

Question 5: Check the **Full-Time** box if you worked an average of 30 hours or more per week for the period of time being certified in Question 4 or otherwise meet the definition of Full-Time provided in Section 7. If you worked an average of less than 30 hours per week, check the Part-Time box.

Question 6: Provide the average number of hours you worked per week during the period being certified. This should include vacation, leave time, or any leave taken under the Family Medical Leave Act of 1993, but should not include time spent performing volunteer services.

Notes for completing Section 5A:

The **Authorized Official** must review the information provided in Section 4 for accuracy. As part of this review, they should ensure that the **FEIN/EIN** provided in Question 1 belongs to their organization OR is the **FEIN/EIN** that is used for payroll purposes, that the employee named in Section 1 is or was a **direct employee** of their organization for the period being certified, OR is or was employed under a contract or by a **contracted organization** in a position or providing services for their organization that, under applicable state law, cannot be filled or provided by a **direct employee** of their organization. If the **Authorized Official** needs to correct any answer in Section 4, they must cross through the original answer, provide the correct answer, AND initial the changes.

SECTION 6: INSTRUCTIONS FOR COMPLETING THIS FORM (CONTINUED)

Notes for completing Section 5B:

If you are unable to have this form completed by an **Authorized Official** because the organization has closed or you are unable to contact your employer to obtain an **acceptable signature**, you may be able to certify your employment using alternative documentation. This process will add significant time to the review of this form. If the employment being certified is or was with the U.S. Military, you can submit this form with a Form DD-214 or an SCRA Status Report document that corresponds with the employment period in Question 4, instead of completing Section 5A. If the employment being certified is for any other employer, you must submit documentation that confirms both the **FEIN/EIN** of the employer AND your period of employment, instead of completing Section 5A. This would include an IRS Form W-2 for every calendar year included in your employment period (with or without corresponding **paystubs**), OR **paystubs** for every month that you were employed during the employment period. Any month that cannot be documented will not be certified as eligible employment.

SECTION 7: DEFINITIONS

Definitions Specific to this Form

The **PSLF Employer Database** is a searchable database maintained by the Department that borrowers search by entering their employer's FEIN/EIN when using the Help Tool to generate this form. Forms generated this way will be prepopulated with data from this database when the form is generated by using the Help Tool. Many employers are already included in the database and more are added every day. The database can be searched without logging in by going to **StudentAid.gov/pslf/employer-search**. The database will display if the employer is eligible, ineligible, or undetermined during the period of employment entered by the borrower.

The PSLF **Help Tool** can be accessed at **StudentAid.gov/pslf**. This Help Tool permits a borrower the ability to search the **PSLF Employer Database** to generate this form for eligible employers in the database. The Help Tool also allows a borrower to request the **Authorized Official** to sign this form electronically. By signing electronically, this form can be submitted for review without the need to print it out or obtaining an **acceptable signature**.

The **Federal Employer Identification Number (FEIN/EIN)** is a number issued by the IRS to an employer and is generally provided to the employee in box b of the employee's IRS Form W-2. This should not be confused with a similar State ID number that is found in box 15 of the W-2.

A **Professional Employer Organization (PEO)** is an organization that provides administrative services, such as payroll and benefits, for another organization under a contractual agreement. PEOs are co-employers of an employee, but for PSLF purposes, the employee is considered a direct employee of the non-PEO employer. A borrower whose employer uses a PEO, will need to obtain the non-PEO employer's FEIN/EIN because the FEIN/EIN that appears on their W-2 is that of the PEO. A PEO is not the same as a staffing agency which instead is the sole employer of an individual who performs their work for a different organization.

Definitions Specific to this Form (Continued)

A **direct employee** is an employee that is hired by and receives a W-2 to document their compensation from their employer or from a PEO contracted by the employer. An employee that is self-employed or receives an IRS Form 1099 is not considered a direct employee.

An **Authorized Official** is an individual who by the authority of an employer has access to the borrower's employment or service records and is authorized by the employer to certify the employment status of the organization's employees or former employees, or the service of AmeriCorps or Peace Corps volunteers.

The **employment period** is the time between the employment or certification begin date and the employment or certification end date provided on the form or, if the borrower indicates they are still employed, the time between the employment or certification begin date and the date the Authorized Official certifies the form. Borrowers are encouraged to certify their employment annually or when they change employers or employment status.

Employment status is the determination of whether the borrower is Full-Time or Part-Time during the employment period on the form. A separate form must be submitted when there is a change in employment status with the same employer. A borrower with multiple simultaneous qualifying Part-Time employers during the same period can be considered to meet Full-Time employment if the Part-Time hours at each employer total 30 or more hours.

Full-Time employment, for PSLF purposes, means working 30 or more hours per week on average for the employment period on the form regardless of whether the employer considers that Full-Time for other purposes. Working less than 30 hours per week on average is considered Part-Time. When determining if a borrower is Full-Time, an employer must include all hours, including vacation, leave time, or any leave taken under the Family Medical Leave Act of 1993. However, do not include time spent performing volunteer services.

SECTION 7: DEFINITIONS (CONTINUED)

Definitions Specific to this Form (Continued)

If a borrower is employed on a contractual basis where they provide an average of 30 hours of work per week for a minimum of 8 months in a 12 month period, such as in an educational setting, but they continue to be considered employed for the full year, they should be considered Full-Time for the full 12 months.

If the borrower performs non-tenure track employment, such as an adjunct or non-tenure track faculty member, the employer can calculate the weekly average hours for determining Full-Time status by using a formula that multiplies the contact hours per week by at least 3.35 hours.

A **contracted organization** is a separately organized employer that through a written agreement with a qualifying employer performs services for the **qualifying employer**. The direct employees of the contracted organization are not direct employees of the qualifying employer. However, if the direct employees of the contracted organization are in positions or providing services that, under State law, cannot be filled or provided by a direct employee of a qualifying employer, the Authorized Official of the qualifying employer can certify their employment as if those employees were direct employees of the qualifying employer.

An **acceptable signature** for this form includes:

- a handwritten signature in dark ink,
- a hand drawn electronic signature made using a mouse or finger on a digital device, or
- a digitized image of a handwritten signature that has been embedded on the signature line of this form.

Other forms of signatures including, certificate-based signatures and typed names, even if using a font that mimics cursive text, are NOT acceptable signatures for this form.

General Definitions Related to PSLF and Student Loans

Note: Additional PSLF and TEPSLF specific terms are defined in-context in Section 9.

A loan enters **default** when a borrower's payment is delinquent more than 270 days. A loan in default is not eligible for PSLF and payments made while in default are not eligible payments for PSLF. A borrower can resolve a defaulted loan by contacting their servicer.

A **deferment** is a period during which you are allowed to postpone making payments temporarily, on the basis of meeting the eligibility requirements for the deferment.

Eligible Loans are loans made under the William D. Ford Federal Direct Loan (Direct Loan) Program that are not in default.

An **eligible payment** is a payment that is made in full for a month that you are repaying your loan under an eligible repayment plan or is the equivalent of an eligible payment attributed to a month in which you are in repayment.

A **forbearance** is a period during which you are allowed to postpone making payments temporarily, allowed an extension of time for making payments, or temporarily allowed to make smaller payments than scheduled.

An **Income Driven Repayment (IDR) plan** is a repayment plan that bases your monthly payment on your annual income and family size. These plans are qualifying repayment plans for PSLF and are, generally, the only plans that would have a remaining loan balance after you have made 120 qualifying payments. You must recertify your income annually to remain on an IDR plan.

A **qualifying employer** is a U. S. based governmental organization, an organization under Section 501(c)(3) of the Internal Revenue Code that is exempt from taxation under section 501(a) of the Internal Revenue Code, or a non-profit organization that dedicates a majority of its full-time equivalent employees to providing certain non-governmental public services. Serving in an AmeriCorps or Peace Corps position is also qualifying employment.

A **qualifying payment** is recorded when an eligible payment (or equivalent) is matched to a month of eligible full-time employment with a qualifying employer.

SECTION 8: WHERE TO SEND THIS FORM

Return the completed form and any documentation to:

Mail to: U.S. Department of Education, MOHELA,
633 Spirit Drive
Chesterfield, MO 63005-1243

Fax to: 866-222-7060

If MOHELA is already your servicer
Upload to: mohela.com/uploadDocument

If you need help completing this form, call:

Domestic: 855-265-4038
International: 636-532-0600
TTY: dial 711, then enter 855-265-4038

Website: mohela.com

SECTION 9: IMPORTANT INFORMATION ABOUT PSLF AND TEPSLF

Terms in **Bold** are defined in Section 7.

The Public Service Loan Forgiveness (PSLF) program was created by Congress in October 2007, to encourage employment in the public service sector. A borrower qualifies for forgiveness of any remaining principal and interest on their **eligible loans** once they have made the equivalent of 120 **qualifying payments** after October 1, 2007, while employed **full-time** with a **qualifying employer**. Congress authorized a Temporary Expansion of the PSLF program (TEPSLF) in March 2018, that allowed borrowers that were otherwise eligible for PSLF to become eligible if the only reason they did not qualify for PSLF was because some or all of their payments were made under an ineligible repayment plan. For a more comprehensive overview of these programs, including FAQ's, visit **StudentAid.gov/publicservice**.

LOAN ELIGIBILITY

Only Direct Loan Program loans that are not in **default** are eligible for PSLF. Loans you received under the Federal Family Education Loan (FFEL) Program, the Federal Perkins Loan (Perkins Loan) Program, or any other student loan program are not eligible for PSLF.

If you have FFEL Program or Perkins Loan Program loans, you may consolidate them into a Direct Consolidation Loan to take advantage of PSLF. However, payments made on those loans before you consolidated them do not count as eligible PSLF payments. In addition, if you made eligible payments on a Direct Loan and then consolidate it into a Direct Consolidation Loan, the eligible payments you made on the original Direct Loan(s) will be added as eligible payments to the new Direct Consolidation Loan based on a weighted average of the loans that were consolidated.

If you are planning to consolidate your FFEL Program or Perkins Loan Program loans into a Direct Consolidation Loan to take advantage of PSLF and do not have any Direct Loans, do not submit this form until you have consolidated your loans. The online application for Direct Consolidation Loans contains a section that allows you to indicate that you are consolidating your loans for PSLF.

If you plan to consolidate Perkins Loan Program loans, first understand that Perkins Loan Program loans may be cancelled for certain types of public service. If you consolidate a Perkins Loan Program loan, you will no longer be eligible for Perkins cancellation.

The online application is available at **StudentAid.gov/consolidation**. If you don't know whether you have Direct Loans, log in to your account on **StudentAid.gov**.

PAYMENT ELIGIBILITY

An eligible payment is one that is made in full for a month that you are repaying your loan under an eligible repayment plan or is the equivalent of an eligible payment attributed to a month in which you are in repayment. Only eligible payments made on or after October 1, 2007, can become a qualifying payment for PSLF or TEPSLF.

PAYMENT ELIGIBILITY (CONTINUED)

A payment is considered made in full if it is received for the full amount due based on your scheduled payment or if you make multiple payments within the payment period that add up to at least the full scheduled amount due. A payment is also considered paid in full if it is any of the eligible payment equivalents described in this section.

Eligible Repayment Plans

Your payments must be made under a qualifying repayment plan. Qualifying repayment plans for PSLF include:

any of the following Income Driven Repayment (IDR) plans:

- Revised Pay As You Earn (REPAYE),
- Pay As You Earn (PAYE),
- Income-Based Repayment (IBR),
- Income-Contingent Repayment (ICR).

Or

The 10-Year Standard Repayment plan, or any other Direct Loan repayment plan (except the Alternative Repayment plan), if those payments are at least equal to the monthly payment amount that would be required under the 10-Year Standard Repayment plan.

Note: The Standard Repayment Plan for Direct Consolidation Loans made on or after July 1, 2006, has repayment periods that range from 10 to 30 years. Monthly payments you make under this plan are eligible payments for PSLF only if the repayment period is 10 years. This repayment plan is always a qualifying repayment plan for TEPSLF (for more information regarding eligible repayment plans for TEPSLF, see below).

SECTION 9: IMPORTANT INFORMATION ABOUT PSLF AND TEPSLF (CONTINUED)

PAYMENT ELIGIBILITY (CONTINUED)

While repayment plans other than an IDR plan may be qualifying repayment plans for PSLF, you must have a remaining balance to forgive when you reach 120 qualifying payments. Otherwise, your loans will be fully repaid within 10 years. You will generally only have a remaining balance if you have been repaying under an IDR plan. To apply for an IDR plan, visit **StudentAid.gov/idr/**.

Eligible Payment Equivalents

You can receive a payment equivalent by making a payment that exceeds your monthly scheduled payment due so long as it also satisfies a future scheduled payment. This is often referred to as a lump sum payment. The number of payment equivalents depends on the amount received and your scheduled monthly payment due. You cannot receive a payment equivalent beyond your next IDR recertification date or 12 months, whichever is sooner. Any payments in excess of this amount will be applied to principal but will not result in additional eligible payments.

Scheduled payments are those that are made while you are in repayment. They do not include payments made while your loans are in an in-school or grace status, or in a deferment or forbearance status (except those included below).

Receiving one of the following deferments or forbearances at any time during a month is equivalent to an eligible payment:

- Cancer treatment deferment,
- Economic hardship deferment,
- Military service deferment,
- Post-active-duty student deferment,
- AmeriCorps forbearance,
- National Guard Duty forbearance,
- U.S. Department of Defense Student Loan Repayment Program forbearance,
- Administrative forbearance; or
- Mandatory administrative forbearance

EMPLOYMENT ELIGIBILITY

To qualify for PSLF, you must be a **direct employee** of a qualifying employer. A direct employee is someone who is hired and paid by the employer, and who receives an IRS Form W-2 from the employer. You may physically perform your work at a qualifying or non-qualifying organization, as long as you are a direct employee of a qualifying employer.

However, if you are a **direct employee of a contracted organization** that is in a position or providing services that, under applicable State law, cannot be filled or provided by direct employees of the qualifying employer, you can be treated as a direct employee of the qualifying employer where you perform your work.

EMPLOYMENT ELIGIBILITY (CONTINUED)

Qualifying Employer

For PSLF, a qualifying employer is a:

- U. S. based governmental organization (at the federal, state, local, or Tribal level, including the U. S. Armed Forces and National Guard)
- a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code (IRC), or
- a non-profit organization that provides certain non-governmental public services.

Service in an AmeriCorps position approved by the Corporation for National and Community Service under Section 123 of the National and Community Service Act of 1990 (42 U.S.C. 12573) or a full-time assignment in a Peace Corps position under 22 U.S.C. 2504 is also qualifying employment.

A non-profit organization that is not a tax-exempt organization under Section 501(c)(3) of the IRC may be a qualifying organization if a majority of its full-time equivalent employees are engaged in one or more specific non-governmental public services.

These services include:

- Emergency management,
- Civilian service to military personnel,
- Military service,
- Public safety,
- Law enforcement services,
- Public health services,
- Public education,
- Public library services,
- School library and other school-based services,
- Public interest legal services,
- Early childhood education, and
- Public service for individuals with disabilities and the elderly.

Full definitions of each of these non-governmental public services are available at **StudentAid.gov/publicservice**.

Non-Qualifying Employer

For PSLF, a qualifying employer cannot be a:

- business organized for profit,
- labor union, or
- partisan political organization.

Additionally, employment as a member of the U.S. Congress is not qualifying employment.

SECTION 9: IMPORTANT INFORMATION ABOUT PSLF AND TEPSLF (CONTINUED)

EMPLOYMENT ELIGIBILITY(CONTINUED)

Full-Time Employment

For PSLF purposes, **full-time** means at least an average of 30 hours per week for the employment period being certified.

All hours for which you are paid should be included in the average hours worked per week, however, time spent performing volunteer work should not be included.

Vacation or leave time provided by the employer or leave taken for a condition that is a qualifying reason for leave under the Family and Medical Leave Act of 1993, 29, U.S.C. 2612(a)(1) and (3) should be included in the average hours worked per week.

If you are a teacher or in another position under contract for at least eight out of 12 months, you meet the full-time standard if you work an average of at least 30 hours per week during the contractual period and receive credit by your employer for a full year's worth of employment.

If you are a non-tenure or adjunct faculty member at an institution of higher education meaning you are paid solely for the credit hours you teach, you meet the definition of full-time if you are employed the equivalent of 30 hours per week as determined by multiplying each credit or contact hour taught per week by at least 3.35.

If you are employed part-time by more than one qualifying employer simultaneously, you may meet the full-time employment requirement if you work a combined average of at least 30 hours per week with your employers.

QUALIFYING PAYMENT

You must accumulate 120 **qualifying payments** to have your eligible loans forgiven through PSLF. These qualifying payments do not need to be consecutive.

An **eligible payment** is considered to become a **qualifying payment** when the month to which the eligible payment is attributed is matched to a month that you have certified full-time employment with a **qualifying employer**.

TEPSLF ELIGBILITY

To qualify for TEPSLF, you must be ineligible for PSLF *only* because some or all of your payments were not made under a qualifying repayment plan for PSLF and if the payment that you made 12 months prior to reaching 120 qualifying payments for TEPSLF and the 120th qualifying payment were at least as much as you would have paid under the lowest payment available to you on an **IDR plan**.

If you meet these requirements, you will be evaluated for TEPSLF eligibility under the expanded list of qualifying repayment plans for TEPSLF which include the:

- Qualifying repayment plans for PSLF,
- Graduated Repayment Plans,
- Extended Repayment Plans,
- Standard Repayment Plan for Direct Consolidation Loans, and
- Graduated Repayment Plan for Direct Consolidation Loans.

OTHER IMPORTANT INFORMATION

The period of service used to qualify for Teacher Loan Forgiveness or Civil Legal Assistance Attorney Student Loan Repayment programs cannot also count as eligible payments for PSLF.

You have the option to request a **forbearance** on your Direct Loans if you are submitting this form and you believe that you qualify for forgiveness right now because you have made 120 qualifying payments. However, when evaluating whether to choose forbearance, it is important to understand that these periods of forbearance will not count toward PSLF or TEPSLF if it is determined you do not have 120 **qualifying payments** yet. Note: If you do not request a forbearance, any payments made after your 120th qualifying payment will be refunded to you or applied to any other outstanding loans held by the Department.

If you have a month in your payment history that would otherwise count as a qualifying payment, but it is not because you were in a **deferment** or **forbearance** status other than those that are considered an eligible payment equivalent, you can take action to make that month a qualifying payment. To do so you must make a payment of at least as much as what you would have made under an IDR plan that you were eligible for each month that meets the condition.

SECTION 10: IMPORTANT NOTICES

Privacy Act Notice. The Privacy Act of 1974 (5 U.S.C.552a) requires that the following notice be provided to you:

The authorities for collecting the requested information from and about you are §421 et seq., §451 et seq., or §461 of the Higher Education Act of 1965, as amended (20 U.S.C.1071 et seq., 20 U.S.C. 1087a et seq., or 20 U.S.C. 1087aa et seq.) and the authorities for collecting and using your Social Security Number (SSN) are §§428B(f) and 484(a)(4) of the HEA (20 U.S.C. 1078-2(f) and 1091(a)(4)) and 31 U.S.C.7701(b). Participating in the William D. Ford Federal Direct Loan (Direct Loan) Program, Federal Family Education Loan (FFEL) Program, or Federal Perkins Loan (Perkins Loan) Program and giving us your SSN are voluntary, but you must provide the requested information, including your SSN, to participate.

The principal purposes for collecting the information on this form, including your SSN, are to verify your identity, to determine your eligibility to receive a loan or a benefit on a loan (such as a deferment, forbearance, discharge, or forgiveness) under the Direct Loan, FFEL, or Federal Perkins Loan Programs, to permit the servicing of your loans, and, if it becomes necessary, to locate you and to collect and report on your loans if your loans become delinquent or default. We also use your SSN as an account identifier and to permit you to access your account information electronically.

The information in your file may be disclosed, on a case- by-case basis or under a computer matching program, to third parties as authorized under routine uses in the appropriate systems of records notices. The routine uses of this information include, but are not limited to, its disclosure to federal, state, or local agencies, to private parties such as relatives, present and former employers, business and personal associates, to consumer reporting agencies, to financial and educational institutions, and to guaranty agencies in order to verify your identity, to determine your eligibility to receive a loan or a benefit on a loan, to permit the servicing or collection of your loans, to enforce the terms of the loans, to investigate possible fraud and to verify compliance with federal student financial aid program regulations, or to locate you if you become delinquent in your loan payments or if you default. To provide default rate calculations, disclosures may be made to guaranty agencies, to financial and educational institutions, or to state agencies. To provide financial aid history information, disclosures may be made to educational institutions. To assist program administrators with tracking refunds and cancellations, disclosures may be made to guaranty agencies, to financial and educational institutions, or to federal or state agencies. To provide a standardized method for educational institutions to efficiently submit student enrollment statuses, disclosures may be made to guaranty agencies or to financial and educational institutions.

To counsel you in repayment efforts, disclosures may be made to guaranty agencies, to financial and educational institutions, or to federal, state, or local agencies.

In the event of litigation, we may send records to the Department of Justice, a court, adjudicative body, counsel, party, or witness if the disclosure is relevant and necessary to the litigation. If this information, either alone or with other information, indicates a potential violation of law, we may send it to the appropriate authority for action. We may send information to members of Congress if you ask them to help you with federal student aid questions. In circumstances involving employment complaints, grievances, or disciplinary actions, we may disclose relevant records to adjudicate or investigate the issues. If provided for by a collective bargaining agreement, we may disclose records to a labor organization recognized under 5 U.S.C. Chapter 71. Disclosures may be made to our contractors for the purpose of performing any programmatic function that requires disclosure of records. Before making any such disclosure, we will require the contractor to maintain Privacy Act safeguards. Disclosures may also be made to qualified researchers under Privacy Act safeguards.

Paperwork Reduction Notice. According to the Paperwork Reduction Act of 1995, no persons are required to respond to a collection of information unless such collection displays a valid OMB control number. The valid OMB control number for this information collection is 1845-0110. Public reporting burden for this collection of information is estimated to average 30 minutes per response, including time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. The obligation to respond to this collection is required to obtain a benefit (34 CFR 685.219). If you have comments or concerns regarding the status of your individual submission of this form, please contact your loan holder directly (see Section 8).

EXHIBIT 4

DECLARATION OF RACHAEL HOUSER

I, Rachael Houser, hereby declare as follows:

1. I am over 18 years old, and I am competent to make this declaration. This declaration is based on my personal knowledge of the facts stated herein.

2. I am a resident of the State of Missouri in St. Charles County. I primarily work in St. Louis City in the State of Missouri.

3. I am currently employed by the Missouri Attorney General's Office (AGO). I have been employed by the AGO since August 3, 2011. My title is Deputy Chief Counsel – Labor Division. I have held my current position since June 1, 2021.

4. As part of my duties, I assist the AGO with the recruitment and hiring of new attorneys.

5. The AGO consistently utilizes the Public Service Loan Forgiveness program (PSLF) as a recruiting tool. Information about the PSLF is contained within the AGO's recruitment brochures, advising potential employees that it qualifies as a public service employer for purposes of the program. The AGO also introduces information about PSLF at career fairs, and in interviews with potential employees to help them better understand the non-salary benefits the office provides. I conduct about ten recruitment events each year at area law schools. And at every single one, students have asked about whether the AGO is a qualifying employer for PSLF. I ask new attorneys to consider how high their monthly student loan payments would have to be in order to pay their loans off in the same 10 years required by PSLF. Additionally, the AGO's new attorney orientation program contains a presentation

about how to fill out the appropriate paperwork, and take the necessary steps to qualify for PSLF with the AGO.

6. PSLF acts as an invaluable recruitment tool for the AGO. Every year, the AGO hires a class of new graduates. In 2023, the AGO hired 13 law school graduates. Almost every one of these attorneys indicated that their decision to work for the AGO was informed, in part, due to the fact that employees in the public sector are eligible for PSLF. Loan forgiveness allows important public sector jobs to remain competitive in a market that would otherwise be very unfavorable due to salary disparities.

7. I know of at least 10 AGO employees who have successfully completed all the requirements of PSLF and had their loans forgiven, and I convey this to applicants. Any time an applicant inquires about the salary range at the AGO, I make sure to explain to them that the office offers other benefits that are not available in the private sector, including PSLF. Many applicants carry over $100,000.00 in student loan debt. Since PSLF plans are income-driven, working in the public sector allows these applicants to pay their loans off in 10 years while making substantially lower monthly payments than would be required of their private sector counter parts. This reduction in monthly loan payments helps narrow the gap between private sector salaries and public sector salaries.

8. PSLF also aids the AGO in retaining talented attorneys. In the last 18 months, 2 attorneys in the labor division completed their PSLF requirements, and quickly left the AGO for jobs that pay substantially more. These attorneys stayed

with the AGO for 10 years in pursuit of PSLF, and would otherwise have left much sooner. An employee leaving the office after satisfying PSLF often tells the office they stayed only because of PSLF.

9. Another attorney in the labor division was seeking new career opportunities, but limited her job search to other public sector employers because she was only 3 years away from PSLF, and its benefits far outweighed the higher salaries available to her in the private sector. This attorney had determined that the benefits of PLSF meant that she would rather continue working in the public sector than seek private employment.

10. Public service jobs are vital to the success of Missouri. Assistant Attorneys General are tasked with protecting the public from criminals, preserving state tax dollars, and improving the quality of life for all Missouri citizens. The opportunity to fill these roles with the most talented and qualified employees is critical to the achievement of these tasks. PSLF is a tremendous asset to the office in achieving its goal of hiring the best possible employees to serve the State of Missouri.

I declare under penalty of perjury that the foregoing is true and correct.

Executed on 4/8/24 in the State of Missouri.

Rachael K. Houser

Rachael Houser

EXHIBIT 5

Financial Statements and Schedule of Expenditures of Federal Awards

Higher Education Loan Authority of the State of Missouri
As of and for the Years Ended June 30, 2023 and 2022
With Reports of Independent Auditors

Higher Education Loan Authority of the State of Missouri

Financial Statements

As of and for the Years Ended June 30, 2023 and 2022

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Report of Independent Auditors

Members of
The Higher Education Loan Authority of the State of Missouri

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the business-type activities and fiduciary activities of the Higher Education Loan Authority of the State of Missouri ("the Company"), as of and for the years ended June 30, 2023 and 2022, and the related notes to the financial statements, which collectively comprise the Company's basic financial statements as listed in the table of contents (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and fiduciary activities of the Company at June 30, 2023 and 2022, and the respective changes in financial position, and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

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Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 – 19 and Schedule of Changes in Net Pension Liability (Asset) and Related Ratios; Schedule of Contributions; and Schedule of Investment Returns on pages 89 – 91 be presented to supplement the financial statements. Such information is the responsibility of management and, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, which consisted of

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inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Company's financial statements. The accompanying schedule of expenditures of federal awards, as required by Title 2 Title 2 U.S. *Code of Federal Regulations* Part 200*, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the accompanying schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 19, 2023 on our consideration of the Company's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Company's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Company's internal control over financial reporting and compliance.

Ernst & Young LLP

September 19, 2023

Higher Education Loan Authority of the State of Missouri

Management's Discussion and Analysis

(Unaudited)

The Management's Discussion and Analysis of the financial performance is required supplementary information for the Higher Education Loan Authority of the State of Missouri including its blended component units, the Missouri Scholarship and Loan Foundation (the Foundation), and Knowledge Finance, collectively, (the Company). This discussion and analysis provides an analytical overview of the Company's condensed financial statements and should be read in conjunction with the financial statements that follow.

Financial Highlights

During fiscal year 2023, the Company experienced significant growth in its federal loan servicing and non-servicing contracts.

- As of June 30, 2023, the Company is servicing 7.8 million federal accounts compared to 5.2 million at June 30, 2022.
- Federal asset principal serviced increased $196.2 billion in fiscal year 2023 to $344.4 billion at June 30, 2023 compared to $148.2 billion at June 30, 2022.
- Servicing fees increased $171.7 million (160%) in fiscal year 2023 to $279.2 million from $107.5 million in fiscal year 2022. The majority of the increase was net direct loan servicing fee increase of $90.2 million from $88.9 million in fiscal year 2022 to $179.1 million in fiscal year 2023. In addition, as of July 2022, the Company became the student loan servicer for Public Service Loan Forgiveness (PSLF) which resulted in $68.7 million of servicing fees in the first fiscal year 2023. The non-servicing Business Process Operations (BPO) contract fees increased $12.2 million in fiscal year 2023 from $5.2 million to $17.4 million.
- As a result of the increase in volume, the Company's salaries and benefits increased $114.0 million (180%). The Company's employees and contracted employees increased 1,766 from 1,365 at June 30, 2022 to 3,131 at June 30, 2023.
- Computer services increased $31.4 million related to the new loans being added to the servicing system.

Higher Education Loan Authority of the State of Missouri

Management's Discussion and Analysis (continued)
(Unaudited)

Financial Highlights (continued)

During fiscal year 2022, the Company also experienced significant growth in its federal loan servicing and non-servicing contracts.

- As of June 30, 2022, the Company is servicing 5.2 million federal accounts compared to 2.7 million at June 30, 2021.
- Federal asset principal serviced increased $89.1 billion in fiscal year 2022 to $148.2 billion at June 30, 2022 compared to $59.1 billion at June 30, 2021.
- Servicing fees increased $37.6 million (54%) in fiscal year 2022 to $107.5 million from $69.9 million in fiscal year 2021. The majority of the increase was net direct loan servicing fee increase of $32.8 million from $56.1 million in fiscal year 2021 to $88.9 million in fiscal year 2022. The non-servicing Business Process Operations (BPO) contract fees increased $4.7 million in fiscal year 2022 from $0.5 million to $5.2 million.
- As a result of the increase in volume, the Company's salaries and benefits increased $31.0 million (96%). The Company's employees and contracted employees increased over 1,000 from 337 at June 30, 2021 to 1,365 at June 30, 2022.
- Computer services increased $10.1 million related to the new loans being added to the servicing system.

The Company

The Company is recognized as one of the largest nonprofit student loan secondary markets in America by statistics gathered and maintained by the U.S. Department of Education (the Department). The Company is a leading holder and servicer of student loans with $363.3 billion in student loan assets serviced as of June 30, 2023.

The Company was created by the General Assembly of the State of Missouri through passage of House Bill (HB) 326, signed into law on June 15, 1981, in order to ensure that all eligible post-secondary education students have access to guaranteed student loans. The legislation was amended, effective August 28, 1994, effective August 28, 2003, effective August 28, 2007 and again effective May 2, 2008, to provide the Company with generally expanded powers to finance, originate, acquire, and service student loans, including, but not limited to, those guaranteed or insured pursuant to the Higher Education Act.

The Company (continued)

The Company is governed by a seven-member Board, five of whom are appointed by the Governor of the State, subject to the advice and consent of the State Senate, and two others who are designated by statute – the State Commissioner of Higher Education and a member of the State Coordinating Board for Higher Education. Scott D. Giles, appointed by the Board during fiscal year 2022, serves as Executive Director and Chief Executive Officer of the Company.

The passage of Senate Bill (SB) 389, effective August 28, 2007, further amended the Company's purpose in order to support the efforts of public colleges and universities to create and fund capital projects and also to support the Missouri Technology Corporation's ability to work with colleges and universities in identifying opportunities for commercializing technologies, transferring technologies, and developing, recruiting, and retaining entities engaged in innovative technologies. In addition, powers of the Company were amended to include fund transfers to the Lewis and Clark Discovery Fund and authorization for the Company to participate in any type of financial aid program that provides grants and scholarships to students.

The Company owns and services student loans made pursuant to the Higher Education Act under FFELP, including:

(a) Subsidized Stafford loans – loans to students meeting certain financial needs tests for which the federal government makes interest payments available to reduce student interest cost during periods of enrollment

(b) Unsubsidized Stafford loans – loans to students made without regard to financial need for which the federal government does not make such interest payments

(c) PLUS loans – loans to parents of dependent undergraduate and graduate students, or to graduate or professional students

(d) Consolidation loans – loans available to borrowers with certain existing federal educational loans to consolidate repayment of such loans

The Consolidation Appropriation Act of 2012 was signed into law on December 23, 2011, which, in part, allowed FFELP loan holders to elect to substitute one-month LIBOR for the 90-day AA Financial Commercial Paper (90-day CP) rate for the special allowance program (SAP) index. Starting with the quarter ended June 30, 2013, all Company-owned FFELP loans disbursed after January 1, 2000 are indexed to one-month LIBOR. In July 2023, the Company successfully transitioned from one-month LIBOR to one-month CME Term SOFR plus a tenor spread adjustment of 0.11448%.

The Company (continued)

The Company was the lender and servicer for supplemental loans, which were also known as private or alternative loans. These supplemental loans were previously made available predominantly to students in the Midwest who reached the maximum available funding under FFELP. There were several types of loans under the supplemental programs, including those for borrowers attending eligible undergraduate, technical, graduate, law, medical, and pharmacy schools. Supplemental loans are not guaranteed by the federal government. The Company suspended its supplemental loan programs during fiscal year 2008 due in part to credit market disruptions, which made financing these loans more difficult.

On June 11, 2010, the Company's Board approved the creation of the Missouri Scholarship Foundation, appointed the initial board of directors. The Missouri Scholarship Foundation was incorporated as a Missouri not-for-profit corporation for the primary purposes of receiving gifts and grants, raising funds, accepting transfers and contributions, and using the resulting funds for (1) administering grants, scholarships, and related programs on behalf of the Company and other entities and (2) assisting students who are residents of the State of Missouri and students who attend post-secondary institutions located or based in the State of Missouri to gain access to and finance their post-secondary education.

In September 2013, the Missouri Scholarship Foundation's Board approved the establishment of the Missouri Family Education Loan Program (MOFELP). MOFELP is an interest-free, private student loan program designed to provide borrowing options for Missouri students who have financial need, but may not meet the traditional credit requirements for private loans. In conjunction with the roll-out of MOFELP, the Missouri Scholarship Foundation's Board approved changing the name of the organization to the Missouri Scholarship and Loan Foundation (the Foundation) to better reflect its purpose. The Foundation's MOFELP loans are originated and serviced by the Company.

On September 27, 2019, the Company's Board approved the creation of Knowledge Finance and appointed the initial board of directors. On October 2, 2019, Knowledge Finance was incorporated as a Missouri not-for-profit corporation for the primary purpose of supporting higher education and charitable endeavors. These purposes include the servicing of student loans, as well as, receiving gifts and grants, raising funds, accepting transfers and contributions, and using the related funds in the administration of grants, scholarships, and related programs on behalf of the Company.

The Company (continued)

Under the HCERA, the Department is required to contract with each eligible and qualified not-for-profit (NFP) servicer to service loans. The Company was awarded an Authorization to Operate (ATO) on September 22, 2011, and a servicing contract to become an NFP servicer to service federal assets, including Direct Loans, on September 27, 2011. On September 19, 2014, the Company received authorization from the Department to service Common Origination Disbursements (COD). The Company is servicing approximately 7.8 million federal asset accounts, representing approximately $344.4 billion in student loans, as of June 30, 2023.

In June 2020, the Company was awarded a Business Process Operations (BPO) contract for Non-Servicing work. The Company subsequently secured an Initial Implementation Task Order in November 2020, Authorized To Operate (ATO) in July 2021 and Train the Trainer in September 2021. In November 2021, a Ramp-Up Task Order was issued and the Company went live on November 5, 2021, one of only four BPOs to go live. From November 5, 2021 through March 31, 2022, the legacy contact center and back-office processing for non-servicing work was migrated to the BPOs, mirroring the various legacy center hours of operation, holiday schedule and peak seasons. During fiscal year 2023, the Company earned $17.4 million in BPO contracted revenue compared to $5.2 million in fiscal year 2022.

As of July 2022, the Company became the student loan servicer for PSLF. Borrowers pursuing PSLF will be transferred to MOHELA upon the approval of their submitted PSLF form. During fiscal year 2023, the Company earned $68.7 million of PSLF servicing fees.

On April 24, 2023, the Company was awarded a 10-year Unified Servicing and Data Solutions (USDS) contract and is expected to replace the existing Federal Loan Servicing contract by Spring of 2024. In addition, the Department issued a contract extension for the existing servicing contract through December 2024.

In addition to the federal loan servicing contracts, at June 30, 2023, the Company serviced $874 million of its own legacy FFELP, supplemental and credit deteriorated student loans. These portfolios helped the Company transition to a federal asset and private loan servicing business model.

The Company (continued)

The Company continues to focus on the development of creative solutions to support the Company's mission. In the past, the Company has offered various rate reduction programs to borrowers who establish payments through automatic deduction, as well as various loan forgiveness programs. Borrowers who establish payments through automatic deduction can receive a 0.25% interest rate reduction. The Company contributed funds to multiple organizations throughout the previous fiscal years. Contributions made to Access Missouri Financial Assistance Program, Advanced Placement Incentive Grants, A+ Scholarship Program, Bright Flight Scholarship fund, and the Missouri Scholarship and Loan Foundation, are detailed in the table below. The Company reserves the right to modify these programs as needed. In addition, since its inception, the Company has granted over $48 million in loan forgiveness for a variety of student borrowers, including teachers, Pell Grant recipients, and those in military service.

Company contributions to organizations *(dollars in millions):*

	A+ Scholarship Program	Access Missouri Financial Assistance Program	Advanced Placement Incentive Grants	Bright Flight Scholarship Fund	Missouri Scholarship and Loan Foundation
FY 2023	$ 2.0	$ 2.0	$ 0.04	$ 2.0	$ -
FY 2022	2.0	2.0	-	2.0	19.0
FY 2021	2.0	-	-	2.0	117.9
FY 2020	2.0	1.3	-	1.5	11.5
FY 2019	-	1.0	-	0.5	15.0
FY 2018	-	-	-	1.8	12.6
FY 2017	-	-	-	1.6	10.3
FY 2016	-	-	-	-	4.8
FY 2015	-	-	-	1.0	11.1
FY 2014	-	-	-	-	5.7
FY 2013	-	5.0	-	-	-
FY 2012	-	30.0	1.0	-	-
FY 2011	-	30.0	-	-	-

Financial Analysis

As a result of adopting GASB Statement No. 80 on July 1, 2016, which requires blending of the Company's component units, the Foundation and Knowledge Finance, this report includes financial statements blending the financial activity of the Foundation and Knowledge Finance.

Included in this report are three business-type financial statements: the statements of net position; the statements of revenues, expenses, and changes in net position; and the statements of cash flows. These financial statements are prepared in accordance with Governmental Accounting Standards Board (GASB) principles. The statements of net position presents the financial position of the

Financial Analysis (continued)

Company at the end of the fiscal year and include all assets, deferred outflows of resources, liabilities, and deferred inflows of resources of the Company. The statements of revenues, expenses, and changes in net position presents the Company's changes in financial position. The statements of cash flows provides a view of the sources and uses of the Company's cash resources.

The Company is also required to present fiduciary activity financial statements for its legacy pension plan. The pension trust fund is used to report resources held in trust for retirees. Fiduciary funds are not available to support the Company's own programs.

Higher Education Loan Authority of the State of Missouri

Management's Discussion and Analysis (continued)
(Unaudited)

Condensed financial information and a brief synopsis of the variances follow:

Condensed Statements of Net Position
(In thousands)

	2023	2022	2021
Capital assets	$ 20,167	$ 19,070	$ 19,235
Other than capital assets	1,240,549	1,447,633	1,586,459
Total assets	1,260,716	1,466,703	1,605,694
Deferred outflows of resources	19,094	24,837	7,056
Current liabilities	150,531	135,056	298,815
Long-term liabilities	702,498	963,532	886,569
Total liabilities	853,029	1,098,588	1,185,384
Deferred inflows of resources	12,076	9,555	12,177
Net investment in capital assets	11,021	8,619	7,927
Restricted for debt service	75,383	65,260	89,174
Unrestricted	328,301	309,518	318,088
Total net position	$ 414,705	$ 383,397	$ 415,189

Condensed Statements of Revenues, Expenses, and Changes in Net Position
(In thousands)

	2023	2022	2021
Interest on student loans and interest subsidy	$ 50,885	$ 56,869	$ 66,006
Special allowance	11,721	(19,339)	(21,517)
Servicing income and other	295,968	77,125	87,161
Total operating revenues	358,574	114,655	131,650
Bond expenses	35,980	15,799	21,581
Student loan expenses	6,487	5,548	5,615
General and administrative expenses	278,759	119,100	72,057
Total operating expenses	321,226	140,447	99,253
Operating income (loss)	37,348	(25,792)	32,397
Non-operating expenses	(6,040)	(6,000)	(7,798)
Change in net position	$ 31,308	$ (31,792)	$ 24,599

Financial Position

Total assets decreased $206.0 million (14%) and total deferred outflows of resources decreased $5.7 million (23%), while liabilities decreased $245.6 million (22%) and deferred inflows of resources increased $2.5 million (26%), resulting in an increase to the Company's net position of $31.3 million (8%) in fiscal year 2023. This increase compares to a decrease in net position of $31.8 million in fiscal year 2022. The change in net position in fiscal year 2023 is primarily due to a $243.9 million (213%) increase in total operating revenues, an increase of $20.2 million (128%) in total bond-related expenses, and a $159.7 million (134%) increase in total general and administrative expenses, primarily related to salaries and computer services due to the Company's growth.

Net investment in capital assets increased $2.4 million (28%) in fiscal year 2023 to $11.0 million from $8.6 million in fiscal year 2022. Restricted net position increased by $10.1 million (16%) to $75.4 million in fiscal year 2023 from $65.3 million in fiscal year 2022. Unrestricted net position increased by $18.8 million (6%) to $328.3 million in fiscal year 2023 from $309.5 million in fiscal year 2022.

For the years ended June 30, 2023 and 2022, the Company recorded deferred outflows of resources related to pension of $19.1 million and $24.8 million, respectively, and deferred inflows of resources related to pension and leases in the amount of $12.1 million and $9.6 million, respectively. These are a result of a net difference between expected and actual experience, projected and actual earnings on pension plan investments, and changes in assumptions.

Capital Activities

During fiscal year 2023, the Company purchased a new HVAC system at a cost of $1.2 million and new servers and switches were added at a cost of $0.7 million. The Company also has $1.8 million in construction in progress, of which $1.3 million is for Knowledge Share Asset software.

During fiscal year 2022, the Company placed CAMP software at a cost of $0.8 million into service. New servers were added at a cost of $0.6 million.

Please refer to Note 5, Capital Assets, for more information.

Financial position (continued)

Other than Capital Assets

The condensed statement of net position, other than capital assets includes the following *(in thousands)*:

	2023	2022	2021
Cash and cash equivalents	$ 130,536	$ 151,939	$ 143,889
Investments	161,611	150,702	180,209
Student loans receivable, net	821,654	1,053,476	1,164,467
Accrued interest receivable	72,325	74,644	71,486
Servicing fees receivable	41,083	13,803	11,134
Miscellaneous receivables and prepaid expenses	5,076	3,069	2,566
Net pension asset	8,264	-	12,708
Total other than capital assets	$ 1,240,549	$ 1,447,633	$ 1,586,459

Cash and cash equivalents decreased $21.4 million (14%) to $130.5 million at June 30, 2023 from $151.9 million at June 30, 2022. This compares to an increase of $8.1 million (6%) from $143.9 million at June 30, 2021. Please refer to the statement of cash flows included in the financial statements for detail on the Company's cash activities.

Net student loans receivable decreased $231.8 million (22%) to $821.7 million at June 30, 2023 from $1.1 billion at June 30, 2022 due to loan principal reductions of $238.3 million partially offset by purchase activity of $6.5 million. This compares to a decrease in net student loans receivable of $111.0 million (10%) from $1.2 billion at June 30, 2021. This decline relates to loan principal reductions of $129.2 million partially offset by purchase activity of $18.3 million.

Accrued interest receivable decreased $2.3 million (3%) to $72.3 million at June 30, 2023 from $74.6 million at June 30, 2022 due to increased run-off of the portfolio due to normal paydowns, claims, and consolidations to the Department. This compares to an increase of $3.2 million (4%) from $71.5 million at June 30, 2021, due to increases in interest rates.

Servicing fees receivable increased $27.3 million (198%) to $41.2 million at June 30, 2023 from $13.8 million at June 30, 2022 primarily due to more accounts being serviced and tasks related to the PSLF program. This compares to an increase in servicing fees receivable of $2.7 million (24%) at June 30, 2022 from $11.1 million at June 30, 2021 primarily due to an increase in servicing fee receivables related to more accounts being serviced.

Financial position (continued)

At June 30, 2023, there was a net pension asset of $8.3 million compared to no net pension asset at June 30, 2022, and a net pension asset of $12.7 million at June 30, 2021. Please refer to Note 8 for more information on the Company's net pension asset.

Liabilities

Current liabilities increased $15.4 million (11%) to $150.5 million at June 30, 2023 from $135.1 million at June 30, 2022, due to a $29.3 million increase in other liabilities. The increase was offset by a decrease of current bonds payable of $13.3 million. Long-term liabilities decreased by $261.0 million (27%) to $702.5 million at June 30, 2023 as the Company repaid bonds with available cash as required by the respective bond trusts. The Company has no net pension liability as of June 30, 2023 compared to an $11.1 million net pension liability at June 30, 2022. Please refer to Note 8 for more information on the Company's net pension liability. The Line of Credit expired on May 16, 2023. See Note 6 for more detail on the Line of Credit.

For fiscal year 2022, current liabilities decreased $163.8 million (55%) to $135.1 million at June 30, 2022 from $298.8 million at June 30, 2021, due to a $145.8 million decrease in line of credit payable. The decrease was offset by an increase of current bonds payable of $15.3 million and a decrease of lender payables of $40.4 million. Long-term liabilities increased by $77.0 million (9%) to $963.5 million at June 30, 2022 as the Company issued one new bond during fiscal year 2022. The Company has an $11.1 million net pension liability as of June 30, 2022 compared to no net pension liability at June 30, 2021. Please refer to Note 8 for more information on the Company's net pension liability. A fourth amendment of the agreement was made on May 18, 2022 to set the available commitment of Line of Credit to $100 million.

Operating Results

Operating Revenues

Total operating revenues increased $243.9 million to $358.6 million in fiscal year 2023 from $114.7 million in fiscal year 2022. The primary reason for the increase was an increase in net servicing fee revenue of $171.7 million due to the Company's growth in the number of borrowers serviced, including PSLF. There was also an increase of $44.3 million in realized and unrealized gain on investments and an increase in investment income of $2.3 million. In addition, due to rising interest rates, the amount of special allowance paid decreased resulting in an increase of $31.1 million in special allowance revenue. The interest rate that impacts the special allowance calculation is the one-month LIBOR rate. The average one-month LIBOR rate increased 3.66% to 4.01% in fiscal year 2023 from 0.35% in fiscal year 2022. The increase in rates results in a decreased amount of special allowance that is paid and in fiscal year 2023 there was a special

Operating Results (continued)

allowance refund. Offsetting the increase in revenue was a decrease in interest revenue on student loans of $6.0 million. Interest on student loans declined primarily due to a $231.8 million reduction in student loans outstanding.

Total operating revenues decreased $17.0 million (13%) to $114.7 million in fiscal year 2022 from $131.7 million in fiscal year 2021. The primary reason for the decrease was a decrease in realized and unrealized gain on investments of $48.5 million, and a decrease in interest revenue on student loans of $9.1 million. This decrease was partially offset by an increase in net servicing fee revenue of $36.3 million and a decrease in the amount of special allowance paid, which increases revenue, of $2.2 million. Interest on student loans declined primarily due to a $111.0 million reduction in student loans outstanding. The decrease in special allowance in fiscal year 2022 was due to an overall increase in interest rates. The interest rate that impacts the special allowance calculation is the one-month LIBOR rate. The average one-month LIBOR rate increased 0.22% to 0.35% in fiscal year 2022 from 0.13% in fiscal year 2021. The increase in the rates results in a decreased amount of special allowance that is paid.

Fixed rate unsubsidized Stafford loans made on or after July 1, 2006 and subsidized Stafford loans made between July 1, 2006 and June 30, 2008, in all loan statuses bear interest at 6.8%. Fixed rate subsidized Stafford loans made between July 1, 2008 and June 30, 2009, bear interest at 6.0%, while the same loans made between July 1, 2009 and June 30, 2010, bear interest at 5.6%. Subsidized and unsubsidized Stafford loans made on or after July 1, 1998 and before July 1, 2006, that are in a status other than in-school, in-grace, or deferment bear interest at a rate equivalent to the 91-day U.S. Treasury Bill (91-day T-Bill) rate plus 2.30%, with a maximum rate of 8.25%. Stafford loans made within the same period that are in an in-school, in-grace, or deferment status bear interest at a rate equivalent to the 91-day T-Bill rate plus 1.70%, with a maximum rate of 8.25%. The variable rate loans are adjusted annually on July 1 based on the 91-day T-Bill rate as of the last auction date in May. The 91-day T-Bill rate in effect for fiscal year 2023 was 1.14%, which set the rates on these loans at 3.44% and 2.84%, respectively. The rates on the same loans during fiscal year 2022 were 2.32% and 1.72%, respectively, and during fiscal year 2021 were 2.43% and 1.83%, respectively.

PLUS loans first disbursed on or after July 1, 2006 bear interest at a fixed rate of 8.5%. Variable rate PLUS loans made on or after July 1, 1998 bear interest at a rate equivalent to the 91-day T-Bill plus 3.10%, with a maximum rate of 9.0%. The rates are adjusted annually on July 1 based on the 91-day T-Bill rate as of the last auction date in May. The 91-day T-Bill rate in effect for fiscal year 2023 was 1.14%, which set the rate on these loans at 4.24%, as compared to 3.12% for fiscal year 2022 and 3.23% for fiscal year 2021. Consolidation loans for which the application was received by an eligible lender on or after October 1, 1998 bear interest at a rate equal to the

Operating Results (continued)

weighted average of the loans consolidated, rounded to the nearest higher one-eighth of 1%, with a maximum rate of 8.25%.

Special allowance is paid to or rebated by the Company on the spread between student loan borrower interest rates and the one-month LIBOR or 91-day T-Bill rates. For example, federal law requires the Company to charge a parent an 8.5% interest rate on a PLUS loan originated after July 1, 2006, which the Company collects from the parent borrower. However, the Company only earns a yield on that loan at the one-month LIBOR rate plus 1.94%. The one-month LIBOR rate for the quarter ended June 30, 2023 was 5.18%, which means the Company's annual yield for that quarter was 7.12%. The Company is required to rebate the additional interest paid by the borrower of 1.38% (8.5% – 7.12%) to the Department through the rebate of excess special allowance, which is often referred to as negative special allowance.

Operating Expenses

Total operating expenses increased $180.8 million (129%) in fiscal year 2023 from fiscal year 2022. The increase was a result of an increase in general and administrative expense of $159.6 million, an increase in bond related expenses of $20.2 million, and an increase of $1.0 million in student loan related expenses. This compares to a $41.2 million (41%) increase in operating expenses in fiscal year 2022 from fiscal year 2021. The increase in fiscal year 2022 was a result of an increase in general and administrative expense of $47.0 million offset by a decrease in bond related expenses of $5.8 million.

General and administrative expenses, which include salaries and employee benefits, postage and forms, computer services, professional fees, occupancy expense, depreciation and amortization, grants, and other operating expenses, increased by $159.6 million (134%) in fiscal year 2023. The increase in general and administrative expenses can be attributed primarily to a $114.0 million increase in salaries and a $31.4 million increase in computer services. General and administrative expenses increased due to the rise in salaries and employee benefits as the average number of employees and contracted employees increased in fiscal year 2023. This rise was led by an increase in the volume of student loans the Company is servicing and the Company's continual extensive efforts to consult and assist borrowers. The increase in salaries and benefits is also a result of planned return to repayment for direct loan borrowers in January 1, 2023, after being paused since March 2020. Direct Loan borrowers are now expected to return to repayment in September 2023. The Company is ramping up staffing in preparation of return to repayment. The Company began fiscal year 2023 servicing approximately 5.5 million borrowers and ended the fiscal year servicing approximately 8.2 million borrowers. Comparatively, in fiscal year 2022, general and administrative expenses increased $47.0 million (65%). The increase in general and administrative expenses can be attributed primarily to a $31.0 million increase in salaries and a $10.1 million

Operating Results (continued)

increase in computer services. General and administrative expenses increased due to the increase in salaries and employee benefits as the average number of employees increased in fiscal year 2022.

Interest expense increased $22.1 million (165%) to $35.5 million in fiscal year 2023 from $13.4 million in fiscal year 2022, primarily due to interest rate increases. In addition, there was an $255.4 million (24.7%) decrease in bonds outstanding debt of the Company. In fiscal year 2019, the Company obtained a Direct Borrowing Note Payable from Commerce Bank in the amount of $13.3 million. The interest rate for the Note Payable is fixed at 4.24%. On December 19, 2018, the Company entered into a Revolving Credit and Security Agreement with Bank of America for a Line of Credit in the amount of $50 million and it was increased to $100 million on November 6, 2019, increased to $270 million on December 2, 2020, decreased to $175 million on May 19, 2021, and decreased to $100 million on May 19, 2022. On May 16, 2023, the Line of Credit expired.

The Company continued to experience various interest rate increases on its debt in fiscal year 2023 due to market interest rate changes. The interest on LIBOR floating rate notes increased throughout the year. The Company's floating rate notes are priced at one-month LIBOR plus a spread from 0.57% to 1.52%. There is a fixed rate component which is 1.53%, 1.97%, and 1.58% for bond 2021-1, 2021-2, and 2021-3, respectively. The average one-month LIBOR rate increased 3.66% to 4.01% in fiscal year 2023. Total bond related expenses increased $20.2 million to $36.0 million in fiscal year 2023. Comparatively, bond related expense decreased $5.8 million to $15.8 million in fiscal year 2022 from $21.6 million in fiscal year 2021. The fiscal year 2023 increase in bond related expense is primarily due to market interest rate increases.

Total student loan-related expenses increased in fiscal year 2023 to $6.5 million from $5.5 million in fiscal year 2022. There was a $1.2 million decrease in consolidation rebate fees to $4.7 million in fiscal year 2023. The decrease in consolidation rebate fees was due to a $116.0 million decline in the Company's outstanding consolidation student loan principal during fiscal year 2023. The provision for loan losses increased by $2.1 million in fiscal year 2023 primarily due to the Company and MOFELP loan loss reserve increases. In comparison, total student loan-related expenses were flat at $5.5 million in fiscal year 2022 from $5.6 million in fiscal year 2021. There was a $0.6 million decrease in consolidation rebate fees to $5.9 million in fiscal year 2022. The decrease in consolidation rebate fees was due to a $69.9 million decline in the Company's outstanding consolidation student loan principal during fiscal year 2022. The benefit for loan losses decreased $0.6 million in fiscal year 2022 primarily due to the MOFELP loan loss reserve increases.

Operating Results (continued)

Non-operating Revenues and Expenses

In fiscal years 2023, 2022, and 2021, the Company contributed $2.0 million $2.0 million, and $2.0 million, to the Bright Flight Scholarship fund, respectively. In fiscal years 2023, 2022, and 2021, the Company contributed $2.0 million, $2.0 million, and $2.0 million to the A+ Scholarship Program, respectively. In fiscal years 2023, 2022 and 2020, the Company contributed $2.0 million, $2.0 million and $1.25 million to Access Missouri Financial Assistance Program, respectively. In fiscal year 2023, the Company contributed $40 thousand to the Advanced Placement Incentive Grants Program.

Continuing Developments

Lewis and Clark Discovery Initiative

On August 28, 2007, legislation establishing the Lewis and Clark Discovery Initiative (the Initiative) became law. The legislation, known as SB 389 (the LCDI Legislation) directs the Company to distribute $350.0 million into a fund in the State Treasury known as the Lewis and Clark Discovery Fund (the Fund) by September 30, 2013, in varying increments, unless otherwise approved by the Company and the Missouri Commissioner of the Office of Administration. Investment earnings on the Fund are credited against subsequent payments by the Company. In addition, the LCDI Legislation provides that the Company may delay payments if the Company determines that any such distribution may materially adversely affect the service and benefits provided to Missouri students or residents in the ordinary course of the Company's business, the borrower benefit programs of the Company, or the economic viability of the Company. The General Assembly has appropriated amounts to be deposited in the Fund for certain capital projects at public colleges and universities. The law provides that following the initial distribution by the Company, the Missouri Director of Economic Development shall allocate to and reserve for the Company in 2007 and the next 14 years, at least 30% of Missouri's tax-exempt, private activity bond cap allocation. The amount of this allocation may be reduced for 2015 and later years by the percentage of the $350.0 million not paid by the Company to the Fund by the end of the preceding year.

On September 7, 2007, the Members of the Company's Board approved a resolution to fund the initial payment of $230.0 million and on September 14, 2007, in accordance with the Board's Resolution, the Company sent a $230.0 million wire to the Missouri State Treasury. Subsequently, the Members of the Company's Board approved resolutions to fund additional payments, net of interest income earned on the funds on deposit with the State Treasurer, of $3.9 million. The Fund has also earned interest income of $10.9 million since inception. For each quarterly payment due subsequent to September 30, 2008 through the year ended June 30, 2013, the Board did not

Continuing Developments (continued)

authorize a payment to the Fund. The remaining unfunded amount of the LCDI was $105.1 million as of June 30, 2023.

During fiscal years 2011, 2012, and 2013, the Company received two-year, three-year, and one-year extensions, respectively, from the Commissioner of the Office of Administration on the payment of LCDI funds to September 30, 2019. The extensions were approved as a part of the Company's agreement to provide $30.0 million, $30.0 million, and $5.0 million for need-based scholarships under the Access Missouri Financial Assistance Program during the 2011, 2012, and 2013 fiscal years, respectively.

During fiscal year 2017, the Company received a five-year extension from the Commissioner of the Office of Administration on the payment of LCDI funds to September 30, 2024 with one year extensions for each additional $5 million in Foundation funding.

The Company will continue analyzing and determining on an annual basis what, if any, distribution the Company should make to the LCDI Fund. The Company is unsure whether it will be able to make any significant future distributions required by the LCDI Legislation. Any such distributions by the Company could substantially decrease the amount of its capital and, accordingly, erode its funds for new programs and contingencies related to current operations.

The Company accounts for the funding of the LCDI in accordance with GASB Statement No. 33 as a voluntary non-exchange transaction, because the Company will provide value to the Fund in excess of the value received in return. The Company does not record a liability for the unfunded amount of the LCDI because the time requirement of the final funding has not been met and payment of the unfunded amount has not been deemed probable as of June 30, 2023.

Higher Education Loan Authority of the State of Missouri

Statements of Net Position

(Dollars in Thousands)

	As of June 30, 2023	As of June 30, 2022
Assets and deferred outflows of resources:		
Current assets:		
Cash and cash equivalents:		
Restricted	$ 45,106	$ 60,587
Unrestricted	85,430	91,352
Total cash and cash equivalents	130,536	151,939
Investments – unrestricted	161,611	150,702
Student loans receivable	97,810	110,519
Accrued interest receivable:		
Interest subsidy – U.S. Department of Education	245	343
Student loans receivable (less allowance for doubtful loans $718 and $819)	67,224	74,301
Special allowance subsidy receivable	4,856	-
Total accrued interest receivable	72,325	74,644
Servicing fees receivable	41,083	13,803
Miscellaneous receivables and prepaid expenses	4,826	2,644
Total current assets	508,191	504,251
Long-term assets:		
Student loans receivable (less allowance for doubtful loans $10,037 and $12,270)	723,844	942,957
Net pension asset	8,264	-
Miscellaneous receivables and prepaid expenses	250	425
Capital assets, at cost less accumulated depreciation and amortization of $28,330 and $27,090	20,167	19,070
Total long-term assets	752,525	962,452
Total assets	$ 1,260,716	$ 1,466,703
Deferred outflows of resources – pension	18,952	24,689
Deferred outflows of resources – SERP	142	148
Total deferred outflows of resources	19,094	24,837
Liabilities, deferred inflows of resources and net position:		
Current liabilities:		
Bonds payable	$ 79,757	$ 93,031
Note payable	8,297	1,251
Accrued interest payable	557	294
Special allowance subsidy payable	-	7,896
Other	61,920	32,584
Total current liabilities	150,531	135,056
Long-term liabilities:		
Bonds payable	699,758	941,890
Note payable	-	8,297
Other	1,292	801
Net pension liability – pension	-	11,135
Net pension liability - SERP	1,448	1,409
Total long-term liabilities	702,498	963,532
Total liabilities	$ 853,029	$ 1,098,588
Deferred inflows of resources - pension	11,481	8,769
Deferred inflows of resources - SERP	393	503
Deferred inflows of resources - leases	202	283
Total deferred inflows of resources	12,076	9,555
Net position:		
Net investment in capital assets	11,021	8,619
Restricted for debt service	75,383	65,260
Unrestricted	328,301	309,518
Total net position	$ 414,705	$ 383,397

See notes to financial statements.

Higher Education Loan Authority of the State of Missouri

Statements of Revenues, Expenses, and Changes in Net Position
(Dollars in Thousands)

	For the Year Ended June 30, 2023	For the Year Ended June 30, 2022
Operating revenues, net:		
Interest on student loans, net	$ 49,778	$ 55,329
U.S. Department of Education:		
Interest subsidy	1,107	1,540
Special allowance	11,721	(19,339)
Investment income	5,410	3,114
Realized and unrealized gain on investments	11,980	(32,322)
Servicing fees	279,186	107,531
Less: Subcontractor fees	(715)	(1,297)
Other	107	99
Total operating revenues, net	358,574	114,655
Operating expenses:		
Interest expense	35,467	13,405
Bond maintenance fees	513	724
Cost of issuance	-	1,670
Total bond-related expenses	35,980	15,799
Consolidation rebate fees	4,722	5,924
Provision (benefit) for loan losses	1,765	(376)
Total student loan-related expenses	6,487	5,548
Salaries and employee benefits	177,261	63,284
Postage and forms	8,270	5,335
Computer services	59,697	28,253
Professional fees	8,738	5,475
Occupancy expense	1,308	1,023
Depreciation and amortization	2,118	1,826
Scholarships	6,417	4,561
Grants	622	1,101
Other operating expenses	14,328	8,242
Total general and administrative expenses	278,759	119,100
Total operating expenses	321,226	140,447
Operating income (deficit)	37,348	(25,792)
Non-operating expenses:		
Bright Flight Contribution	(2,000)	(2,000)
Advanced Placement Incentive Grant	(40)	-
Access Missouri Financial Assistance Program	(2,000)	(2,000)
A+ Scholarship Program	(2,000)	(2,000)
Total non-operating expenses	(6,040)	(6,000)
Change in net position	31,308	(31,792)
Net position, beginning of year	383,397	415,189
Net position, end of year	$ 414,705	$ 383,397

See notes to financial statements.

Higher Education Loan Authority of the State of Missouri

Statements of Cash Flows

(Dollars in Thousands)

For the Years Ended June 30, 2023 and 2022

	2023	2022
Cash flows from operating activities:		
Student loan and interest purchases	$ (6,524)	$ (18,299)
Student loan repayments	299,854	184,333
Payments to employees	(72,127)	(32,183)
Payments to vendors	(205,542)	(80,769)
Net settlement of government interest	175	(15,413)
Cash received for servicing fees	262,465	104,652
Student loan repayments for lenders	(116)	(36,820)
Disbursement of new student loans	(4,729)	(4,719)
Net cash provided by operating activities	273,456	100,782
Cash flows from noncapital financing activities:		
Proceeds from line of credit	-	1,000
Repayment of line of credit	-	(146,819)
Proceeds from issuance of notes payable	-	197,455
Repayment of bonds	(255,407)	(115,169)
Repayment of notes payable	(1,252)	(1,199)
Interest paid on debt	(35,204)	(13,365)
Cash paid for issuance costs	-	(1,662)
Contributions to Bright Flight	(2,000)	(2,000)
Contributions to Advanced Placement Incentive Grant	(40)	-
Contributions to Access Missouri	(2,000)	(2,000)
Contributions to A+ Scholarship Program	(2,000)	(2,000)
Net cash used in noncapital financing activities	(297,903)	(85,759)
Cash flows from capital and related financing activities:		
Purchase of capital assets	(3,064)	(824)
Proceeds from sale of capital assets	3	-
Net cash used in capital and related financing activities	(3,061)	(824)
Cash flows from investing activities:		
Purchase of investments, net of sales	867	(9,158)
Interest received on cash, cash equivalents and investments	5,238	3,009
Net cash provided by (used in) investing activities	6,105	(6,149)
Change in cash and cash equivalents	(21,403)	8,050
Cash and cash equivalents, beginning of year	151,939	143,889
Cash and cash equivalents, end of year	$ 130,536	$ 151,939

See notes to financial statements.

Higher Education Loan Authority of the State of Missouri

Statements of Cash Flows

(Dollars in Thousands)

	2023	2022
Reconciliation of operating income to net cash provided by operating activities:		
Operating income (deficit)	$ 37,348	$ (25,792)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	2,118	1,826
Net pension asset and inflows and outflows	82	(7,614)
Investment income	(5,168)	(2,845)
Provision (benefit) for loan losses	1,765	(376)
Realized and unrealized (gain) loss on investments	(11,980)	32,322
Loss on sale of capital assets	224	-
Interest expense	35,467	13,405
Cost of issuance	-	1,662
Change in assets and liabilities:		
Decrease in student loans receivable	230,057	111,368
Decrease (Increase) in accrued interest receivable	7,175	(3,158)
(Increase) in servicing fees receivable	(27,279)	(2,669)
(Increase) in miscellaneous receivables and prepaid expenses	(1,953)	(451)
(Decrease) Increase in net pension liability	(11,097)	10,816
Increase (Decrease) in other liabilities	29,449	(30,079)
(Decrease) Increase in special allowance subsidy	(12,752)	2,249
Total adjustments	236,108	126,574
Net cash provided by operating activities	$ 273,456	$ 100,782
Noncash investing, capital, and financing activities:		
Changes in investments and outstanding liabilities related to capital assets	$ (17,796)	$ 42,079

See notes to financial statements.

Higher Education Loan Authority of the State of Missouri

Statements of Fiduciary Net Position

(Dollars in Thousands)

	June 30, 2023	June 30, 2022
Assets:		
Cash and cash equivalents	$ 2,870	$ 467
Investments:		
Fixed income securities	16,436	11,662
Equities	52,626	37,442
Real estate	762	1,057
Total cash, cash equivalents, and investments	72,694	50,628
Receivables	163	91
Total assets	72,857	50,719
Liabilities:		
Due to unsettled trades	-	-
Net position restricted for pension benefits	$ 72,857	$ 50,719

See notes to financial statements.

Higher Education Loan Authority of the State of Missouri

Statements of Changes in Fiduciary Net Position

(Dollars in Thousands)

	For the Year Ended June 30, 2023	For the Year Ended June 30, 2022
Additions:		
Contributions:		
Employer	$ 16,023	$ 2,009
Investment earnings:		
Interest	530	438
Dividends	925	734
Net increase (decrease) in fair value of investments	6,220	(11,984)
Less: investment expense	(171)	(174)
Total additions	23,527	(8,977)
Deductions:		
Benefit payments	1,389	4,918
Total deductions	1,389	4,918
Net increase (decrease) in fiduciary net position	22,138	(13,895)
Net position restricted for pension benefits:		
Beginning of year	50,719	64,614
End of year	$ 72,857	$ 50,719

See notes to financial statements.

Higher Education Loan Authority of the State of Missouri

Notes to Financial Statements
(Dollars in Thousands)

1. Description of the Organization

The Higher Education Loan Authority of the State of Missouri and its blended component units, the Missouri Scholarship and Loan Foundation (the Foundation), and Knowledge Finance collectively, (the Company) was created by Legislation, which was signed into law on June 15, 1981 by the Governor of the State of Missouri and became effective on September 28, 1981. The purpose was to provide a secondary market for loans made under the Federal Family Education Loan Program (FFELP) provided for by the Higher Education Act. The legislation was amended, effective August 28, 1994, effective August 28, 2003, effective August 28, 2007 and again effective May 2, 2008, to provide the Company with generally expanded powers to finance, originate, acquire, and service student loans, including, but not limited to, those guaranteed or insured pursuant to the Higher Education Act. The Company is assigned to the Missouri Department of Higher Education; however, by statute, the State of Missouri is in no way financially accountable for the Company. Student loan revenue bonds outstanding are payable as specified in the resolutions authorizing the sale of bonds. The bonds are not payable from funds received from taxation and are not debts of the State of Missouri or any of its other political subdivisions.

The Company was historically one of the lenders for supplemental loans made available to students in the Midwestern region who had reached the maximum amount available under FFELP. The balance of these loans outstanding is approximately 3% of the total loan receivable balance as of June 30, 2023. During fiscal year 2008, the Company discontinued originating supplemental and FFELP consolidation loans.

On March 30, 2010, the President signed into law The Health Care and Education Reconciliation Act of 2010, which included the Student Aid and Fiscal Responsibility Act (SAFRA). Effective July 1, 2010, the legislation eliminated the authority to provide new loans under FFELP and required that all new federal loans be made through the Direct Loan Program. The new law does not alter or affect the terms and conditions of existing FFELP loans. The Company continues to service and purchase FFELP loans.

After restructuring operations to reflect the change in law, in September 2011, the Company was awarded a Federal Servicing contract with the U.S. Department of Education (the Department) and given the specified initial allotment of 100,000 federal accounts for servicing. In accordance with the solicitation, the Company also began partnering with other nonprofit loan servicing organizations (NFP servicers or subcontractors) that were eligible to receive the initial allotment of 100,000 federal accounts but did not have a servicing contract with the Department. Under agreements signed with these subcontractors, the Company services each entity's initial allocation of federal accounts and initially provided the subcontractor with a portion of the revenues.

1. Description of the Organization (continued)

Blended Component Units

Missouri Scholarship and Loan Foundation

On June 11, 2010, the Company's Board approved the creation of the Missouri Scholarship Foundation, appointed the initial Board of Director. The Missouri Scholarship Foundation was incorporated as a Missouri not-for-profit corporation for the primary purposes of receiving gifts and grants, raising funds, accepting transfers and contributions, and using the resulting funds for (1) administering grant, scholarship, and related programs on behalf of the Company and other entities and (2) assisting students who are residents of the State of Missouri and students who attend post-secondary institutions located or based in the State of Missouri to gain access to and finance their post-secondary education.

In September 2013, the Missouri Scholarship Foundation's Board approved the establishment of the Missouri Family Education Loan Program (MOFELP). MOFELP is an interest-free, private student loan program designed to provide borrowing options for Missouri students who have financial need, but may not meet the traditional credit requirements for private loans. In conjunction with the roll-out of MOFELP, the Missouri Scholarship Foundation's Board approved changing the name of the organization to the Missouri Scholarship and Loan Foundation (the Foundation) to better reflect its purpose. The Foundation's MOFELP loans are originated and serviced by the Company.

The Foundation has been approved by the Internal Revenue Service (IRS) as a tax-exempt 501(c)(3) entity for federal tax purposes. All significant contributions received by the Foundation are expected to be made by the Company.

The Bylaws of the Foundation call for the Foundation to be governed by a Board of three to thirteen Directors. Directors are appointed by the existing Board of Directors of the Foundation after the proposed appointments are submitted to the Company for approval. The Company is responsible for approving or disapproving proposed appointees to the Board of Directors. Any Director elected by the Board of Directors can be removed without cause by the Company. The current Foundation Directors include the Company's Executive Director, the Company's Chief Financial Officer, the Company's Director of Business Development and Government Relations, the Deputy Commissioner for Operations of Higher Education and Workforce Development, the President and CEO of Community Foundation of the Ozarks and the retired President and CEO of Kansas City Scholars Inc. The Executive Director of the Company serves as a voting member of the Board ex officio. The Company must approve any amendments to the Bylaws or Articles of Incorporation of the Foundation. The Foundation may only appoint an executive director, responsible for overseeing the Foundation's day-to-day operations, with the approval of the Company.

1. Description of the Organization (continued)

The Foundation can be dissolved by its own Board of Directors with approval from the Company. Upon dissolution, any remaining assets would be reverted to the Company. The Company does not have the unilateral authority to dissolve the Foundation; dissolution first requires the action of its own Board of Directors.

Knowledge Finance

On September 27, 2019, the Company's Board approved the establishment of Knowledge Finance with the Company as the sole corporate member, the Board of Directors to be composed only of the Company's executives. On October 2, 2019, Knowledge Finance was incorporated as a Missouri not-for-profit corporation for the primary purposes of receiving gifts and grants, to raise funds, accept transfers and contributions, and to use the resulting funds for its proper purposes, including, without limitation, the administration of grant, scholarship and related programs on behalf of the other entities, or to make distributions thereof for purposes and activities that qualify as exempt under section 501c(3) of the Internal Revenue Code.

The Foundation and Knowledge Finance are treated as component units as the Company approves the appointment of the Board of Directors and has the ability to impose its will on the units. The units are blended component units as they are a not-for-profit corporation in which the Company is the sole corporate member. As a blended component unit, the financial results of the Foundation and Knowledge Finance are included with the financial results of the Company.

2. Summary of Significant Accounting Policies

Basis of Presentation and Accounting

The financial statements are prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

2. Summary of Significant Accounting Policies (continued)

The financial statements have been prepared on the basis of the governmental enterprise fund concept, which pertains to financial activities that operate similarly to a private business enterprise. The financial statements are reported using the flow of economic resources measurement focus and the accrual basis of accounting. The Company is engaged only in business-type and fiduciary activities; therefore, government-wide financial statements are not presented.

In accordance with its bond and other borrowing resolutions, fund accounting principles are utilized, whereby each fund is a separate set of self-balancing accounts. The assets of each bond fund are restricted pursuant to the bond resolutions. To accomplish the various public purpose loan programs empowered by its authorizing legislation and to conform with the bond and note resolutions and indentures, financial activities are recorded in the various operating and bond-related funds (see Note 9). Administrative transactions and those loan transactions not associated with bond issues are recorded in the Operating Fund. For financial statement presentation purposes, the funds have been aggregated into a single enterprise fund.

Fiduciary Fund Statements

The statement of fiduciary net position and the statement of changes in the fiduciary net position provide information on the Company's fiduciary activities in its pension trust fund accounts which reports resources held in trust for pension benefit payments to qualified beneficiaries.

Use of Estimates

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the statement of net position dates and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ significantly from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to pension, credit deteriorated loans, the allowance for doubtful loans, and calculations of current and long-term student loans receivable and current and long-term bonds payable.

Cash Equivalents

All investment securities with original maturities of less than 90 days at the date of purchase are considered cash equivalents. All cash equivalents that are held by a trustee in accordance with the provisions of bond indentures or other financing agreements are classified as restricted. Cash equivalents are reported at fair value. See Note 3 for more information.

2. Summary of Significant Accounting Policies (continued)

Investments

Investments are reported at fair value. Restricted investments include those that are held by a trustee in accordance with the provisions of bond indentures or other financing agreements. See Note 3 for more information.

Student Loans Receivable

Student loans receivable consist of FFELP, MOFELP, and supplemental loans, which are stated at the principal amount outstanding adjusted for an allowance for doubtful amounts. In addition, the Company has purchased credit deteriorated loans at a discount. The credit deteriorated loans are stated at cost and are accreted to the present value of expected future cash flows, as discussed in Note 4.

Accrued Interest Receivable

Interest on student loans is accrued based upon the actual principal amount outstanding. The Department makes quarterly interest payments on subsidized FFELP loans until the student is required, under the provisions of the Higher Education Act, to begin repayment. Repayment must begin generally within six months after the student completes his or her course of study, leaves school, or ceases to carry at least one-half the normal full-time academic load as determined by the participating institution. The Department also makes quarterly interest payments on subsidized FFELP loans that are in an eligible income-driven repayment plan or an eligible deferment status for up to three years. The amount of accrued interest received is reduced by amounts due to the Department for negative special allowance as described below. There is no interest charged on MOFELP loans.

Allowance for Doubtful Amounts

Allowance for doubtful amounts are estimates of probable losses incurred in the FFELP, MOFELP, and supplemental loan portfolios at the statement of net position dates. Estimated probable losses are expensed through the provision for loan losses in the period that the loss event occurs. Estimated probable losses contemplate expected recoveries. When a charge-off event occurs, the carrying value of the loan is charged to the allowance for doubtful loans. The amount attributable to expected recoveries remains in the allowance for doubtful loans until received.

2. Summary of Significant Accounting Policies (continued)

Supplemental Loans

The supplemental loans in the portfolio present a greater risk of loan loss because the loans are either self-insured or insured by a third party as opposed to FFELP loans, which are insured by the Department. As such, in evaluating the adequacy of the allowance for doubtful loans on the supplemental loan portfolio, several factors are considered, including the loan's insured status, whether the loan was provided to a graduate or undergraduate student, and the age of the receivable.

Estimates of inherent loss default rates in the supplemental loan portfolio are a percentage of the original disbursed principal balance. The growth rates of the default rate over the prior years are also computed. Then, the segmented portfolio is analyzed to determine if the loans require a reserve for additional probable losses. Reserve adjustments are modeled to adjust for insured loans, loans with collection agencies, loans with judgments, and loans that have emerged from bankruptcy or have had a loan modification. Loans with judgments or modifications with recently ended forbearances are also evaluated for reserve adjustments. Insured loans are guaranteed at 95%; therefore, all insured loans are analyzed separately from the uninsured supplemental loan portfolio. Supplemental loan principal is charged off against the allowance when the loan exceeds 270 days delinquent. Subsequent recoveries on loans charged off are recorded directly to the allowance based on the total principal outstanding.

The allowance associated with the accrued interest on supplemental loans is calculated in a manner that is consistent with the method used to calculate the allowance for doubtful loans on the supplemental loan portfolio as described above.

FFELP Loans

The methodology for estimating the allowance for loan losses in the FFELP portfolio incorporates both quantitative and qualitative factors. Historical data on defaults and write-offs experienced are utilized to project inherent losses that have occurred in the FFELP portfolio. Estimated defaults are multiplied by a percentage, consisting of the weighted-average non-guarantee rate adjusted for trending, to determine the allowance for loan losses required on the outstanding principal balances of FFELP loans. Because accrued interest receivable on FFELP loans is insured at the same percentages as the related principal on those loans, the reserve percentage on FFELP principal is applied to the accrued interest on FFELP loans to determine the estimated allowance for accrued interest receivable.

2. Summary of Significant Accounting Policies (continued)

MOFELP Loans

The MOFELP loans in the portfolio present a greater risk of default because the loans are self-insured and disbursed to borrowers that have demonstrated financial need and do not require minimum credit requirements. The methodology for estimating the allowance for loan losses in the MOFELP portfolio balance is based on historical data on defaults and aging of the receivable. Additionally, a MOFELP loan is charged off against the allowance when the loan exceeds 270 days delinquent.

Miscellaneous Receivables and Prepaid Expenses

At June 30, 2023 and 2022, miscellaneous receivables and prepaid expenses consist of the following:

	2023	2022
Other prepaid expenses	$ 4,187	$ 2,262
Other receivables	889	807
Total miscellaneous receivables and prepaid expenses	$ 5,076	$ 3,069
Current portion	$ 4,826	$ 2,644
Long-term portion	250	425
Total	$ 5,076	$ 3,069

Pension

For purposes of measuring the net pension asset/liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Higher Education Loan Authority of the State of Missouri Pension Plan (the Pension Plan), the Supplemental Pension Plan (SERP), and additions to/deductions from the Pension Plan's and SERP's fiduciary net position have been determined on the same basis as they are reported. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

2. Summary of Significant Accounting Policies (continued)

Capital Assets

Capital assets consist of land, buildings and improvements, office furniture and equipment, software assets, and right to use assets. The policy is to capitalize all assets purchased with an initial individual cost of $10 or more and an estimated useful life of more than one year. Capital assets are reported at cost, net of accumulated depreciation and amortization, and net of estimated impairments, if any. Capital assets are reviewed for impairment in accordance with GASB Codification section 1400, *Reporting Capital Assets*. Depreciation is charged to operations on the straight-line method over the estimated useful lives of the related assets as follows:

Asset Category	Estimated Useful Life
Buildings and improvements	3 – 30 years
Furniture and equipment	3 – 7 years
Software assets	3 – 7 years
Right to use assets	3 – 10 years

Deferred Outflows of Resources

Deferred outflows of resources are a consumption of net position that is applicable to a future reporting period. As of June 30, 2023 and 2022, recorded deferred outflows of resources related to pension in the amounts of $18,952 and $24,689 respectively, for the Pension Plan and $142 and $148 respectively, for the SERP, are a result of a net difference between projected and actual earnings on pension plan investments.

Special Allowance Subsidy Receivable/Payable

The Company as loan owners do not necessarily earn what a borrower pays. The Department provides a special allowance to student loan owners participating in FFELP. Special allowance was designed to ensure loan owners earn a market rate of interest by making up the difference between what a borrower pays in interest (borrower rate) under federal law and what a loan owner earns (lender yield) on the loan under federal law. On December 23, 2011, The Consolidation Appropriation Act of 2012 was signed into law, which, in part, allowed FFELP loan holders to elect to substitute one-month LIBOR for the 90-day AA Financial Commercial Paper (90-day CP) rate for the special allowance program (SAP) index. This was a one-time opportunity, and the election was made as required. All owned FFELP loans disbursed after January 1, 2000 are indexed to one-month LIBOR.

2. Summary of Significant Accounting Policies (continued)

The special allowance amount is the result of applying a percentage, based upon the average bond equivalent rates of the one-month LIBOR or 90-day CP, to the average daily unpaid principal balance and capitalized interest of the student loans. For loans first disbursed prior to January 1, 2000, the 91-day Treasury bill rate is used rather than the one-month LIBOR or 90-day CP rates. The special allowance is accrued as earned or payable.

Borrower interest rates for Stafford and Parent Loans for Undergraduate Students (PLUS) loans first disbursed between July 1, 1998 and June 30, 2006 were variable rates set annually based on the 91-day Treasury bill plus a spread between 1.70% and 3.10%. Lender yields on many of those same loans (loans first disbursed between January 1, 2000 and April 1, 2006) adjust quarterly based on the one-month LIBOR rate plus a spread between 1.74% and 2.64%; however, the borrower rate serves as the "floor" for the lender yield. Loans first disbursed in these time periods can only earn positive special allowance due to the "floor" income feature. For loans first disbursed after April 1, 2006, federal law changed, removing the "floor" income feature, which allows the lender yield to float down below the borrower rate. In these situations, the loan owner earns less than the borrower pays in interest causing negative special allowance, which must be rebated to the Department. This situation was magnified by additional changes in federal law that implemented fixed borrower interest rates from 6.8% to 8.5% for loans first disbursed after July 1, 2006. Furthermore, for loans first disbursed after October 1, 2007, the lender's spread over the 90-day CP rate was reduced by 0.40% to 0.70%. The 90-day CP rate was later converted to one-month LIBOR. Total net special allowance became positive in fiscal year 2023, due to the loan portfolio mix and the increase in the rate of one-month LIBOR.

Deferred Inflows of Resources

Deferred inflows of resources are an acquisition of net position that is applicable to a future reporting period. As of June 30, 2023 and 2022, deferred inflows of resources related to pension are $11,481 and $8,769, respectively, for the Pension Plan and $393 and $503, respectively, for the SERP, which are a result of differences between expected and actual experience. The Company also reports deferred amounts related to leases of $202 and $283 as of June 30, 2023 and 2022, respectively.

2. Summary of Significant Accounting Policies (continued)

Net Position

Net position is classified into three components: net investment in capital assets, restricted for debt service, and unrestricted. Net investment in capital assets consists of capital assets, net of accumulated depreciation and amortization, reduced by the outstanding balances of any liabilities attributable to the acquisition, construction, or improvement of those assets. Net position is reported as restricted when limitations on the use of net position are externally imposed by outside parties. Restricted net position consists of the minimum collateral requirements discussed in Note 6, net of related liabilities, as defined in the bond resolutions. The unrestricted component of net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted components of net position. Unrestricted net position includes net position and deferred outflows of resources and deferred inflows of resources that do not meet the definition of either "net investment in capital assets" or "restricted." Unrestricted net position includes that which is available for the operations or above the minimum collateral level required by the Bond Fund in which it is maintained. Removal of unrestricted net position from the Bond Funds is typically subject to the approval of one or more of the following: credit rating agencies, bond insurers, bondholders, and the trustee. Furthermore, extensive financial analysis is required and performed in conjunction with the approving party prior to the approval and removal of net position.

Operating Revenues and Expenses

Operating revenues and expenses consist of those items earned or incurred in carrying out the primary functions of business, which are to acquire, service, and finance student loans to ensure that all eligible post-secondary education students have access to student loans. Therefore, operating revenues generally include net interest earned on student loans and fees earned from servicing loans owned by other entities. Operating expenses include expenses related to bonds and other financings outstanding, student loans, and other general and administrative expenses necessary to carry out the operations.

When an expense is incurred for purposes for which both restricted and unrestricted resources are available for use, it is the policy to first apply expense to restricted resources, then unrestricted resources.

Servicing Fee Revenue

Servicing is provided for federal accounts owned by the Department under the Direct Loan Program and student loans owned by third-party lending institutions. Fees charged for these

2. Summary of Significant Accounting Policies (continued)

services are classified as servicing fees in the statement of revenues, expenses, and changes in net position and are recognized as the services are performed.

Subcontractor Fees

As described in Note 1, agreements have been entered into with subcontractors whereby the Company services each subcontractor's allotment of federal accounts provided by the Department. The Company provides each subcontractor a portion of the revenues earned from the Department on the subcontractor's designated federal accounts, in accordance with the terms of each agreement. The amounts provided to the subcontractors are expensed as subcontractor fees when incurred. The majority of these agreements expired during fiscal year 2020 and were not renewed.

Interest Expense

Interest expense primarily includes interest accrued on bonds and other borrowings, as well as broker dealer fees and amortization of bond discount.

Bond Maintenance Fees

Bond maintenance fees consist primarily of Line of Credit issuance costs, rating agency fees, trustee fees, commitment fees, and collection agency fees.

Consolidation Rebate Fees

The Company must remit a rebate fee for all federal consolidation loans made on or after October 1, 1993 to the Department on a monthly basis. This fee is equal to 1.05% per annum of the unpaid principal balance and accrued interest on the loans. For loans made from applications received during the period beginning October 1, 1998 through January 31, 1999, inclusive, this fee is equal to 0.62% per annum of the unpaid principal and accrued interest on the loans. This fee is not and cannot be charged to the borrower.

Risk Management

Coverage for exposure to various risks of loss, including property loss, torts, cyber liability, errors and omissions, and employee injuries is obtained through commercial insurance, which is purchased in amounts that are sufficient to cover the risk of loss. There has been no significant reduction in insurance coverage from coverage in the prior year for all categories of risk. Settlements have not exceeded insurance coverage for the past three fiscal years.

2. Summary of Significant Accounting Policies (continued)

An estimated loss related to a loss contingency would be recorded as an expense and a liability if the following requirements are met: (1) information available before the financial statements are issued indicates that it is probable that an asset has been impaired or a liability has been incurred at the date of the financial statements and (2) the amount of the loss can be reasonably estimated.

Income Taxes

The Company is a tax-exempt organization under the provisions of the Internal Revenue Code; accordingly, no provision for income taxes has been made in the accompanying financial statements.

New Accounting Pronouncements

Effective July 1, 2022 with retrospective implementation for all periods presented, the Company implemented GASB Statement No. 96, Subscription-Based Information Technology Arrangements (SBITA), which requires recognition of certain right-to-use subscription assets - an intangible asset - and a corresponding subscription liability, with the exception of short-term SBITAs, at the commencement of the subscription term. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, Leases, as amended. The adoption of this statement increased fiscal year 2022 assets by $426, increased liabilities by $447, and increased expenses by $21. There was no effect on beginning net position as of July 1, 2021 and beginning net position as of July 1, 2022 decreased $21.

3. Cash, Cash Equivalents, and Investments

Cash and investments held by the Company's pension plan are discussed in Note 8 and are excluded from the discussion in this section.

State law limits investments of the Company to any obligations of the State of Missouri, the U.S. government, or any instrumentality thereof; certificates of deposit or time deposits of federally insured banks, federally insured savings and loan associations, or insured credit unions; and, with respect to moneys pledged or held under a trust estate or otherwise available for the owners of bonds or other forms of indebtedness, any investment authorized under the bond resolution governing the security of payment of such obligations or repurchase agreements for the specified investments.

In addition, the Foundation is authorized to invest in equity securities and certain alternative investments including hedge funds, managed futures funds, commodities, private equity funds, and REITs, as specified in the Foundation's investment policy. The Foundation may also invest in derivatives and structured products with approval from the Foundation's Board.

While the bond investment provisions vary by trust estate, allowable investments generally include U.S. Treasury obligations and certain of the following based on maturity and rating: U.S. government agency and sponsored agency obligations, bank deposits, repurchase agreements, reverse repurchase agreements, investment agreements, guaranteed investment contracts, money market funds, commercial paper, and tax-exempt bonds.

At June 30, 2023 and 2022, cash, cash equivalent, and investment balances consisted of the following:

	2023	2022
Cash on deposit	$ 94,876	$ 102,444
Investments	161,611	150,702
Money market mutual funds	35,660	49,495
Total cash, cash equivalents, and investments	$ 292,147	$ 302,641

The following special trust accounts have been established for the LIBOR floating and fixed rate notes issued under the 2021-1, 2021-2, and 2021-3 Trusts:

Collection Funds – The Collection Funds are used to (a) account for receipt of borrower payments, (b) receive investment income, (c) pay servicing and administration fees,

3. Cash, Cash Equivalents, and Investments (continued)

consolidation rebate fees, and trustee fees, (d) make principal and interest payments on the bonds, and (e) reinstate the Reserve Funds and the Rebate Funds as required.

Reserve Funds – Under the terms of certain bond provisions, minimum amounts are required to be maintained in the Reserve Funds for each related bond issue. The total of these minimum requirements at June 30, 2023 and 2022 were $3,823 and $4,998, respectively.

Department Rebate Funds – The Department Rebate Funds are used to pay negative special allowance.

The following accounts have been established for the Line of Credit:

Collection Account – The Collection Account is used to (a) account for receipt of borrower payments, (b) receive investment income, (c) pay servicing fees, consolidation rebate fees, trustee fees, negative special allowance, (d) pay the lender accrued and unpaid commitment fees, principal and interest, and (e) pay any other obligations which are accrued and due.

Advance Account – The Advance Account is used to (a) finance eligible loans or (b) repay advances.

3. Cash, Cash Equivalents, and Investments (continued)

As of June 30, 2023 and 2022, cash, cash equivalents, and investments were segregated as follows:

	2023	2022
Special trust accounts:		
Restricted:		
Collection funds	$ 12,337	$ 16,918
Reserve funds	3,823	4,998
Department rebate funds	-	2,058
Capitalized interest funds	19,500	25,500
Total special trust accounts	35,660	49,474
Line of Credit:		
Restricted	-	21
Operating fund:		
Unrestricted – undesignated	182,547	172,194
Unrestricted – board and management designated	64,494	69,860
Restricted – due to special trust accounts and clients	9,446	11,092
Total operating fund	256,487	253,146
Total cash, cash equivalents, and investments	$ 292,147	$ 302,641

The Company's board has designated $50,519 for operating reserve and management, $5,423 to fund the pension, and $8,552 for the Commerce Loan Reserve.

Money market mutual funds and commercial paper are reported at fair value. Categories of fair value measurements within the fair value hierarchy are established by general accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset.

Higher Education Loan Authority of the State of Missouri

Notes to Financial Statements (continued)
(Dollars in Thousands)

3. Cash, Cash Equivalents, and Investments (continued)

As of June 30, 2023, the trading portfolio has the following recurring fair value measurements.

Investments by Fair Value Level	6/30/2023	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Money market funds	$ 7,517	$ 7,517	$ -	$ -
Equity mutual fund investments				
Domestic equity mutual funds	83,153	83,153	-	-
International equity mutual funds	24,178	24,178	-	-
Total equity mutual fund investments	$ 107,331	$ 107,331	$ -	$ -
Fixed income				
Mortgage-backed securities	$ 8,209	$ -	$ 8,209	$ -
Corporate bonds	19,607	-	19,607	-
U.S. Treasury securities	6,211	6,211	-	-
Federal agencies	351	-	351	-
Asset-backed securities	1,452	-	1,452	-
Taxable municipal bonds	3,086	-	3,086	-
Diversified taxable mutual funds	3,733	3,733	-	-
Tax-exempt revenue bonds	47	47	-	-
Total fixed income	$ 42,696	$ 9,991	$ 32,705	$ -
Other	$ 200	$ -	$ -	$ 200
Total investments measured at fair value	$ 157,744			

In addition, the table above excludes $3,867 of alternative investments valued at Net Asset Value (NAV).

3. Cash, Cash Equivalents, and Investments (continued)

As of June 30, 2022, the trading portfolio has the following recurring fair value measurements.

Investments by Fair Value Level	6/30/2022	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Money market funds	$ 1,968	$ 1,968	$ -	$ -
Equity mutual fund investments				
Domestic equity mutual funds	72,329	72,329	-	-
International equity mutual funds	27,221	27,221	-	-
Total equity mutual fund investments	$ 99,550	$ 99,550	$ -	$ -
Fixed income				
Mortgage-backed securities	$ 9,687	$ -	$ 9,687	$ -
Corporate bonds	24,441	-	24,441	-
U.S. Treasury securities	5,740	5,740	-	-
Federal agencies	996	-	996	-
Asset-backed securities	1,048	-	1,048	-
Taxable municipal bonds	3,317	-	3,317	-
Fixed income ETFs	110	-	110	-
Diversified taxable mutual funds	3,291	3,291	-	
Taxable high yield funds	140	-	140	
Domestic preferred stock	144	-	144	-
Tax-exempt revenue bonds	46	46	-	-
Total fixed income	$ 48,960	$ 9,077	$ 39,883	$ -
Other	$ 224	$ -	$ -	$ 224
Total investments measured at fair value	$ 150,702			

Debt and equity mutual fund securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Debt securities classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Level 3 inputs are classified as unobservable as there are no relevant observable inputs available.

Custodial Credit Risk – Deposits – For a deposit, custodial credit risk is the risk that in the event of a bank failure, deposits may be lost. As it relates to cash deposits, the policy is that deposits

3. Cash, Cash Equivalents, and Investments (continued)

should either be insured or collateralized with investments that are permissible under state statutes. At June 30, 2023 and 2022, these cash deposits were fully insured by Federal Deposit Insurance Corporation (FDIC) insurance, secured by a Letter of Credit issued by The Bank of New York Mellon or pledged collateral held at the Federal Reserve in the name of the Company. The Foundation does not have a policy addressing custodial credit risk for deposits. As of June 30, 2023 and 2022, $2,820 and $9,678 of the total $94,876 and $102,444 in cash is uninsured and uncollateralized, respectively.

Custodial Credit Risk – Investments – For an investment, custodial credit risk is the risk that in the event of the failure of the counterparty, recovery may not be made of the value of its investments or collateral securities that are in the possession of an outside party. There is no policy addressing custodial credit risk for investments. At June 30, 2023 and 2022, $161,611 and $150,702 in investments is uninsured and uncollateralized, respectively. In addition, investments in commercial paper were held by the counterparty's trust department, but not in the Company's name.

Interest Rate Risk and Credit Risk – Interest rate risk is the risk that changes in interest rates over time will adversely affect the fair value of an investment. Debt securities with longer maturities are likely to be subject to more variability in their fair value as a result of future changes in interest rates. Debt securities are subject to credit risk, which is the chance that an issuer will fail to pay interest or principal in a timely manner, or that negative perceptions of the issuer's ability to make these payments will cause security prices to decline. These circumstances may arise due to a variety of factors such as financial weakness, bankruptcy, litigation and/or adverse political developments. Certain debt securities, primarily obligations of the U.S. government or those explicitly guaranteed by the U.S. government, are not considered to have credit risk. Although there are no formal policies addressing interest rate risk and credit risk, limitations on investment maturities and credit ratings are specified in each of the bond documents. These investment provisions vary by trust estate. At June 30, 2023 and 2022, investments in money market mutual funds held by the trustee had credit ratings of AAA and maturities of less than one year.

Higher Education Loan Authority of the State of Missouri

Notes to Financial Statements (continued)
(Dollars in Thousands)

3. Cash, Cash Equivalents, and Investments (continued)

Investment Type	As of June 30, 2023	Maturity Date
Mortgage-backed securities	$ 8,209	September 16, 2061
Corporate bonds	19,607	March 15, 2077
U.S. Treasury securities	6,211	August 15, 2049
Federal agencies	351	September 4, 2025
Asset-backed securities	1,452	January 25, 2035
Taxable municipal bonds	3,086	June 1, 2044
Diversified taxable mutual funds	3,733	N/A
Tax-exempt revenue bonds	47	December 1, 2033
Total	$ 42,696	

Investment Type	As of June 30, 2022	Maturity Date
Mortgage-backed securities	$ 9,687	September 16, 2061
Corporate bonds	24,441	March 15, 2077
U.S. Treasury securities	5,740	August 15, 2049
Federal agencies	996	September 4, 2025
Asset-backed securities	1,048	January 25, 2035
Taxable municipal bonds	3,317	June 1, 2044
Fixed income ETF’s	110	N/A
Diversified taxable mutual funds	3,291	N/A
Taxable high yield funds	140	N/A
Domestic preferred stock	144	N/A
Tax-exempt revenue bonds	46	December 1, 2033
Total	$ 48,960	

Higher Education Loan Authority of the State of Missouri

Notes to Financial Statements (continued)
(Dollars in Thousands)

3. Cash, Cash Equivalents, and Investments (continued)

Based on the investment ratings, credit risk exposure as of June 30, 2023 and 2022 is as follows:

			Rating as of June 30, 2023					
Investment Type		**Exchange Traded**	**AAA**	**Aa**	**A**	**Baa/BBB**	**Not Rated**	**Agency**
Money market funds	$ 7,517	$ -	$ 7,517	$ -	$ -	$ -	$ -	$ -
Equity mutual fund investments								
Domestic equity mutual funds	83,153	83,153	-	-	-	-	-	-
International equity mutual funds	24,178	24,178	-	-	-	-	-	-
Total equity mutual fund investments	$ 107,331	$ 107,331	$ -	$ -	$ -	$ -	$ -	$ -
Fixed income								
Mortgage-backed securities	$ 8,209	$ -	$ -	$ -	$ -	$ -	$ -	$ 8,209
Corporate bonds	19,607	-	-	1,722	11,616	6,269	-	-
U.S. Treasury securities	6,211	-	-	-	-	-	-	6,211
Taxable municipal bonds	3,086	-	36	2,067	983	-	-	-
Federal agencies	351	-	-	351	-	-	-	-
Asset-backed securities	1,452	-	852	38	562	-	-	-
Diversified taxable mutual funds	3,733	3,733	-	-	-	-	-	-
Tax-exempt revenue bonds	47	-	-	47	-	-	-	-
Total fixed income	$ 42,696	$ 3,733	$ 888	$ 4,225	$ 13,161	$ 6,269	$ -	$ 14,420
Alternative investments								
Hedge funds	$ 3,732	$ -	$ -	$ -	$ -	$ -	$ 3,732	$ -
Closely held								
Limited partnerships and pass throughs	$ 135	$ -	$ -	$ -	$ -	$ -	$ 135	$ -
Other	$ 200	$ -	$ -	$ -	$ -	$ -	$ 200	$ -
Total investments	$ 161,611	$ 111,064	$ 8,405	$ 4,225	$ 13,161	$ 6,269	$ 4,067	$ 14,420

3. Cash, Cash Equivalents, and Investments (continued)

					Rating as of June 30, 2022			
Investment Type		**Exchange Traded**	**AAA**	**Aa**	**A**	**Baa/BBB**	**Not Rated**	**Agency**
Money market funds	$ 1,968	$ -	$ 1,968	$ -	$ -	$ -	$ -	$ -
Equity mutual fund investments								
Domestic equity mutual funds	72,329	72,329	-	-	-	-	-	-
International equity mutual funds	27,221	27,221	-	-	-	-	-	-
Total equity mutual fund investments	$ 99,550	$ 99,550	$ -	$ -	$ -	$ -	$ -	$ -
Fixed income								
Mortgage-backed securities	$ 9,687	$ -	$ -	$ -	$ -	$ -	$ -	$ 9,687
Corporate bonds	24,441	-	-	1,786	15,435	7,220	-	-
U.S. Treasury securities	5,740	-	-	-	-	-	-	5,740
Taxable municipal bonds	3,317	-	43	2,343	931	-	-	-
Fixed income ETFs	110	110	-	-	-	-	-	-
Taxable high yield funds	140	140	-	-	-	-	-	-
Domestic preferred stock	144	144	-	-	-	-	-	-
Federal agencies	996	-	-	996	-	-	-	-
Asset-backed securities	1,048	-	40	-	558	-	-	450
Diversified taxable mutual funds	3,291	3,291	-	-	-	-	-	-
Tax-exempt revenue bonds	46	-	-	46	-	-	-	-
Total fixed income	$ 48,960	$ 3,685	$ 83	$ 5,171	$ 16,924	$ 7,220	$ -	$ 15,877
Other	$ 224	$ 24	$ -	$ -	$ -	$ -	$ 200	$ -
Total investments	$150,702	$ 103,259	$2,051	$ 5,171	$ 16,924	$ 7,220	$ 200	$ 15,877

Concentration of Credit Risk – There is no limit placed on the amount that may be invested in any one issuer. Concentration of credit risk is required to be disclosed for any investment in any one issue that represents 5.00% or more of total investments.

Higher Education Loan Authority of the State of Missouri

Notes to Financial Statements (continued)
(Dollars in Thousands)

3. Cash, Cash Equivalents, and Investments (continued)

At June 30, 2023 and 2022, investments in the following exceeded 5.00% of the total $161,611 and $150,702 unrestricted investments respectively:

	% of Total Investment 2023
Schwab Fundamental US Large Co Index Fund Institutional Class	8.49%
TIAA-CREF Large Cap Growth Index Fund	10.16%
TIAA-CREF Large Cap Value Index Fund	8.87%
TIAA-CREF Institutional International Equity Fund - I	11.53%

	% of Total Investment 2022
Fidelity Mid Cap Growth Index Fund	5.02%
Schwab Fundamental US Large Co Index Fund Institutional Class	9.05%
TIAA-CREF Large Cap Growth Index Fund	5.66%
TIAA-CREF Large Cap Value Index Fund	9.44%
TIAA-CREF Institutional International Equity Fund - I	13.49%

4. Student Loans Receivable

Upon default, unpaid principal and accrued interest on FFELP student loans receivable are guaranteed by the federal government at the following rates:

Disbursement Date of Loan	Guarantee Percentage
Prior to October 1, 1993	100%
October 1, 1993 – June 30, 2006	98%
On or after July 1, 2006	97%

Unpaid principal and accrued interest on FFELP student loans are also guaranteed at 100% in the event of bankruptcy, death, or discharge.

Supplemental loans receivable are not federally insured. The Company purchased insurance from a third party on a portion of the supplemental loan portfolio, which insures 95% of the unpaid principal and accrued interest upon default.

Credit deteriorated loans have been purchased from third party originators and are not insured. Credit deteriorated loans present a greater risk of loan loss because the loans have already demonstrated major distress as they have already defaulted with other lenders. Purchased credit deteriorated loans do not provide for an allowance for doubtful accounts; rather, the loans are stated at cost and are accreted to the present value of expected future cash flows. Expected future cash flows are estimated as a percentage of the outstanding par balance. For the year ended June 30, 2023 and 2022, accretion income was $1,314 and $1,314, respectively, which is included in "Interest on student loans, net" in the financial statements.

MOFELP is an interest free, private student loan program. It is designed to provide borrowing options for Missouri students who may not meet the traditional credit requirements for private loans.

4. Student Loans Receivable (continued)

Student loans receivable at June 30, 2023 and 2022 are as follows:

	2023	2022
Guaranteed FFELP loans	$ 762,353	$ 991,712
Supplemental loans:		
Third-party insured	399	479
Self-insured	22,293	27,777
Total supplemental loans	22,692	28,256
Credit deteriorated loans	20,112	20,947
MOFELP	26,534	24,831
Allowance for doubtful loans	(10,037)	(12,270)
Total student loans receivable	$ 821,654	$ 1,053,476
Weighted-average interest rate – end of year	5.47%	5.12%

The yield on federal student loans receivable is set by federal law and is generally variable based on the one-month LIBOR, or 91-day Treasury bill rates, plus a factor.

These yields are based on the type of loan, the date of loan origination, and, in some cases, the method of financing. Consolidation loans, Stafford loans, and PLUS loans originated after July 1, 2006 have a fixed rate for the borrower. The yield on supplemental loans is a variable rate, based on either the Treasury bill or the prime rate, plus a factor, depending on when the loan originated and the creditworthiness of the borrower and co-signor.

The activity for the allowance for doubtful loans for the years ended June 30, 2023 and 2022 are as follows:

	2023	2022
Beginning balance	$ 12,270	$ 12,869
Provision for loan loss	1,765	(376)
Net reinstatement/(write-offs)	(3,998)	(223)
Ending balance	$ 10,037	$ 12,270

5. Capital Assets

Capital asset activity for the year ended June 30, 2023, is as follows:

	Beginning Balance	Additions	Retirements	Transfers	Ending Balance
Land	$ 4,069	$ –	$ –	$ –	$ 4,069
Construction in progress	373	2,667	(15)	(1,272)	1,753
Depreciable capital assets:					
Buildings and improvements	23,256	–	(746)	1,199	23,709
Furniture and equipment	15,648	783	(357)	73	16,147
Software assets	1,309	5	–	–	1,314
Right to use assets	1,505	–	–	–	1,505
Total depreciable capital assets	41,718	788	(1,103)	1,272	42,675
Less accumulated depreciation and amortization:					
Buildings and improvements	(11,635)	(875)	521	–	(11,989)
Furniture and equipment	(14,394)	(542)	357	–	(14,579)
Software assets	(538)	(266)	–	–	(804)
Right to use assets	(523)	(435)	–	–	(958)
Total accumulated depreciation and amortization	(27,090)	(2,118)	878	–	(28,330)
Net depreciable capital assets	14,628	(1,330)	(225)	1,272	14,345
Total capital assets, net	$ 19,070	$ 1,337	$ (240)	$ –	$ 20,167

Higher Education Loan Authority of the State of Missouri

Notes to Financial Statements (continued)
(Dollars in Thousands)

5. Capital Assets (continued)

Capital asset activity for the year ended June 30, 2022, is as follows:

	Beginning Balance	Additions	Retirements	Transfers	Ending Balance
Land	$ 4,069	$ –	$ –	$ –	$ 4,069
Construction in progress	954	639	–	(1,220)	373
Depreciable capital assets:					
Buildings and improvements	23,256	–	–	–	23,256
Furniture and equipment	15,294	157	(272)	469	15,648
Software assets	516	42	–	751	1,309
Right to use assets	682	823	–	–	1,505
Total depreciable capital assets	39,748	1,022	(272)	1,220	41,718
Less accumulated depreciation and amortization:					
Buildings and improvements	(10,775)	(860)	–	–	(11,635)
Furniture and equipment	(14,123)	(543)	272	–	(14,394)
Software assets	(516)	(22)	–	–	(538)
Right to use assets	(122)	(401)	–	–	(523)
Total accumulated depreciation and amortization	(25,536)	(1,826)	272	–	(27,090)
Net depreciable capital assets	14,212	(804)	–	1,220	14,628
Total capital assets, net	$ 19,235	$ (165)	$ –	$ –	$ 19,070

6. Financings

The following table displays the aggregate changes in bonds payable and note payable from direct borrowing for the year ended June 30, 2023:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Student Loan Revenue Bonds:					
LIBOR Floating and Fixed Rate Notes, taxable, due January 2061 – August 2061, with interest rates ranging from 1.530% – 6.670% at June 30, 2023	$ 1,034,921	$ –	$ (255,406)	$ 779,515	$ 79,757
Total Bonds Payable, net	$ 1,034,921	$ –	$ (255,406)	$ 779,515	$ 79,757
Note Payable from Direct Borrowing, taxable, due March 2024, with fixed interest rate of 4.240% at June 30, 2023	$ 9,548	$ –	$ (1,251)	$ 8,297	$ 8,297
Total	$ 1,044,469	$ –	$ (256,657)	$ 787,812	$ 88,054

Reductions in LIBOR floating rate notes consisted of regular payments.

6. Financings (continued)

The following table displays the aggregate changes in bonds payable, line of credit payable, and note payable from direct borrowing for the year ended June 30, 2022:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Student Loan Revenue Bonds:					
LIBOR Floating and Fixed Rate Notes, taxable, due January 2061 – August 2061, with interest rates ranging from 1.530% – 3.144% at June 30, 2022	$ 952,591	$ 197,500	$ (115,170)	$ 1,034,921	$ 93,031
Total Bonds Payable, net	$ 952,591	$ 197,500	$ (115,170)	$ 1,034,921	$ 93,031
Line of Credit Payable, taxable, due May 2023 with variable interest rate of 2.404% at June 30, 2022	$ 145,819	$ –	$ (145,819)	$ –	$ –
Note Payable from Direct Borrowing, taxable, due March 2024, with fixed interest rate of 4.240% at June 30, 2022	$ 10,746	$ –	$ (1,198)	$ 9,548	$ 1,251
Total	$ 1,109,156	$ 197,500	$ (262,187)	$ 1,044,469	$ 94,282

Increase in the LIBOR floating and fixed rate note was due to the issuance of one additional Trust Indenture in fiscal year 2022. This increase was offset by regular repayments. During fiscal year 2022, the Line of Credit was used to facilitate the third bond deal, 2021-3. Subsequently, the Line of Credit has been inactive and expired May 2023.

LIBOR Floating and Fixed Rate Notes

At June 30, 2023 and 2022, LIBOR floating and fixed rate notes represented 100% of total outstanding bonds payable. The LIBOR floating rate note trusts reprice every month at rates equal to one-month LIBOR plus a spread ranging from 0.57% to 1.52%. There is a fixed rate component which is 1.53%, 1.97%, and 1.58% for bond 2021-1, 2021-2, and 2021-3, respectively. Principal payments are required to be made monthly based on available funds collected less required fees and transfers as stipulated in the bond documents.

Certain bonds are subject to redemption or rate period adjustment at the discretion of the Company under certain conditions as set forth in the bond agreements.

6. Financing (continued)

Bonds of each series are secured by (a) a pledge of proceeds derived from the sale of the bonds, (b) eligible loans, and (c) certain accounts established by the respective bond resolutions, including moneys and securities therein. The bond agreements contain certain covenants that, among other requirements, include maintaining minimum collateral levels. The Company maintains a minimum amount of assets pledged to meet the collateral requirements specified in the various bond resolutions. The total of all minimum requirements for all bond issuances at June 30, 2023 and 2022 was $847,185 and $1,100,974, respectively.

The events of default for the Company Trust Indentures include (i) default in punctual interest payment continuing for 5 days; (ii) default in punctual principal payment on the final maturity date; (iii) default in the performance or observance of any other covenants, agreements or conditions of the indenture and continuation of such default for a period of 90 days after written notice by the Trustee to the Company; and (iv) the occurrence of an event of bankruptcy. In the event of default except for (iii) above, the Trustee may at the written direction of the registered owners of at least the majority of the aggregate principal amount of the notes outstanding, take Possession of the Trust Estate and all property of the Trust Estate, conduct the Issuer's business, and collect and receive all charges, income and revenues and after deducting reasonable compensation for its own services will apply the residue as follows: First, to the Department, any department rebate interest amount and monthly rebate fee due; second, to the Trustee, any fees and costs due; third, to each Servicer and the Administrator, any servicing fee and senior administration fee due; fourth, to Class A Noteholders, any unpaid interest due; fifth, to Class A Noteholder, any unpaid principal amounts due; sixth, to Class B Noteholders, any unpaid interest due; seventh, to Class B Noteholders, any unpaid principal amounts due; and eighth, to the Company any remaining balance. If in the event of default, and if the principal of all the outstanding notes have been declared immediately due and payable as under accelerated maturity, then the Trustee may, and, at the written direction of the registered owners of at least the majority of the outstanding amount of the Highest Priority Notes, shall, sell the Trust Estate created under the indenture to the highest bidder. The sale proceeds after deducting expenses will be applied similarly as in Possession of Trust Estate. In the event of default of (i) or (ii) above, the Company upon demand of the Trustee will pay from the Trust Estate, the amount due and payable on such notes for principal and interest along with interest on overdue principal amount, the costs and expenses of collection, and advances of Trustee agents and counsel. If the Company fails to pay, the Trustee may institute a judicial proceeding for the collection of the sums due and unpaid. In the event of default, the Trustee may enforce its rights and the rights of the registered owners of notes by such appropriate judicial proceedings as the Trustee shall deem most effectual.

6. Financings (continued)

Line of Credit

On December 19, 2018, the Company entered into a Revolving Credit and Security Agreement with Bank of America for a Line of Credit (LOC) in the amount of $50,000 and it was increased to $100,000 on November 6, 2019. The Company used the LOC to purchase FFELP student loans from approved guarantors. On December 2, 2020, a second amendment to the Agreement was made to increase the LOC to $270,000 to facilitate with the issuance of two additional trust indentures. A third amendment to the Agreement was made on May 19, 2021 to set the available commitment of the LOC to $175,000. This available commitment was used to pay down outstanding bond principal. A fourth amendment to the Agreement was made on May 18, 2022 to set the available commitment of the LOC to $100,000. As of June 30, 2023, the Company no longer has a LOC, as it expired on May 16, 2023.

Note Payable from Direct Borrowing

On March 15, 2019, the Company obtained a Direct Borrowing Note Payable from Commerce Bank in the amount of $13,280. The Note Payable maturity date is March 15, 2024. The Company pledged the property and buildings from its Chesterfield and Columbia office locations as collateral for the loan. Events of default include payment default; noncompliance with terms, obligations, covenants or conditions contained in the note or any other agreement between lender and the Company; default in favor of third parties; false statements; insolvency; creditor or forfeiture proceedings; and events affecting guarantor. Lender shall not exercise any remedy for default unless the payment default remains unpaid for 10 days or if any other curable default is not cured within 30 days after written notice of default to the Company. If such default is incapable of cure within 30 days, but the Company has commenced curing within the 30 day period and does not complete within 90 days; except the lender shall not be obligated to make any further advances under any line of credit during the time any payment is past due, or during any cure period, unless and until such default has been cured. As remedy in the event of default the lender may declare the entire unpaid principal balance and accrued unpaid interest immediately due, and then the Company will pay that amount. If the Company does not pay, the lender may hire someone else to collect the note. The Company, will pay lender reasonable collection fees including lender's legal expenses and court costs. To the extent permitted by law, the lender has a right of setoff in all the Company's accounts with lender. Upon default the interest rate shall be increased by 3.0 percentage points; however, in no event will the interest rate exceed the maximum interest rate limitations under applicable law.

Higher Education Loan Authority of the State of Missouri

Notes to Financial Statements (continued)
(Dollars in Thousands)

6. Financing (continued)

The following is a summary of debt service requirements at June 30, 2023:

	LIBOR Notes		Note Payable from Direct Borrowing		
Fiscal Years	Principal	Interest	Principal	Interest	Total
2024	$ 79,757	$ 36,390	$ 8,297	$ 253	$ 124,697
2025	86,040	32,366	-	-	118,406
2026	87,007	28,166	-	-	115,173
2027	86,380	23,957	-	-	110,337
2028	80,695	19,902	-	-	100,597
Total fiscal years 2024-2028	419,879	140,781	8,297	253	569,210
2029 – 2033	199,124	60,967	-	-	260,091
2034 – 2038	75,911	30,792	-	-	106,703
2039 – 2043	28,334	19,009	-	-	47,343
2044 – 2048	11,290	14,524	-	-	25,814
2049 – 2053	4,958	12,571	-	-	17,529
2054 – 2058	2,557	11,570	-	-	14,127
2059	37,462	2,251	-	-	39,713
	$ 779,515	$ 292,465	$ 8,297	$ 253	$ 1,080,530

The principal requirements in the table above include the LIBOR floating rate notes and fixed rate notes that are based on scheduled borrower repayments of the student loans in those trusts and note payable from direct borrowing. The interest requirements in the table above were prepared using the applicable variable rates and fixed rates in effect at June 30, 2023. The debt service requirements presented in the table above may differ significantly from the actual amounts of principal and interest paid in future periods.

At June 30, 2023 and 2022, the Company was in compliance with all financial covenants and requirements of our debt agreements and expects to be in compliance for the next twelve months.

7. Contracts, Commitments, and Contingencies

There are two major contracts and various minor contracts to utilize electronic data processing systems and other computer services. The contracts provide for monthly charges based on the number of student loan accounts serviced or system usage. Charges incurred under these contracts totaled $59,697 and $28,253 for the years ended June 30, 2023 and 2022, respectively.

The Company leases office space in Washington, DC as lessee for the right to use the office space. In April 2016, the first amendment was executed which extends the terms to January 31, 2026. Under the terms of the agreement, the monthly base will increase by 2% each year. In addition, expense will be adjusted annually for the pro rata share of the landlord's increase in real estate taxes, operating expenses, and utilities. An initial lease liability was recorded in the amount of $682. As of June 30, 2023 and 2022, the value of the lease liability was $320 and $442, respectively. The lease has an interest rate of 1.08%. The value of the right-to-use asset as of June 30, 2023 and 2022 was $682 and $682, respectively and accumulated amortization was $366 and $244, respectively.

In the ordinary course of business, governmental agency and regulatory examinations, as well as various claims and lawsuits may occur. While the ultimate outcome of litigation and regulatory examinations cannot be predicted with certainty, management, based on its understanding of the facts, does not believe the ultimate resolution of these matters will have a material adverse effect on the financial position or results of operations.

Participation in FFELP and servicing of federal assets necessitates the compliance with federal program requirements and regulations. Management believes to be in substantial compliance with the requirements of these programs and that the effects of any noncompliance would not be material to the financial statements.

8. Employee Benefits

401(k) Plan

The 401(k) Plan is a single-employer defined contribution plan, the Higher Education Loan Authority of the State of Missouri 401(k) Plan (the 401(k) Plan), for all employees who are at least 21 years of age, work in excess of 500 hours per plan year, and have been employed at least six months. Investment management and recordkeeping is performed by ADP. Employees may elect to defer 1% to 50% of their total compensation into the 401(k) Plan, not to exceed the limits defined in the 401(k) Plan. The Company contributes an amount equal to 100% of the first 8% contributed by the employee. Employer matching funds are invested in the same fund choices made by the employee and are subject to a five-year vesting schedule. Some employer matching funds are offset by accumulated forfeiture credits. The Company may make a non-matching discretionary

8. Employee Benefits (continued)

contribution to the 401(k) Plan. The amount of this contribution, if any, will be determined by the Company when granted. To be eligible for the contribution, an employee must be credited with at least 1,000 hours of service and be employed on the last day of the 401(k) Plan year. During the fiscal years ended June 30, 2023 and 2022, the Company contributed employer matching funds of $1,458 and $1,133 and employees contributed $1,921 and $1,410 to the 401(k) Plan, respectively.

Pension Plan

Plan Description

The Company offers a noncontributory single-employer defined benefit pension plan, the Higher Education Loan Authority of the State of Missouri Pension Plan (the Pension Plan), which provides retirement, disability, and death benefits to Pension Plan members and beneficiaries.

Pension Plan provisions were established and may be amended by the Company's Board Members. Substantially all employees of the Company are covered by the Pension Plan. Pension benefits are based upon the employee's length of service, employment status, and average compensation. Employees vest in the Pension Plan after five years of service. The Pension Plan is administered by Commerce Trust Company (Administrator).

The Pension Plan is managed by the Company's Board Members which consists of seven members, five of whom are appointed by the Governor of the State, subject to the advice and consent of the State Senate, and two others who are designated by statute – the State Commissioner of Higher Education and a member of the State Coordinating Board for Higher Education. The five members appointed directly by the Governor serve five-year terms. The Board Members have designated the Assistant Director of Administration and the General Counsel as co-plan administrators. No stand-alone plan report is publicly available.

Plan Membership and Benefits Provided

Retirement benefits for salaried plan members are calculated as 2.5% of the member's highest 3-year average salary times the member's years of service. Benefits for hourly plan members are calculated as 1.5% of the member's highest 3-year average salary times the member's years of service.

Plan members with 5 years of service are eligible to retire at age 65 and members with 15 years of service are eligible to retire at 60. Members hired prior to July 1, 2017 are eligible for an unreduced retirement benefit after age 50 if the combination of their age and years of service equal at least

8. Employee Benefits (continued)

80. Members hired after June 30, 2017 are eligible for an unreduced retirement benefit after age 55 if the combination of their age and years of service equal at least 85. Plan members may retire early with a reduced benefit at age 50 with 20 years of service. Disability retirement benefits are determined in the same manner as retirement benefits, but are payable at the member's early retirement date reduced for early commencement and to reflect payment as a 50% joint and survivor annuity.

An annual cost-of-living adjustment is provided to each member receiving a monthly retirement benefit who terminated employment eligible for a retirement benefit or with at least 20 years of service. The annual adjustment is equal to 80% of the increase in the Consumer Price Index, limited to a maximum increase of 5%. The Board Members reserve the right to amend the provisions of the plan. During the year ended June 30, 2017, the plan was amended. The amendment changed future benefit accruals for a lump sum distribution for employees at June 30, 2017 to be based on a 5.0% interest rate and no assumed COLA in place of a 30 Year Treasury interest rate with an assumed COLA. During the year ended June 30, 2021, the plan was amended. The amendment changed future benefit accruals, effective July 1, 2021, to limit the applicable interest rate used for lump sum purposes to no less than 2.32%.

Employees covered by benefit terms

As of June 30, 2023 and 2022, Pension Plan membership consisted of the following:

Pension Plan Membership	**6/30/2023**	**6/30/2022**
Inactive plan members (or beneficiaries) currently receiving benefits	19	18
Inactive plan members entitled to but not yet receiving benefits	33	28
Active plan members	377	333
Total	429	379

Contributions

Annual contributions approved by the Board are made based on a recommendation of an independent actuary. For the years ended June 30, 2023 and 2022, the Company made pension contributions of approximately $16,023 and $2,009, respectively. The 5-year average contribution rate for the plan year beginning 2018 - 2022 is 26.03% of annual payroll. There are no annual maximum contribution rates. Employees do not make contributions to the Pension Plan.

8. Employee Benefits (continued)

Net Pension Liability (Asset)

The net pension liability (asset) was measured as of June 30, 2023. The total pension liability used to calculate the net pension liability (asset) was determined by an actuarial valuation as of July 1, 2022, rolled forward to the Measurement Date using update procedures and the inherent valuation assumptions.

Changes in Net Pension Liability (Asset)	**Increase (Decrease)**		
	Total Pension Liability (a)	**Plan Fiduciary Net Position (b)**	**Net Pension Liability (Asset) (a)-(b)**
Balances at 6/30/2022	$ 61,854	$ 50,719	$ 11,135
Changes for the year:			
Service Cost	2,748	-	2,748
Interest on the total pension liability	4,316	-	4,316
Changes of benefit terms	-	-	-
Differences between expected and actual experience	29	-	29
Changes of Assumptions	(2,965)	-	(2,965)
Contributions – employer	-	16,023	(16,023)
Investment income	-	7,675	(7,675)
Investment expenses	-	(171)	171
Benefit payments	(1,389)	(1,389)	-
Net changes	2,739	22,138	(19,399)
Balances at 6/30/2023	$ 64,593	$ 72,857	$ (8,264)

8. Employee Benefits (continued)

The net pension liability (asset) was measured as of June 30, 2022. The total pension liability used to calculate the net pension liability (asset) was determined by an actuarial valuation as of July 1, 2021, rolled forward to the Measurement Date using update procedures and the inherent valuation assumptions.

Changes in Net Pension Liability (Asset)	**Increase (Decrease)**		
	Total Pension Liability (a)	**Plan Fiduciary Net Position (b)**	**Net Pension Liability (Asset) (a)-(b)**
Balances at 6/30/2021	$ 51,906	$ 64,614	$ (12,708)
Changes for the year:			
Service Cost	2,581	-	2,581
Interest on the total pension liability	3,959	-	3,959
Changes of benefit terms	-	-	-
Differences between expected and actual experience	6,615	-	6,615
Changes of Assumptions	1,711	-	1,711
Contributions – employer	-	2,009	(2,009)
Investment income	-	(10,812)	10,812
Investment expenses	-	(174)	174
Benefit payments	(4,918)	(4,918)	-
Net changes	9,948	(13,895)	23,843
Balances at 6/30/2022	$ 61,854	$ 50,719	$ 11,135

8. Employee Benefits (continued)

Actuarial Assumptions

The total pension liability was determined using the following actuarial assumptions:

	2023	2022
Investment rate of return	6.75 percent	6.75 percent
Discount rate	6.75 percent	6.75 percent
Inflation rate	2.25 percent	2.75 percent
Salary scale	5.0 percent for 2023; 4.5 percent thereafter	6.0, 5.0, 4.5 percent thereafter
Lump sum rate	67 percent	67 percent
Actuarial cost method	Entry Age	Entry Age Normal
Valuation date, rolled forward to measurement date	7/1/2022	7/1/2021
Measurement date	6/30/2023	6/30/2022
Mortality table – annuity purposes	PubG-2010 / MP 2021	PubG-2010 / MP 2021
Mortality table – lump sums	Applicable IRS 2023 Lump sum table / MP 2021	Applicable IRS 2022 Lump sum table / MP 2021

Investments and Rate of Return

Pension Plan assets are invested primarily in equity securities, fixed income and cash at the discretion of the Administrator. Those securities are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. The investment objective of the Pension Plan is to ensure that assets will be available to meet the Pension Plan's benefit obligations. The long term expected real rate of return on the Pension Plan's assets is based on the anticipated returns for each asset category. At June 30, 2023 the funds were invested 72:23:1:4 equities to fixed income to alternative to cash and at June 30, 2022 the funds were invested 74:23:2:1 equities to fixed income to alternative to cash.

The long term expected rate of return on Pension Plan investments was determined based on 10-year capital market assumptions developed by the Company's investment advisor. The projections for capital markets are provided by the Investment Policy Team, which is comprised of senior investment professionals. The process for setting long-term capital market assumptions involves both quantitative and qualitative analysis. Quantitative analysis considers capital market history back to 1926 (or as far back as history is available, in the case of newer asset classes). Patterns are studied through various economic cycles, evaluating peak-to-peak and trough-to-trough market

8. Employee Benefits (continued)

behavior. By analyzing long-term data, it is better to understand the range of potential future market patterns and avoid some of the traps that can occur with the use of data from shorter time periods. The qualitative analysis involves the evaluation of secular market changes and a forward-looking assessment of possible future market returns. The investment policy team combines this quantitative and qualitative analysis along with a building-blocks approach to forecasting future growth and ultimately arrives at a projection for long-term market returns, risk, and correlations. These capital market assumptions provide the foundation for the strategic asset allocation recommendations.

The target allocations for each major class are summarized below:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Large Cap	39.40%	4.8%
Mid Cap	9.60%	6.1%
Small Cap	4.20%	6.2%
Developed International	16.00%	6.1%
Emerging Market Equity	2.80%	7.5%
Core Domestic Fixed Income	24.00%	1.3%
Real Estate	1.00%	4.0%
Cash	3.00%	-0.1%
	100.00%	

For the years ended June 30, 2023 and 2022, the annual money-weighted rate of return on Pension Plan investments, net of Pension Plan investment expense, was 12.87% and -16.69%, respectively. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested. The cash flows used as inputs in the calculation are determined on a monthly basis.

The Pension Plan categorizes fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset.

Higher Education Loan Authority of the State of Missouri

Notes to Financial Statements (continued)
(Dollars in Thousands)

8. Employee Benefits (continued)

The Pension Plan has a trading portfolio with the following recurring fair value measurements as of June 30, 2023:

Investments by Fair Value Level	**6/30/2023**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**
Money market funds	$ 2,870	$ 2,870	$ -
Equity mutual fund investments			
Domestic equity mutual funds	37,925	37,925	-
International equity mutual funds	14,701	14,701	-
Total equity mutual fund investments	$ 52,626	$ 52,626	$ -
Fixed income			
Mortgage-backed securities	$ 1,961	$ -	$ 1,961
Corporate bonds	8,875	-	8,875
U.S Treasury securities	3,162	3,162	-
Federal agencies	550		550
Asset backed securities	521		521
Taxable municipal bonds	1,367	-	1,367
Total fixed income	$ 16,436	$ 3,162	$ 13,274
Other exchange traded investments			
REITs	$ 762	$ 762	$ -
Total other exchange traded investments	$ 762	$ 762	$ -
Total investments measured at fair value	$ 72,694		

Higher Education Loan Authority of the State of Missouri

Notes to Financial Statements (continued)
(Dollars in Thousands)

8. Employee Benefits (continued)

The Pension Plan has a trading portfolio with the following recurring fair value measurements as of June 30, 2022:

Investments by Fair Value Level	**6/30/2022**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**
Money market funds	$ 467	$ 467	$ -
Equity mutual fund investments			
Domestic equity mutual funds	27,273	27,273	-
International equity mutual funds	10,169	10,169	-
Total equity mutual fund investments	$ 37,442	$ 37,442	$ -
Fixed income			
Mortgage-backed securities	$ 1,531	$ -	$ 1,531
Corporate bonds	7,153	-	7,153
U.S Treasury securities	1,467	1,467	-
Taxable municipal bonds	1,511	-	1,511
Total fixed income	$ 11,662	$ 1,467	$ 10,195
Other exchange traded investments			
REITs	$ 1,057	$ 1,057	$ -
Total other exchange traded investments	$ 1,057	$ 1,057	$ -
Total investments measured at fair value	$ 50,628		

Debt mutual funds and equity securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities.

8. Employee Benefits (continued)

Custodial Credit Risk – Investments – For an investment, custodial credit risk is the risk that in the event of the failure of the counterparty, the Pension Plan will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Pension Plan does not have a policy addressing custodial credit risk for investments. At June 30, 2023 and 2022, the Pension Plan's investments were held by the counterparty's trust department, but not in the Company's or Pension Plan's name.

Interest Rate Risk and Credit Risk – There is not a formal policy addressing interest rate risk or credit risk for the Pension Plan. However, the investment advisor diligently addresses and monitors the pension's interest rate risk and credit risk by maintaining a diversified approach to the pension's asset allocation. The interest rate risk and credit risk of the individual mutual funds that make up the pension are monitored and controlled in a discretionary manner by each individual investment vehicle manager. Each fund/manager utilized in the pension has well-defined risk control limits that are established by the manager of the individual fund. For example, each fixed income mutual fund in the pension has established limits on duration (interest rate risk) and credit quality (credit risk), among limits on other risk metrics. Each fund/manager that it utilized in the pension has passed the investment advisor's due diligence process and is continuously monitored. The understanding by the investment advisor of the risk levels associated with each individual mutual fund allow the investment advisor to control and monitor risk at the portfolio level. This ensures that the portfolio is not taking on excessive or unnecessary interest rate risk or credit risk. The investment advisor provides monthly reporting to the Company and conducts at least semi-annual in person pension reviews with the Company's staff. In addition, the investment advisor timely communicates any significant market events and investment manager changes as appropriate.

Higher Education Loan Authority of the State of Missouri

Notes to Financial Statements (continued)

(Dollars in Thousands)

8. Employee Benefits (continued)

Based on the investment ratings, credit risk exposure as of June 30, 2023 and 2022 is as follows:

					Rating as of June 30, 2023				
Investment Type		**Exchange Traded**	**AAA**	**Aa**	**A**	**Baa/BBB**	**BB**	**Not Rated**	**Agency**
Money market funds	$ 2,870	$ -	$ 2,870	$ -	$ -	$ -	$ -	$ -	$ -
Equity mutual fund investments									
Domestic equity mutual funds	37,925	37,925	-	-	-	-	-	-	-
International equity mutual funds	14,701	14,701	-	-	-	-	-	-	-
Total equity mutual fund investments	$ 52,626	$ 52,626	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Fixed income									
Mortgage-backed securities	$ 1,961	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 1,961
Corporate bonds	8,875	-	-	447	6,058	2,303	67	-	-
U.S. Treasury securities	3,162	-	2,523	-	-	-	-	-	639
Federal agencies	550	-	-	550	-	-	-	-	-
Asset backed securities	521	-	521	-	-	-	-	-	-
Taxable municipal bonds	1,367	-	148	917	302	-	-	-	-
Total fixed income	$ 16,436	$ -	$ 3,192	$ 1,914	$ 6,360	$ 2,303	$ 67	$ -	$ 2,600
Other exchange traded funds									
REITs	$ 762	$ 762	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Total other exchange traded funds	$ 762	$ 762	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Total investments	$ 72,694	$ 53,388	$ 6,062	$ 1,914	$ 6,360	$ 2,303	$ 67	$ -	$ 2,600

Higher Education Loan Authority of the State of Missouri

Notes to Financial Statements (continued)

(Dollars in Thousands)

8. Employee Benefits (continued)

Rating as of June 30, 2022

Investment Type		Exchange Traded	AAA	Aa	A	Baa/BBB	BB	Not Rated	Agency
Money market funds	$ 467	$ -	$ 467	$ -	$ -	$ -	$ -	$ -	$ -
Equity mutual fund investments									
Domestic equity mutual funds	27,273	27,273	-	-	-	-	-	-	-
International equity mutual funds	10,169	10,169	-	-	-	-	-	-	-
Total equity mutual fund investments	$ 37,442	$ 37,442	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Fixed income									
Mortgage-backed securities	$ 1,531	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 1,531
Corporate bonds	7,153	-	-	299	4,400	2,420	34	-	-
U.S. Treasury securities	1,467	-	969	-	-	-	-	-	498
Taxable municipal bonds	1,511	-	-	838	673	-	-	-	-
Total fixed income	$ 11,662	$ -	$ 969	$ 1,137	$ 5,073	$ 2,420	$ 34	$ -	$ 2,029
Other exchange traded funds									
REITs	$ 1,057	$ 1,057	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Total other exchange traded funds	$ 1,057	$ 1,057	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Total investments	$ 50,628	$ 38,499	$ 1,436	$ 1,137	$ 5,073	$ 2,420	$ 34	$ -	$ 2,029

8. Employee Benefits (continued)

Concentration of Credit Risk – No limits are placed in the Pension Plan on the amount that may be invested in any one issuer. Concentration of credit risk is required to be disclosed for any investment in any one issue that represents 5.00% or more of total investments. This concentration of risk is minimal given the diversified nature of the underlying investments of the funds.

At June 30, 2023 and 2022, the Pension Plan investments in the following exceeded 5.00% of the total investments.

	% of Total Investment 2023
Schwab Fundamental US Large Company Index Fund	9.66%
TIAA-CREF Large-Cap Growth Index Fund	12.42%
TIAA-CREF Large-Cap Value Index Fund	9.31%
TIAA-CREF Institutional International Index Fund	16.15%

	% of Total Investment 2022
Fidelity Mid Cap Value Index Fund	5.47%
Schwab Fundamental US Large Company Index Fund	9.55%
Schwab Select Large Cap Growth Fund	6.36%
T Rowe Price Growth Stock Fund	5.06%
TIAA-CREF Large-Cap Growth Index Fund	6.80%
TIAA-CREF Large-Cap Value Index Fund	9.90%
Fidelity Emerging Markets Index Fund	5.05%
TIAA-CREF Institutional International Index Fund	15.04%

8. Employee Benefits (continued)

As of June 30, 2023, fixed income investments included: (Duration is in years.)

Investment Type	Fair Value	Duration
Commerce Fixed Income Strategy	$ 16,436	6.12
Total Fair Value	$ 16,436	
Duration		6.12

As of June 30, 2022, fixed income investments included: (Duration is in years.)

Investment Type	Fair Value	Duration
Commerce Fixed Income Strategy	$ 11,662	5.67
Total Fair Value	$ 11,662	
Duration		5.67

Discount Rate

The discount rate used to measure the total pension liability as of June 30, 2023 and 2022 was 6.75%. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made at 26.03% and 14.73% for June 30, 2023 and 2022, respectively, of covered payroll of current plan members for each year in the future. Based on those assumptions, the Pension Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on Pension Plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

8. Employee Benefits (continued)

The components of the net pension liability (asset) at June 30, 2023 and 2022 were as follows:

	2023	2022
Total Pension Liability	$ 64,593	$ 61,854
Plan Fiduciary Net Position	(72,857)	(50,719)
Net Pension (Asset) Liability	$ (8,264)	$ 11,135
Plan Fiduciary Net Position as a percentage of the Total Pension Liability	112.79%	82.00%

Sensitivity of the Net Pension Liability (Asset) to Changes in the Discount Rate
The following presents the net pension liability (asset), calculated using the discount rate of 6.75%, as well as the net pension liability (asset) calculated using a discount rate that is 1-percentage point lower (5.75%) or 1-percentage point higher (7.75%) than the current rate:

Net Pension Liability (Asset)	1% Decrease 5.75%	Current Discount Rate 6.75%	1% Increase 7.75%
2023	$ (997)	$ (8,264)	$ (14,329)
2022	$ 18,190	$ 11,135	$ 5,244

8. Employee Benefits (continued)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the years ended June 30, 2023 and 2022, pension expense of $5,073 and $5,261, respectively, was recognized. At June 30, 2023, deferred outflows of resources and deferred inflows of resources related to pensions were from the following sources:

	2023 Deferred Inflows of Resources	2023 Deferred Outflows of Resources
Differences between expected and actual experience	$ (1,476)	$ 5,519
Changes of Assumptions	(2,706)	3,911
Net difference between projected and actual earnings on Pension Plan investments	(7,299)	9,522
	$ (11,481)	$ 18,952

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be netted and recognized in pension expense as follows:

Year ending June 30:	
2024	$1,920
2025	1,461
2026	3,507
2027	288
2028	817
Thereafter	(522)

Supplemental Pension Plan (SERP)

The Company offers the Supplemental Pension Plan of the Higher Education Loan Authority of the State of Missouri (SERP), a single-employer defined benefit pension plan that provides pension benefits to employees whose benefit is limited by Section 415 of the Internal Revenue Code under the MOHELA Pension Plan. At June 30, 2023 and 2022, SERP membership consisted of 3 participants. At June 30, 2023 and 2022, the Company's liability was $1,448 and $1,409, respectively. For the years ended June 30, 2023 and 2022, SERP expense of $8 and $6, respectively, was recognized. At June 30, 2023, the Company had $142 deferred outflows of resources and $393 deferred inflows of resources related to the SERP. At June 30, 2022, the Company had $148 deferred outflows of resources and $503 deferred inflows of resources related to the SERP.

9. Segment Information

A segment is an identifiable activity (or grouping of activities) reported as or within an enterprise fund or other stand-alone entity that has one or more bonds or other debt instruments outstanding, with a revenue stream pledged in support of that debt. In addition, the activity's revenues, expenses, gains and losses, assets, and liabilities are required by an external party to be accounted for separately. During the fiscal year ended June 30, 2023, the Company had six segments that met the reporting requirements of GASB Statement No. 34, as amended by GASB Statement No. 37. In addition to its segments, the Company presents summary financial information for the Operating Fund, which is used to record administrative transactions and revenue streams related to student loans not associated with bond issues.

The outstanding debt of the Company at June 30, 2023 and 2022 consisted of student loan revenue bonds issued in accordance with three Trust Indentures adopted by the Board of Directors from fiscal year 2021 through fiscal year 2022. The bond documents provide that the bonds are payable exclusively from the eligible loans pledged under the respective resolutions and indentures, amounts deposited in the accounts pledged under the resolutions and indentures, and all other revenues and recoveries of principal from the loans purchased with the bond proceeds. All of the Company's bonds are limited obligations of the Company, which are payable solely from the respective trust estates. As a result, there is no cross-collateralization with other trust estates or the operating funds of the Company. Furthermore, the Company's bonds are not insured or guaranteed by any government agency or instrumentality, including the Company, the State of Missouri, or any political subdivision thereof. As a result of the preceding, it is possible that a trust estate segment can show a negative restricted net position balance as no operating funds of the Company will pay the deficit. In addition to the student loan revenue bonds, on December 19, 2018, the Company entered into a Revolving Credit and Security Agreement with Bank of America for a Line of Credit (LOC). The LOC terminated on May 16, 2023.

Higher Education Loan Authority of the State of Missouri

Notes to Financial Statements (continued)

(Dollars in Thousands)

9. Segment Information (continued)

Summary financial information of the Company's segments and Operating Fund as of June 30, 2023 and 2022 is as follows:

	2023							
	Bond Funds							
	2021-1 Trust Indenture	2021-2 Trust Indenture	2021-3 Trust Indenture	Line of Credit	Operating Fund	Foundation	Knowledge Finance	Total
Condensed Statement of Net Position								
Assets:								
Current assets	$ 64,183	$ 86,005	$ 32,888	$ –	$ 157,573	$ 165,346	$ 2,196	$ 508,191
Long-term assets	250,322	297,195	115,315	–	67,686	22,007	–	752,525
Total assets	314,505	383,200	148,203	–	225,259	187,353	2,196	1,260,716
Deferred outflows of resources	–	–	–	–	19,094	–	–	19,094
Liabilities:								
Current liabilities	30,921	35,741	14,004	–	69,862	3	–	150,531
Long-term liabilities	257,948	320,289	121,521	–	1,645	1,095	–	702,498
Interfund payable (receivable)	(532)	(504)	(122)	–	736	68	354	–
Total liabilities	288,337	355,526	135,403	–	72,243	1,166	354	853,029
Deferred inflows of resources	–	–	–	–	12,076	–	–	12,076
Net position:								
Net investment in capital assets	–	–	–	–	11,021	–	–	11,021
Restricted for debt service	26,168	27,674	12,800	–	8,741	–	–	75,383
Unrestricted	–	–	–	–	140,272	186,187	1,842	328,301
Total net position	$ 26,168	$ 27,674	$ 12,800	$ –	$ 160,034	$ 186,187	$ 1,842	$ 414,705

Higher Education Loan Authority of the State of Missouri

Notes to Financial Statements (continued)
(Dollars in Thousands)

9. Segment Information (continued)

	2022							
		Bond Funds						
	2021-1 Trust Indenture	2021-2 Trust Indenture	2021-3 Trust Indenture	Line of Credit	Operating Fund	Foundation	Knowledge Finance	Total
Assets:								
Current assets	$ 75,607	$ 99,098	$ 38,655	$ (188)	$ 127,145	$ 160,991	$ 2,943	$ 504,251
Long-term assets	334,120	391,918	152,814	209	62,545	20,846	–	962,452
Total assets	409,727	491,016	191,469	21	189,690	181,837	2,943	1,466,703
Deferred outflows of resources	–	–	–	–	24,837	–	–	24,837
Liabilities:								
Current liabilities	37,658	41,912	17,377	33	38,068	8	–	135,056
Long-term liabilities	351,588	427,336	162,965	–	21,287	356	–	963,532
Interfund payable (receivable)	(588)	(633)	(238)	–	1,413	52	(6)	–
Total liabilities	388,658	468,615	180,104	33	60,768	416	(6)	1,098,588
Deferred inflows of resources	–	–	–	–	9,555	–	–	9,555
Net position:								
Net investment in capital assets	–	–	–	–	8,619	–	–	8,619
Restricted for debt service	21,069	22,401	11,365	(12)	10,437	–	–	65,260
Unrestricted	–	–	–	–	125,148	181,421	2,949	309,518
Total net position	$ 21,069	$ 22,401	$ 11,365	$ (12)	$ 144,204	$ 181,421	$ 2,949	$ 383,397

Higher Education Loan Authority of the State of Missouri

Notes to Financial Statements (continued)

(Dollars in Thousands)

9. Segment Information (continued)

	2023							
	Bond Funds							
	2021-1 Trust Indenture	2021-2 Trust Indenture	2021-3 Trust Indenture	Line of Credit	Operating Fund	Foundation	Knowledge Finance	Total
Condensed Statement of Revenues, Expenses, and Changes in Net Position								
Operating revenues	$ 22,280	$ 26,426	$ 10,140	$ –	$ 284,210	$ 15,050	$ 468	$ 358,574
Operating expenses	17,181	21,153	8,705	349	261,979	10,284	1,575	321,226
Operating income (loss)	5,099	5,273	1,435	(349)	22,231	4,766	(1,107)	37,348
Non-operating expenses	–	–	–	–	(6,040)	–	–	(6,040)
Income (loss) before transfers	5,099	5,273	1,435	(349)	16,191	4,766	(1,107)	31,308
Interfund transfers	–	–	–	361	(361)	–	–	–
Change in net position	5,099	5,273	1,435	12	15,830	4,766	(1,107)	31,308
Net position, beginning of year	21,069	22,401	11,365	(12)	144,204	181,421	2,949	383,397
Net position, end of year	$ 26,168	$ 27,674	$ 12,800	$ –	$ 160,034	$ 186,187	$ 1,842	$ 414,705

Higher Education Loan Authority of the State of Missouri

Notes to Financial Statements (continued)

(Dollars in Thousands)

9. Segment Information (continued)

	2022							
	Bond Funds							
	2021-1 Trust Indenture	2021-2 Trust Indenture	2021-3 Trust Indenture	Line of Credit	Operating Fund	Foundation	Knowledge Finance	Total
Condensed Statement of Revenues, Expenses, and Changes in Net Position								
Operating revenues	$ 13,917	$ 15,267	$ 4,275	$ 1,876	$ 88,974	$ (9,909)	$ 255	$ 114,655
Operating expenses	11,031	12,830	6,446	185	100,120	9,590	245	140,447
Operating income (loss)	2,886	2,437	(2,171)	1,691	(11,146)	(19,499)	10	(25,792)
Non-operating expenses	–	–	–	–	(6,000)	–	–	(6,000)
Income (loss) before transfers	2,886	2,437	(2,171)	1,691	(17,146)	(19,499)	10	(31,792)
Interfund transfers	–	24	13,536	(42,699)	29,139	–	–	–
Change in net position	2,886	2,461	11,365	(41,008)	11,993	(19,499)	10	(31,792)
Net position, beginning of year	18,183	19,940	–	40,996	132,211	200,920	2,939	415,189
Net position, end of year	$ 21,069	$ 22,401	$ 11,365	$ (12)	$ 144,204	$ 181,421	$ 2,949	$ 383,397

Higher Education Loan Authority of the State of Missouri

Notes to Financial Statements (continued)
(Dollars in Thousands)

9. Segment Information (continued)

	2023							
	Bond Funds							
	2021-1 Trust Indenture	2021-2 Trust Indenture	2021-3 Trust Indenture	Line of Credit	Operating Fund	Foundation	Knowledge Finance	Total
Condensed Statement of Cash Flows								
Net cash flows from operating activities	$ 106,438	$ 120,084	$ 47,873	$ (22)	$ 10,617	$ (10,863)	$ (671)	$ 273,456
Net cash flows from non-capital financing activities	(111,684)	(127,779)	(50,761)	–	(7,679)	–	–	(297,903)
Net cash flows from capital and related financing activities	–	–	–	–	(3,061)	–	–	(3,061)
Net cash flows from investing activities	567	1,024	424	1	84	4,005	–	6,105
Net decrease in cash and cash equivalents	(4,679)	(6,671)	(2,464)	(21)	(39)	(6,858)	(671)	(21,403)
Cash and cash equivalents, beginning of year	12,728	25,735	11,011	21	89,689	9,928	2,827	151,939
Cash and cash equivalents, end of year	$ 8,049	$ 19,064	$ 8,547	$ –	$ 89,650	$ 3,070	$ 2,156	$ 130,536

Higher Education Loan Authority of the State of Missouri

Notes to Financial Statements (continued)

(Dollars in Thousands)

9. Segment Information (continued)

	2022							
	Bond Funds							
	2021-1 Trust Indenture	2021-2 Trust Indenture	2021-3 Trust Indenture	Line of Credit	Operating Fund	Foundation	Knowledge Finance	Total
Condensed Statement of Cash Flows								
Net cash flows from operating activities	$ 49,160	$ 59,915	$ (165,504)	$ 145,195	$ 22,681	$ (10,464)	$ (201)	$ 100,782
Net cash flows from non-capital financing activities	(48,360)	(60,038)	176,505	(146,227)	(27,662)	20,023	–	(85,759)
Net cash flows from capital and related financing activities	–	–	–	–	(824)	–	–	(824)
Net cash flows from investing activities	14	27	10	–	(102)	(6,098)	–	(6,149)
Net increase (decrease) in cash and cash equivalents	814	(96)	11,011	(1,032)	(5,907)	3,461	(201)	8,050
Cash and cash equivalents, beginning of year	11,914	25,831	–	1,053	95,596	6,467	3,028	143,889
Cash and cash equivalents, end of year	$ 12,728	$ 25,735	$ 11,011	$ 21	$ 89,689	$ 9,928	$ 2,827	$ 151,939

10. Blended Component Unit

The Foundation is accounted for as a blended component unit of the Company as it approves the appointment of the Foundation's Board of Directors, has the ability to impose its will on the Foundation, and it is a not-for profit corporation in which the Company is the sole corporate member.

Statements of Net Position

Foundation	As of June 30, 2023	As of June 30, 2022
Assets		
Current assets		
Cash and cash equivalents:		
Unrestricted	$ 3,070	$ 9,928
Investments - unrestricted	159,326	148,539
Student loans receivable	2,678	2,269
Miscellaneous receivables	272	255
Due from the Higher Education Loan Authority of the State of Missouri	-	-
Total current assets	165,346	160,991
Long-term assets		
Student loans receivable (less allowance for doubtful loans $1,849 and $1,716)	22,007	20,846
Total long-term assets	22,007	20,846
Total assets	$ 187,353	$ 181,837
Liabilities and net position		
Current liabilities		
Other liabilities	$ 3	$ 8
Due to the Higher Education Loan Authority of the State of Missouri	68	52
Total current liabilities	71	60
Long-term liabilities		
MyMo Class of 2025 Promise Program	450	356
MyMo Class of 2026 Promise Program	645	-
Total long-term liabilities	1,095	356
Total liabilities	$ 1,166	$ 416
Net position:		
Unrestricted	186,187	181,421
Total net position	$ 186,187	$ 181,421

10. Blended Component Unit (continued)

Statements of Revenues, Expenses and Changes in Net Position

Foundation	**For the Year Ended June 30, 2023**	**For the Year Ended June 30, 2022**
Operating revenues, net:		
Investment Income	$ 3,218	$ 2,965
Realized and unrealized gain (loss) on investments	11,832	(31,884)
Contributions from the Higher Education Loan Authority of the State of Missouri	-	19,010
Total operating revenues, net	15,050	(9,909)
Operating expenses:		
Provision for loan losses	787	1,123
Total student loan-related expenses	787	1,123
Professional fees	6	35
Scholarships	6,417	4,561
Grants	622	1,101
Other operating expenses	2,452	2,770
Total general and administrative expenses	9,497	8,467
Total operating expenses	10,284	9,590
Operating income (loss)	4,766	(19,499)
Change in net position	4,766	(19,499)
Net position, beginning of year	181,421	200,920
Net position, end of year	$ 186,187	$ 181,421

Higher Education Loan Authority of the State of Missouri

Notes to Financial Statements (continued)
(Dollars in Thousands)

10. Blended Component Unit (continued)

Statements of Cash Flows

Foundation	**For the Year Ended June 30, 2023**	**For the Year Ended June 30, 2022**
Cash flows from operating activities:		
Disbursement of new student loans	$ (4,729)	$ (4,719)
Student loan repayments	2,372	2,079
Payments to vendors	(7,576)	(7,067)
Cash paid for servicing fees	(930)	(757)
Net cash used in operating activities	(10,863)	(10,464)
Cash flows from noncapital financing activities:		
Contributions from the Higher Education Loan Authority of the State of Missouri	-	20,023
Net cash provided by noncapital financing activities	-	20,023
Cash flows from investing activities:		
Purchase of investments, net of sales	781	(9,056)
Interest received on cash, cash equivalents and investments	3,224	2,958
Net cash provided by (used in) investing activities	4,005	(6,098)
Change in cash and cash equivalents	(6,858)	3,461
Cash and cash equivalents, beginning of year	9,928	6,467
Cash and cash equivalents, end of year	$ 3,070	$ 9,928

10. Blended Component Unit (continued)

Statements of Cash Flows

Foundation		**For the Year Ended June 30, 2023**		**For the Year Ended June 30, 2022**
Reconciliation of operating income (loss) to net cash used in operating activities:				
Operating income (loss)	$	4,766	$	(19,499)
Adjustments to reconcile operating income to net cash provided by operating activities:				
Contributions from the Higher Education Loan Authority of the State of Missouri		-		(19,010)
Realized and unrealized loss (gain) on investments		(11,833)		31,884
Investment income		(2,976)		(2,695)
Provision for loan losses		788		1,123
Change in assets and liabilities:				
(Increase) in student loans receivable		(2,358)		(2,641)
Increase in due to the Higher Education Loan Authority of the State of Missouri		17		15
Increase in other liabilities		733		359
Total adjustments		(15,629)		9,035
Net cash used in operating activities	$	(10,863)	$	(10,464)
Noncash investing, capital, and financing activities:				
Changes in investments and outstanding liabilities related to capital assets	$	17,993	$	(41,511)

10. Blended Component Unit (continued)

Knowledge Finance is accounted for as a blended component unit of the Company as it approves the appointment of the Board of Directors, has the ability to impose its will on Knowledge Finance, and it is a not-for profit corporation in which the Company is the sole corporate member.

Statement of Net Position

Knowledge Finance	**As of June 30, 2023**	**As of June 30, 2022**
Assets		
Current assets		
Cash	$ 2,156	$ 2,827
Due from the Higher Education Loan Authority of the State of Missouri	-	6
Miscellaneous receivables	40	116
Total current assets	2,196	2,949
Total assets	$ 2,196	$ 2,949
Liabilities and net position		
Current liabilities		
Due to the Higher Education Loan Authority of the State of Missouri	$ 354	$ -
Total current liabilities	354	-
Total liabilities	$ 354	$ -
Net position:		
Unrestricted	1,842	2,949
Total net position	$ 1,842	$ 2,949

Higher Education Loan Authority of the State of Missouri

Notes to Financial Statements (continued)
(Dollars in Thousands)

10. Blended Component Unit (continued)

Statement of Revenues, Expenses and Changes in Net Position

Knowledge Finance	**For the Year Ended June 30, 2023**	**For the Year Ended June 30, 2022**
Operating revenues, net:		
Contributions from the Higher Education Loan Authority of the State of Missouri	$ -	$ -
Servicing revenue	468	255
Total operating revenues, net	468	255
Operating expenses:		
Computer services and management fees	1,572	245
Attorney fees	3	-
Total operating expenses	1,575	245
Operating (loss) income	(1,107)	10
Change in net position	(1,107)	10
Net position, beginning of year	2,949	2,939
Net position, end of year	$ 1,842	$ 2,949

10. Blended Component Unit (continued)

Statements of Cash Flows

Knowledge Finance	**For the Year Ended June 30, 2023**	**For the Year Ended June 30, 2022**
Cash flows from operating activities:		
Cash paid for servicing fees	$ (671)	$ (201)
Net cash used in operating activities	(671)	(201)
Cash flows from noncapital financing activities:		
Contributions from the Higher Education Loan Authority of the State of Missouri	-	-
Net cash provided by noncapital financing activities	-	-
Cash flows from investing activities:		
Net cash used in investing activities	-	-
Change in cash and cash equivalents	(671)	(201)
Cash and cash equivalents, beginning of year	2,827	3,028
Cash and cash equivalents, end of year	$ 2,156	$ 2,827

10. Blended Component Unit (continued)

Statements of Cash Flows

Knowledge Finance	**For the Year Ended June 30, 2023**	**For the Year Ended June 30, 2022**
Reconciliation of operating income to net cash used in operating activities:		
Operating (loss) income	$ (1,107)	$ 10
Adjustments to reconcile operating income to net cash provided by operating activities:		
Change in assets and liabilities:		
Decrease (Increase) in miscellaneous receivables and prepaid expenses	76	(93)
(Increase) in due from Higher Education Loan Authority of the State of Missouri	-	(6)
Increase (Decrease) in due to (from) the Higher Education Loan Authority of the State of Missouri	360	(112)
Total adjustments	436	(211)
Net cash used in operating activities	$ (671)	$ (201)

11. Future Accounting Pronouncements

In June 2022, the GASB issued Statement No. 100, Accounting Changes and Error Corrections – an amendment of GASB 62. The purpose of this statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. The Company is required to implement this Statement for the period ending June 30, 2024.

In June 2022, the GASB issued Statement No. 101, Compensated Absences. The purpose of this statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. The Company is required to implement this Statement for the period ending June 30, 2024.

The Company is evaluating the impact of the adoption of these pronouncements.

12. Subsequent Events

In July 2023, the Company transitioned from one-month LIBOR to one-month CME Term SOFR plus a tenor spread adjustment of 0.11448%. This rate will be used for the SAP index and student loan revenue bonds.

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Higher Education Loan Authority of the State of Missouri

Required Supplementary Information
Schedule of Changes in the Net Pension Liability (Asset) and Related Ratios
(Unaudited)/(Dollars in Thousands)

As of and for the Years Ended June 30, 2023, 2022, 2021, 2020, 2019, 2018, 2017, 2016, 2015 and 2014

	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Total Pension Liability										
Service cost	$ 2,748	$ 2,581	$ 2,509	$ 2,731	$ 2,707	$ 2,616	$ 3,900	$ 3,334	$ 3,306	$ 3,175
Interest on the Total Pension Liability	4,316	3,959	3,573	3,547	3,191	3,027	3,015	2,526	2,234	2,134
Changes of Benefit Terms	-	-	(150)	-	-	-	(4,346)	-	-	-
Differences between expected and actual experience	29	6,615	(1,399)	241	(688)	1,480	1,273	(666)	(989)	473
Changes of Assumptions	(2,965)	1,711	499	2,174	1,880	(515)	215	2,061	-	-
Benefit payments	(1,389)	(4,918)	(9,886)	(3,040)	(2,493)	(1,675)	(3,960)	(1,064)	(2,957)	(3,705)
Net change in total pension liability	2,739	9,948	(4,854)	5,653	4,597	4,933	97	6,191	1,594	2,077
Total pension liability - beginning	61,854	51,906	56,760	51,107	46,510	41,577	41,480	35,289	33,695	31,618
Total pension liability - ending (a)	64,593	61,854	51,906	56,760	51,107	46,510	41,577	41,480	35,289	33,695
Plan fiduciary net position										
Contributions - employer	16,023	2,009	6,676	3,176	2,894	3,166	4,496	3,221	2,980	3,262
Investment income	7,675	(10,812)	14,730	1,778	3,368	3,440	3,647	456	1,296	4,573
Investment expenses	(171)	(174)	(168)	(156)	(151)	(175)	(166)	(144)	-	-
Benefit payments	(1,389)	(4,918)	(9,886)	(3,040)	(2,493)	(1,675)	(3,960)	(1,064)	(2,957)	(3,705)
Administrative expense	-	-	-	-	-	-	-	(1)	(153)	(138)
Net change in plan fiduciary net position	22,138	(13,895)	11,352	1,758	3,618	4,756	4,017	2,468	1,166	3,992
Plan fiduciary net position-beginning	50,719	64,614	53,262	51,504	47,886	43,130	39,113	36,645	35,479	31,487
Plan fiduciary net position-ending (b)	$ 72,857	$ 50,719	$ 64,614	$ 53,262	$ 51,504	$ 47,886	$ 43,130	$ 39,113	$ 36,645	$ 35,479
Net pension liability (asset) - ending (a) - (b)	(8,264)	11,135	(12,708)	3,498	(397)	(1,376)	(1,553)	2,367	(1,356)	(1,784)
Plan fiduciary net position as a percentage of the total pension liability	112.79%	82.00%	124.48%	93.84%	100.78%	102.96%	103.74%	94.29%	103.84%	105.29%
Covered payroll beginning of year	$ 23,530	$ 22,619	$ 21,760	$ 26,710	$ 27,278	$ 27,282	$ 26,641	$ 21,490	$ 19,996	$ 20,304
Net pension liability (asset) as a percentage of covered-employee payroll	-35.12%	49.23%	-58.40%	13.10%	-1.45%	-5.04%	-5.83%	11.02%	-6.78%	-8.79%

Information provided for years available

Actuarial valuation date is as of the beginning of each fiscal period presented herein.

Higher Education Loan Authority of the State of Missouri

Required Supplementary Information
Schedule of Contributions
(Unaudited)/(Dollars in Thousands)

Last 10 Fiscal Years

	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Actuarially determined contribution	$ 4,888	$ 2,009	$ 3,178	$ 3,176	$ 2,894	$ 3,166	$ 4,496	$ 3,221	$ 2,980	$ 3,262
Actual contribution recognized during the year	16,023	2,009	6,676	3,176	2,894	3,166	4,496	3,221	2,980	3,262
Contribution deficiency (excess)	(11,135)	-	(3,498)	-	-	-	-	-	-	-
Covered payroll beginning of year	$ 23,530	$ 22,619	$ 21,760	$ 26,710	$ 27,278	$ 27,282	$ 26,641	$ 21,490	$ 19,996	$ 20,304
Contributions as a % of covered – employee payroll	68.10%	8.88%	30.68%	11.89%	10.61%	11.60%	16.88%	14.99%	14.90%	16.07%
Methods and Assumptions for Actuarially Determined Contribution										
Salary Scale	6.0%, 5.0%, 4.5% thereafter	4.50%	4.50%	4.50%	4.50%	4.50%	5.00%	5.00%	5.00%	5.00%
Investment Rate of Return	6.75%	6.75%	6.75%	6.75%	6.75%	6.75%	6.75%	6.75%	6.75%	6.75%
Amortization Period	6.9	6.5	6.9	6.9	6.9	6.8	8.8	10.0	9.9	10.1
Inflation Rate	2.75%	2.25%	2.25%	2.25%	2.25%	2.25%	2.25%	2.50%	2.50%	2.50%
Mortality Table	PubG -2010/ MP 2021	PubG - 2010/ MP 2020	PubG- 2010/ MP 2018	RP 2014 Blue Collar MP 2017	RP 2014 Blue Collar MP 2017	RP 2014 Blue Collar MP 2016	RP 2014 Blue Collar MP 2015	IRS 2015	IRS 2014	IRS 2013

Actuarial Cost Method	Aggregate
Asset Valuation Method	Actuarial value as used for funding valuation purposes
Amortization Method	Level Percent of Payroll
Amortization Period	Average future service period of current employees

Actuarial valuation date is as of the beginning of each fiscal period presented herein.

Higher Education Loan Authority of the State of Missouri

Required Supplementary Information
Schedule of Investment Returns
(Unaudited)

Last 10 Fiscal Years

Fiscal Year Ended	Annual Money-Weighted Rate of Return
2023	12.87%
2022	-16.69%
2021	27.94%
2020	3.44%
2019	6.95%
2018	7.77%
2017	9.01%
2016	0.82%
2015	3.45%
2014	14.64%

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Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Members of
The Higher Education Loan Authority of the State of Missouri

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*), the financial statements of the business-type activities and fiduciary activities of the Higher Education Loan Authority of the State of Missouri ("the Company"), as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Company's basic financial statements (collectively referred to as the "financial statements"), and have issued our report thereon dated September 19, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Company's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Company's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances

of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Ernst & Young LLP

September 19, 2023

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Report of Independent Auditors on Compliance for the Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance

Members of
The Higher Education Loan Authority of the State of Missouri

Report of Independent Auditors on Compliance for the Major Federal Program

Opinion on the Major Federal Program

We have audited the Higher Education Loan Authority of the State of Missouri's (the Company's) compliance with the types of compliance requirements identified as subject to audit in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on the Company's major federal program for the year ended June 30, 2023. The Company's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Company complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2023.

Basis for Opinion on the Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States *(Government Auditing Standards)*; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements*, *Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Company and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion on compliance for the major federal program. Our audit does not provide a legal determination of the Company's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the Company's federal program.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Company's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Company's compliance with the requirements of the major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Company's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.

- Obtain an understanding of the Company's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control Over Compliance

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations during our audit, we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Ernst + Young LLP

September 19, 2023

Higher Education Loan Authority of the State of Missouri

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2023

Federal Grantor/Program Title	Federal Assistance Listing Number	Federal Expenditures
U.S. Department of Education – Federal Family Education Loans (Lenders) —	84.032L	
Outstanding loan balance at the beginning of the year		$ 991,712,000
New loans		184,722
Interest on student loans		1,107,123
Total expenditures of federal awards		$ 993,003,845

See accompanying notes to schedule of expenditures of federal awards.

Higher Education Loan Authority of the State of Missouri

Notes to Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2023

1. Significant Accounting Policies

The Higher Education Loan Authority of the State of Missouri (the Company) maintains its schedule of expenditures of federal awards (the Schedule) on an accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (*the Uniform Guidance). Accordingly, some amounts presented in this Schedule may differ from amounts presented in or used in the preparation of the basic financial statements.

2. Indirect Costs

The Company did not use the 10% de minimis cost rate allowed by the Uniform Guidance.

3. Loan/Loan Guarantee Outstanding Balances

The Schedule includes loans outstanding at the beginning of the year of $991,712,000, for which the federal government imposes continuing compliance requirements related to the Federal Family Education Loan (FFEL) program. In addition, the Schedule includes $184,722 of new loans purchased, and $1,107,123 for interest subsidy earned by the Company. These amounts are considered federal awards expended for the year ended June 30, 2023.

The balance of FFEL loans outstanding at June 30, 2023 is $762,352,922.

* * * * * *

Higher Education Loan Authority of the State of Missouri

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2023

Section I – Summary of Auditor's Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	___ **yes** X **no**
Significant deficiency(ies) identified?	___ **yes** X **none reported**
Noncompliance material to financial statements noted?	___ **yes** X **no**

Federal Awards

Internal control over major federal program:	
Material weakness(es) identified?	___ **yes** X **no**
Significant deficiency(ies) identified?	___ **yes** X **none reported**
Type of auditor's report issued on compliance for major federal program:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	___ **yes** X **no**

Identification of major federal program:

Assistance Listing Number	**Name of Federal Program or Cluster**
84.032L	Federal Family Education Loans (Lenders)

Dollar threshold used to distinguish between Type A and Type B programs – $3,000,000

Auditee qualified as low-risk auditee?	X **yes** ___ **no**

Higher Education Loan Authority of the State of Missouri

Schedule of Findings and Questioned Costs (continued)

For the Year Ended June 30, 2023

Section II – Financial Statement Findings

No matters are reportable.

Section III – Federal Award Findings and Questioned Costs

No matters are reportable.

EXHIBIT 6

NEW ISSUE—BOOK-ENTRY-ONLY

$197,500,000
MOHELA® Higher Education Loan Authority of the State of Missouri
Taxable Student Loan Asset-Backed Notes, Series 2021-3

The Higher Education Loan Authority of the State of Missouri (the "Issuer"), a public instrumentality and body politic and corporate of the State of Missouri (the "State") is issuing $197,500,000 aggregate principal amount of its Taxable Student Loan Asset-Backed Notes, Series 2021-3 (the "Notes") in three classes as set forth below:

Class	Principal Amount	Interest Rate	Offering Price	Maturity Date	Ratings (DBRS/S&P)
Fixed Rate Class A-1A Notes	$15,000,000	1.58%	99.98398%	August 25, 2061	AAA (sf)/AA+ (sf)
Floating Rate Class A-1B Notes(1)	$178,000,000	One-Month LIBOR plus 0.57%	100.00000%	August 25, 2061	AAA (sf)/AA+ (sf)
Floating Rate Class B Notes(1)	$4,500,000	One-Month LIBOR plus 1.15%	99.06001%	August 25, 2061	A (sf)/AA (sf)

(1) Each class of floating rate notes will accrue interest at a floating rate based on a benchmark, which will initially be One-Month LIBOR. However, the benchmark may change in certain situations. For more information on how One-Month LIBOR is determined and the circumstances under which the benchmark may change, see the caption "DESCRIPTION OF THE NOTES—Calculation of LIBOR" and "—Benchmark Transition Event" in this Offering Memorandum.

The Notes are limited obligations of the Issuer and are payable solely from the discrete trust estate created under the Indenture consisting primarily of the pool of student loans originated under the Federal Family Education Loan Program as described more fully herein and not from any of the other assets of the Issuer. Credit enhancement for the Notes will consist of overcollateralization, excess spread, cash on deposit in certain funds created under the Indenture (as defined herein), and, for the Class A Notes, the subordination of the Class B Notes, as described in this Offering Memorandum.

The Notes shall be issued in fully registered form only, without coupons, and when issued will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York. DTC is to act as securities depository for the Notes. Individual purchases of the Notes are to be made in book-entry form only, in the principal amount of $100,000 and integral multiples of $1,000 in excess thereof. Purchasers of the Notes will not receive certificates representing their interest in the Notes purchased. The Notes will receive monthly distributions of principal and interest on the twenty-fifth day (or the next Business Day if it is not a Business Day) of each calendar month as described in this Offering Memorandum, commencing November 26, 2021. Receipts of principal and certain other payments received on the student loans held in the trust estate established under the Indenture will generally be allocated for payment of principal first to the Class A Notes until paid in full and then to the Class B Notes until paid in full. All distributions of principal on the Notes through DTC will be treated by DTC, in accordance with its rules and procedures, as "Pro Rata Pass-Through Distribution of Principal."

Investors should consider carefully the risks involved in purchasing the Notes, including those described under the caption "RISK FACTORS" in this Offering Memorandum.

THE NOTES SHALL NOT BE DEEMED TO CONSTITUTE A DEBT OR LIABILITY OR OBLIGATION OF THE STATE OF MISSOURI OR OF ANY AGENCY OR POLITICAL SUBDIVISION OF THE STATE OF MISSOURI, NOR SHALL THE NOTES AND THE OBLIGATIONS OF THE ISSUER CONTAINED IN THE INDENTURE BE DEEMED TO CONSTITUTE A PLEDGE OF THE FULL FAITH AND CREDIT OF THE STATE OF MISSOURI OR OF ANY AGENCY OR POLITICAL SUBDIVISION OF THE STATE OF MISSOURI. THE NOTES SHALL NOT DIRECTLY, INDIRECTLY OR CONTINGENTLY, OBLIGATE THE STATE OF MISSOURI OR ANY AGENCY OR POLITICAL SUBDIVISION THEREOF TO LEVY ANY FORM OF TAXATION THEREFOR OR TO MAKE ANY APPROPRIATION FOR THEIR PAYMENT. THE NOTES ARE SPECIAL, LIMITED OBLIGATIONS OF THE ISSUER AND ARE SECURED BY AND PAYABLE SOLELY FROM THE TRUST ESTATE PLEDGED AS SECURITY THEREFOR AS PROVIDED IN THE INDENTURE. NO OTHER ASSETS OF THE ISSUER ARE PLEDGED TO THE PAYMENT OF THE NOTES. THE STATE OF MISSOURI SHALL NOT BE LIABLE IN ANY EVENT FOR THE PAYMENT OF THE PRINCIPAL OF OR INTEREST ON THE NOTES OR FOR THE PERFORMANCE OF ANY PLEDGE, MORTGAGE, OBLIGATION, OR AGREEMENT OF ANY KIND WHATSOEVER WHICH MAY BE UNDERTAKEN BY THE ISSUER. NO BREACH OF ANY SUCH PLEDGE, MORTGAGE, OBLIGATION, OR AGREEMENT MAY IMPOSE ANY PECUNIARY LIABILITY UPON THE STATE OF MISSOURI OR ANY CHARGE UPON THE GENERAL CREDIT OR TAXING POWER OF THE STATE OF MISSOURI.

THE NOTES HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR ANY OTHER STATE SECURITIES OR BLUE SKY LAWS, NOR HAS THE INDENTURE BEEN QUALIFIED UNDER THE TRUST INDENTURE ACT OF 1939, AS AMENDED, IN RELIANCE UPON CERTAIN EXEMPTIONS SET FORTH IN SUCH ACTS. NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED THESE SECURITIES OR PASSED UPON THE ACCURACY OR ADEQUACY OF THIS OFFERING MEMORANDUM. ANY REPRESENTATION TO THE CONTRARY IS UNLAWFUL.

The Issuer is not registered or required to be registered as an "investment company" under the Investment Company Act of 1940, as amended, pursuant to Section 2(b) thereof, and is not a "covered fund" for purposes of the Volcker Rule under the Dodd-Frank Act. See the caption "CERTAIN INVESTMENT COMPANY ACT CONSIDERATIONS" in this Offering Memorandum.

The Notes are being offered through the underwriter named below (the "Underwriter"), subject to prior sale and to the right of the Issuer or the Underwriter to withdraw, cancel or modify such offer and to reject orders in whole or in part. It is expected that delivery of the Notes will be made in book-entry-only form through DTC on or about September 21, 2021.

BofA Securities

September 9, 2021

The information in this Offering Memorandum supersedes in its entirety any information contained in any prior offering memorandum, other disclosure or statistical information relating to the Notes that you may have received. You should rely only on the information in this Offering Memorandum in making your investment decision.

This Offering Memorandum does not constitute an offer of, or an invitation by or on behalf of the Issuer or the Underwriter to subscribe for or purchase, any of the Notes in any circumstances or in any state or other jurisdiction where such offer or invitation is unlawful. Except as set forth herein, no action has been taken or will be taken to register or qualify the Notes or otherwise to permit a public offering of the Notes in any jurisdiction where actions for that purpose would be required. The distribution of this Offering Memorandum and the offering of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Memorandum comes are required by the Issuer and the Underwriter to inform themselves about and to observe any such restrictions. This Offering Memorandum has been prepared by the Issuer solely for use in connection with the proposed offering of the Notes described herein.

No dealer, broker, salesman or other person has been authorized by the Issuer or the Underwriter to give any information or to make any representations other than those contained in this Offering Memorandum. If given or made, such information or representations must not be relied upon as having been authorized by the Issuer or the Underwriter. Certain information set forth herein has been obtained from the Issuer, and other sources believed to be reliable, but is not guaranteed as to accuracy or completeness, and is not to be construed as a representation by the Underwriter. Neither the delivery of this Offering Memorandum nor any sale made hereunder shall, under any circumstances, create any implication that there has not been any change in the facts set forth in this Offering Memorandum or in the affairs of any party described herein after the date hereof.

In making an investment decision, prospective investors must rely on their own independent investigation of the terms of the offering and weigh the merits and the risks involved with ownership of the Notes. Representatives of the Issuer and the Underwriter will be available to answer questions from prospective investors concerning the Notes, the Issuer and the Financed Eligible Loans.

Prospective investors are not to construe the contents of this Offering Memorandum, or any prior or subsequent communications from the Issuer or the Underwriter or any of their officers, employees or agents as investment, legal, accounting, regulatory or tax advice. Prior to any investment in the Notes, a prospective investor should consult with its own advisors to determine the appropriateness and consequences of such an investment in relation to that investor's specific circumstances.

No representation or warranty, express or implied, is made by the Underwriter as to the accuracy or completeness of the information set forth herein, and nothing contained herein is, or shall be relied upon as, a promise or representation as to the past or the future. The Underwriter has not independently verified any such information or assumed responsibility for its accuracy or completeness. The Underwriter has reviewed the information in this Offering Memorandum pursuant to its responsibilities to investors under the federal securities laws, but the Underwriter does not guarantee the accuracy or completeness of such information.

There currently is no secondary market for the Notes. There are no assurances that any market for the Notes will develop or, if it does develop, how long it will last. The Issuer does not intend to list the Notes on any exchange.

The Notes are being offered subject to prior sale or withdrawal, cancellation or modification of the offer without notice and subject to the approval of certain legal matters by counsel and certain other conditions. No Notes may be sold without delivery of this Offering Memorandum.

In connection with the offering, the Underwriter may over allot or effect transactions with a view to supporting the market price of the Notes at levels above that which might otherwise prevail in the open market for a limited period. However, there is no obligation to do this. Such stabilizing, if commenced, may be discontinued at any time.

THIS OFFERING MEMORANDUM CONTAINS SUMMARIES OF CERTAIN DOCUMENTS THAT ARE BELIEVED TO BE ACCURATE, BUT REFERENCE IS HEREBY MADE TO THE ACTUAL DOCUMENTS, WHICH ARE INCORPORATED BY REFERENCE, AND ALL SUCH SUMMARIES ARE QUALIFIED IN THEIR ENTIRETY BY REFERENCE TO THE ACTUAL DOCUMENTS. THIS OFFERING MEMORANDUM DOES NOT CONSTITUTE A CONTRACT BETWEEN THE ISSUER OR THE UNDERWRITER AND ANY ONE OR MORE PURCHASERS OR OWNERS OF THE NOTES.

U.S. RISK RETENTION

The transaction described herein is not subject to the U.S. risk retention rules (Regulation RR (17 C.F.R. Part 246) promulgated under Section 15G of the Securities Exchange Act of 1934, as amended (the "Securities Exchange Act").

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Offering Memorandum contains forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Securities Exchange Act of 1934, as amended (the "Securities Exchange Act"). In some cases, investors can identify forward-looking statements by terminology such as "may," "will," "should," "could," "would," "expect," "plan," "anticipate," "believe," "estimate," "project," "predict," "intend," "potential," and the negative of such terms or other similar expressions.

Any forward-looking statements reflect the Issuer's current expectations and views about future events. The forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the Issuer's actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Given these risks and uncertainties, investors should not place undue reliance on the forward-looking statements.

Investors should understand that the following factors, among other things, could cause the Issuer's results to differ materially from those expressed in forward-looking statements:

- changes in terms of Financed Eligible Loans and the educational credit marketplace arising from the implementation of applicable laws and regulations and from changes in these laws and regulations that may reduce the average term and yields or increase the costs on education loans under the Federal Family Education Loan Program;
- changes resulting from the termination of the origination of new loans under the Federal Family Education Loan Program effective June 30, 2010;
- changes in the general interest rate environment and in the securitization market for student loans, which may increase the costs or limit the marketability of financings;
- losses from student loan defaults; and

- changes in prepayment rates and interest rate spreads.

Many of these risks and uncertainties are discussed throughout this Offering Memorandum and particularly in greater detail under the caption “RISK FACTORS” herein.

Investors should read this Offering Memorandum and the documents that are referenced in this Offering Memorandum completely and with the understanding that the Issuer’s actual future results may be materially different from what the Issuer expects. The Issuer is not obligated to update the forward-looking statements, even though the Issuer’s situation may change in the future, unless the Issuer has obligations under the federal securities laws to update and disclose material developments related to previously disclosed information. All of the forward-looking statements are qualified by these cautionary statements.

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SUMMARY OF TERMS

This summary highlights selected information from this document and does not contain all of the information you need to make your investment decision. To understand all of the terms of this offering, read this entire document.

References in this Offering Memorandum to the "Issuer" refer to the Higher Education Loan Authority of the State of Missouri. This Offering Memorandum contains forward-looking statements that involve risks and uncertainties. See the caption "SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS" herein. Certain terms used in this Offering Memorandum are defined under the caption "GLOSSARY OF TERMS" herein.

Principal Parties and Dates

Issuer. Higher Education Loan Authority of the State of Missouri (the "Issuer").

Servicer. The Issuer (the "Servicer").

Backup Servicer. Pennsylvania Higher Education Assistance Agency ("PHEAA").

Guaranty Agencies. Missouri Department of Higher Education and Workforce Development (the "State Guaranty Agency"), Pennsylvania Higher Education Assistance Agency, Ascendium Education Solutions, Inc. (f/k/a Great Lakes Higher Education Guaranty Corporation) or any other entity authorized to guarantee student loans under the Higher Education Act identified under the caption "THE GUARANTY AGENCIES" herein (each, a "Guaranty Agency" and collectively, the "Guaranty Agencies").

Trustee. U.S. Bank National Association, as trustee (in such capacity, the "Trustee").

Monthly Distribution Dates. The monthly distribution dates for the Notes will be the twenty-fifth day of each calendar month, or, if not a Business Day, the next Business Day, commencing November 26, 2021. These dates are sometimes referred to herein as "Monthly Distribution Dates." Certain fees and expenses of the Trust Estate established under the hereinafter described Indenture (such as the Administration Fee, the Servicing Fee and the Trustee Fee) will also be paid on the Monthly Distribution Dates. The calculation date for each Monthly Distribution Date generally will be the second Business Day before such Monthly Distribution Date.

Collection Periods. The Collection Period with respect to a Monthly Distribution Date will be the calendar month preceding such Monthly Distribution Date (each, a "Collection Period"). However, the Collection Period for the initial Monthly Distribution Date of November 26, 2021 will begin on the Date of Issuance and end on October 31, 2021. With respect to any other Monthly Distribution Date, the "related" or the "preceding" Collection Period shall be the Collection Period ending on the last day of the month immediately preceding the month in which such Monthly Distribution Date occurs.

Interest Accrual Periods. The initial Interest Accrual Period for the Class A-1A Notes begins on the Date of Issuance and ends on November 24, 2021 and the initial Interest Accrual Period for the Class A-1B Notes and the Class B Notes begins on the Date of Issuance and ends on November 25, 2021. For all other Monthly Distribution Dates, (a) the Interest Accrual Period for the Class A-1A Notes, will begin on (and include) the twenty-fifth day of a month, whether or not a Business Day, and end on (and include) the twenty-fourth day of the following month (notwithstanding that the actual Monthly Distribution Date may occur after the twenty-fifth day of either such month); and (b) the Interest Accrual Period for the Class A-1B Notes and Class B Notes will begin on the prior Monthly Distribution Date and end on the day before such Monthly Distribution Date (each, an "Interest Accrual Period").

Financed Eligible Loans. The loans made to finance post-secondary education that are made under the Higher Education Act (each, an "Eligible Loan") that are pledged by the Issuer to the Trustee under the Indenture and not released from the lien thereof are sometimes referred to herein as the "Financed Eligible Loans." The information presented in this Offering Memorandum under the caption "CHARACTERISTICS OF THE FINANCED ELIGIBLE LOANS" herein relating to the Eligible Loans the Issuer expects to pledge to the Trustee on the Date of Issuance is as of June 30, 2021, which is referred to as the "Statistical Cut-Off Date." The Issuer believes that the information set forth in this Offering Memorandum with respect to the Eligible Loans as of the Statistical Cut-Off Date is representative of the characteristics of the Financed Eligible Loans as they will exist on the Date of Issuance for the Notes.

Date of Issuance. On or about September 21, 2021.

Description of the Notes

General. The Higher Education Loan Authority of the State of Missouri is issuing $197,500,000 of its Taxable Student Loan Asset-Backed Notes, Series 2021-3 in the following classes:

- $15,000,000 Taxable Student Loan Asset-Backed Notes, Senior Series 2021-3A-1A Notes (the "Class A-1A Notes")
- $178,000,000 Taxable Student Loan Asset-Backed Notes, Senior Series 2021-3A-1B Notes (the "Class A-1B Notes" and together with the Class A-1A Notes, the "Class A Notes")
- $4,500,000 Taxable Student Loan Asset-Backed Notes, Subordinate Series 2021-3B (the "Class B Notes").

The Class A Notes and the Class B Notes (collectively, the "Notes") will be issued pursuant to the terms and provisions of the Indenture of Trust, dated as of September 1, 2021 (the "Indenture"), between the Issuer and the Trustee. The Notes will receive payments primarily from collections on a discrete pool of Eligible Loans held by the Issuer and pledged to the Trustee under the Indenture.

The Class A Notes will be senior Notes and the Class B Notes will be subordinate Notes. The Notes will be issued in minimum denominations of $100,000 and in integral multiples of $1,000 in excess thereof. Interest and principal on the Notes will be payable to the owners of record of the Notes as of the close of business on the day before the related Monthly Distribution Date.

Interest on the Notes. The Class A-1A Notes will bear interest at a fixed rate equal to 1.58% per annum.

The Class A-1B Notes will bear interest at an annual rate equal to the applicable Benchmark (initially One-Month LIBOR), except for the initial Interest Accrual Period, plus 0.57%.

The Class B Notes will bear interest at an annual rate equal to the applicable Benchmark (initially One-Month LIBOR), except for the initial Interest Accrual Period, plus 1.15%.

If One-Month LIBOR or the then current benchmark is less than 0.00% for any Interest Accrual Period, it shall be deemed to be 0.00% and the interest rate for the Class A-1B Notes and the Class B Notes for such Interest Accrual Period shall be deemed to be the interest rate margin set forth above for such class of Notes.

The Trustee will obtain One-Month LIBOR and the Issuer will calculate the applicable interest rate on the Notes (other than the Class A-1A Notes) on the second Business Day prior to the start of the applicable Interest Accrual Period; provided that if One-Month LIBOR does not appear on a page of a financial reporting service in general use in the financial services industry, the Issuer will obtain One-Month LIBOR. Additionally, if One-Month LIBOR is no longer an available benchmark rate, the Issuer will cause an alternative rate to be calculated as described under the caption "DESCRIPTION OF

THE NOTES—Benchmark Transition Event" herein.

Interest on the Class A-1A Notes will be calculated on the basis of a 360-day year consisting of twelve 30-day months, and interest on the Class A-1B Notes and the Class B Notes will be calculated on the basis of the actual number of days elapsed during the Interest Accrual Period divided by 360 and rounding the resultant figure to the fifth decimal place.

The rate of interest on the Class A-1B Notes and the Class B Notes for the initial Interest Accrual Period will be determined by reference to the following formula:

> x + [(a / b) * (y-x)] + 0.57% for the Class A-1B Notes and + 1.15% for the Class B Notes
>
> where:
>
> x = two-month LIBOR;
>
> y = three-month LIBOR;
>
> a = the actual number of days from the maturity date of two-month LIBOR to the first Monthly Distribution Date; and
>
> b = the actual number of days from the maturity date of two-month LIBOR to the maturity date of three-month LIBOR.

Interest accrued on the outstanding principal balance of the Notes during each Interest Accrual Period will be paid on the following Monthly Distribution Date in the order and priority described under the caption "—Flow of Funds" below.

Failure to pay interest on the Class B Notes is not an Event of Default so long as any of the Class A Notes remain outstanding.

Principal Distributions. Principal distributions will be allocated to the Notes on each Monthly Distribution Date in an amount equal to the funds available to pay principal, in the amount equal to the lesser of:

> (a) the Principal Distribution Amount for that Monthly Distribution Date; and
>
> (b) funds available for the payment of principal as described under the caption "—Flow of Funds" below and under the caption "SECURITY AND SOURCES OF PAYMENT FOR THE NOTES—Collection Fund; Flow of Funds" herein.

Principal will be paid, first, on the Class A Notes (pro rata) until paid in full and, second, on the Class B Notes until paid in full.

"*Principal Distribution Amount*" means, as determined by the Issuer for each Monthly Distribution Date other than a Note Final Maturity Date, the amount, not less than zero, by which (i) the Outstanding Amount of the Notes immediately prior to such Monthly Distribution Date exceeds (ii) the Adjusted Pool Balance for that Monthly Distribution Date less the Specified Overcollateralization Amount. Notwithstanding the foregoing; (A) on or after the Maturity Date for a class of Notes, the Principal Distribution Amount shall not be less than the amount that is necessary to reduce the outstanding principal balance of such class of Notes to zero; and (B) the Principal Distribution Amount shall not exceed the Outstanding Amount of the Notes as of any Monthly Distribution Date (before giving effect to any distributions on such Monthly Distribution Date).

"*Specified Overcollateralization Amount*" means, for any Monthly Distribution Date, the greater of:

> (a) 6.5% of the Adjusted Pool Balance for that Monthly Distribution Date; and
>
> (b) $4,000,000.

"*Adjusted Pool Balance*" means, for any Monthly Distribution Date, the sum of the Pool Balance as of the end of the immediately

preceding Collection Period and the amounts on deposit in the Capitalized Interest Fund and the Reserve Fund on such Monthly Distribution Date after giving effect to any payments to or releases from the Capitalized Interest Fund and the Reserve Fund.

The Principal Distribution Amount is intended to provide credit support so that, if sufficient funds are available on each Monthly Distribution Date, the Adjusted Pool Balance will continue to exceed the Outstanding Amount of the Notes by the greater of (a) 6.5% of the Adjusted Pool Balance for that Monthly Distribution Date, and (b) $4,000,000.

"*Pool Balance*" means, for any date, the aggregate principal balance of the Financed Eligible Loans on that date, including accrued interest that is expected to be capitalized, after giving effect to the following, without duplication:

(a) all payments received by the Issuer through that date from borrowers;

(b) all amounts received by the Issuer through that date from required purchases or repurchases of Financed Eligible Loans by Servicers or sellers;

(c) all Liquidation Proceeds and Realized Losses on the Financed Eligible Loans through that date;

(d) the amount of any adjustment to balances of the Financed Eligible Loans that the Servicer makes under its related servicing agreement, if any, recorded through that date; and

(e) the amount by which Guaranty Agency reimbursements of principal on defaulted Financed Eligible Loans through that date are reduced from 100% to 97%, or other applicable percentage, as required by the risk sharing provisions of the Higher Education Act.

See the caption "DESCRIPTION OF THE NOTES—Principal Distributions" herein.

In addition to the principal payments described above, (i) if a Principal Acceleration Trigger (as defined under the caption "SECURITY AND SOURCES OF PAYMENT FOR THE NOTES—Collection Fund; Flow of Funds" herein) is in effect for any Monthly Distribution Date occurring on and after the October 2026 Monthly Distribution Date through and including the September 2031 Monthly Distribution Date, (ii) on and after the October 2031 Monthly Distribution Date or (iii) if the Financed Eligible Loans are not released from the lien of the Indenture when permitted pursuant to the optional release described below, the Notes may receive supplemental payments of principal from certain money remaining in the Collection Fund as described under the caption "—Flow of Funds" below and under the caption "SECURITY AND SOURCES OF PAYMENT FOR THE NOTES—Collection Fund; Flow of Funds" herein.

Each principal payment on a class of Notes will be allocated to all Noteholders of such class of Notes on a pro rata basis, based upon the principal amounts of such class of Notes held by each such Noteholder.

Final Maturity. The final Maturity Date for each class of the Notes will be August 25, 2061.

The final payment of the Notes is expected to occur prior to the above date (see Appendix B hereto) and could be earlier than expected to the extent that:

(a) there are significant prepayments on the Financed Eligible Loans;

(b) additional payments of principal are made from money available in the Collection Fund to pay the Notes in full prior to maturity;

(c) the Issuer exercises its option to direct the release of all of the Financed Eligible Loans remaining in the Trust Estate established under the Indenture from the lien of the Indenture (which will not occur until a date when the then outstanding Pool Balance is 10% or less of the initial Pool Balance); or

(d) the Trustee sells all of the remaining Financed Eligible Loans upon an Event of Default.

Description of the Issuer and the Trust Estate

General. The Issuer is a body politic and corporate constituting a public instrumentality of the State. The Issuer was established in 1981 pursuant to the Missouri Higher Education Loan Authority Act, Title XI, Chapter 173, Section 173.350 to 173.445 of the Missouri Revised Statutes, inclusive, as amended (the "Authorizing Act") for the purpose of assuring that all eligible post-secondary education students have access to guaranteed student loans. The Authorizing Act was amended, effective August 28, 1994, to provide the Issuer with generally expanded powers, including the power to finance, acquire and service student loans, including, but not limited to, those guaranteed or insured pursuant to the Higher Education Act.

Use of Proceeds. As described under the caption "USE OF PROCEEDS" herein, certain of the proceeds from the sale of the Notes will be used to make the initial deposits to the Capitalized Interest Fund, Cost of Issuance Fund and the Reserve Fund described below. Certain of the remaining proceeds from the sale of the Notes will be used to refinance student loans originated under the Federal Family Education Loan Program ("FFELP" or the "FFEL Program" and such loans, "FFELP Loans" or "Eligible Loans") presently pledged by the Issuer under the Warehouse Agreement (as defined herein) or held unencumbered by the Issuer, all of which have been identified and are described under the caption "CHARACTERISTICS OF THE FINANCED ELIGIBLE LOANS" herein. The FFELP Loans will be pledged to the Trustee on the Date of Issuance and will be subject to the lien of the Indenture. See the caption "USE OF PROCEEDS" herein.

The only sources of funds for payment of the Notes issued under the Indenture are the Financed Eligible Loans and investments pledged to the Trustee and the payments the Issuer receives on those Financed Eligible Loans and investments. On the Date of Issuance, the parity ratio will be not less than 108.0% of the principal amount of the Class A Notes and not less than 105.5% of the principal amount of all of the Notes.

The Trust Estate Assets. The assets of the trust estate securing the Notes issued under the Indenture will be a discrete trust estate that will include (collectively, the "Trust Estate"):

(a) the Available Funds (other than moneys deposited in the Department SAP Rebate Fund and moneys released from the lien of the Trust Estate as provided in the Indenture);

(b) all moneys and investments held in the funds created under the Indenture (other than the Department SAP Rebate Fund), and other than moneys and investments released from the lien of the Trust Estate as provided in the Indenture), including all proceeds thereof and all income thereon;

(c) the Financed Eligible Loans held by the Issuer and pledged under the Indenture and all obligations of the obligors thereunder including all moneys received thereunder on or after the Cut-Off Date (but in no event including any Financed Eligible Loans released from the lien of the Trust Estate as provided in the Indenture);

(d) the rights of the Issuer in and to any Servicing Agreement, any Backup Servicing Agreement, any Joint Sharing Agreement, any Student Loan Purchase Agreement, any Custodian Agreement, any Origination Agreement and the Guarantee Agreements as the same relate to the Financed Eligible Loans;

(e) to the extent constituting or directly related to the components of the Trust Estate described in clauses (a) through (f), inclusive, property of the Issuer in the nature of Accounts, General Intangibles (including Payment Intangibles), Promissory Notes, and Instruments (each as defined in the Uniform Commercial Code of the State of

Missouri), but it shall not be necessary that an item be an Account, General Intangible, Payment Intangible, Promissory Note or Instrument for such item to be part of the Trust Estate if it is otherwise described, referenced, or included in clauses (a) through (d), or in this clause (e), but in no event shall this interest attach to any properties, cash or other trust estates of the Issuer which are unrelated to the properties described in clauses (a) through (d) above or this clause (e); and

(f) all proceeds from any property described in clauses (a) through (e) above and any and all other property, rights and interests of every kind or description that from time to time is specifically granted, conveyed, pledged, transferred, assigned or delivered to the Trustee as additional security under the Indenture.

All of the Eligible Loans pledged to the Trustee under the Indenture will be serviced by the Issuer. See the caption "RISK FACTORS—Failure to comply with loan origination and servicing procedures for Financed Eligible Loans may result in loss of guarantee or other benefits" herein. All of the Eligible Loans pledged to the Trustee under the Indenture are, as of the time of such pledge, guaranteed by a Guaranty Agency and reinsured by the U.S. Department of Education (sometimes referred to herein as the "Department of Education"). See the caption "GUARANTY AGENCIES" herein.

Except under limited circumstances set forth in the Indenture, Financed Eligible Loans may not be transferred out of the Trust Estate established under the Indenture. See the caption "SUMMARY OF THE INDENTURE PROVISIONS—Sale of Financed Eligible Loans" herein.

The Student Loan Fund. The Eligible Loans being pledged by the Issuer will be deposited into the Student Loan Fund on the Date of Issuance. See the caption "CHARACTERISTICS OF THE FINANCED ELIGIBLE LOANS" herein. Except for any acquisition of Eligible Loans that were previously Financed Eligible Loans from a Guaranty Agency or a Servicer as described under the caption "SECURITY AND SOURCES OF PAYMENT FOR THE NOTES—Collection Fund; Flow of Funds" herein, there will be no acquisitions of Eligible Loans into the Trust Estate after the Date of Issuance.

The Collection Fund. The Trustee will deposit into the Collection Fund upon receipt all revenues derived from Financed Eligible Loans and money or investments of the Issuer on deposit with the Trustee, amounts received under any Joint Sharing Agreement and all amounts transferred from the Capitalized Interest Fund, the Student Loan Fund, the Department SAP Rebate Fund and the Reserve Fund. Money on deposit in the Collection Fund will be used to make any required payments under any applicable Joint Sharing Agreement or to otherwise remove amounts deposited in the Trust Estate which represent amounts that are allocable to Eligible Loans that are not Financed Eligible Loans, to make any required payments to the Department of Education, to pay Administration Fees (including the amounts allocated for the payment of Program Fees), Servicing Fees and Trustee Fees, to pay interest and principal on the Notes and to replenish the Reserve Fund. See the captions "—Flow of Funds" below and "SECURITY AND SOURCES OF PAYMENT FOR THE NOTES—Collection Fund; Flow of Funds" herein.

The Capitalized Interest Fund. On the Date of Issuance, $6,000,000 will be deposited into the Capitalized Interest Fund. If on any Monthly Distribution Date, money on deposit in the Collection Fund is insufficient to pay amounts owed to the Department of Education or to a Guaranty Agency (other than to recall claims with respect to or repurchases of Eligible Loans), to pay amounts payable under any applicable Joint Sharing Agreement or to otherwise remove amounts deposited in the Trust Estate which represent amounts that are allocable to Eligible Loans that are not Financed Eligible Loans, or to pay Administration Fees (including the amounts allocated for the payment of Program Fees), Servicing Fees, Trustee Fees and interest on the Notes, then money on deposit in the Capitalized Interest Fund will be transferred to the Collection

Fund to cover the deficiency, prior to any amounts being transferred from the Reserve Fund. Amounts released from the Capitalized Interest Fund will not be replenished. Amounts will be transferred from the Capitalized Interest Fund to the Collection Fund as described under the caption "SECURITY AND SOURCES OF PAYMENT FOR THE NOTES—Capitalized Interest Fund" herein. On the September 2023 Monthly Distribution Date, any amounts remaining in the Capitalized Interest Fund in excess of $4,400,000 shall be transferred by the Trustee to the Collection Fund. On the September 2025 Monthly Distribution Date, any amounts remaining in the Capitalized Interest Fund in excess of $2,400,000 shall be transferred by the Trustee to the Collection Fund. On the September 2027 Monthly Distribution Date, any amounts remaining in the Capitalized Interest Fund shall be transferred by the Trustee to the Collection Fund.

The Reserve Fund. On the Date of Issuance, a deposit will be made to the Reserve Fund in an amount equal to 0.65% of the initial Pool Balance. The Reserve Fund is to be maintained at an amount equal to the greater of (a) 0.65% of the Pool Balance as of the close of business on the last day of the immediately preceding Collection Period; and (b) $201,159; provided that in no event will such balance exceed the Outstanding Amount of the Notes; and provided further, that such Specified Reserve Fund Balance may be reduced upon satisfaction of the Rating Agency Condition (as defined under the caption "GLOSSARY OF TERMS" herein). On each Monthly Distribution Date, to the extent that money in the Collection Fund is not sufficient to pay amounts owed to the Department of Education or to a Guaranty Agency (other than to recall claims with respect to or for repurchases of Eligible Loans), to pay amounts payable under any applicable Joint Sharing Agreement or to otherwise remove amounts deposited in the Trust Estate which represent amounts that are allocable to Eligible Loans that are not Financed Eligible Loans, or to pay Administration Fees (including the amounts allocated for the payment of Program Fees), Servicing Fees, Trustee Fees and the interest then due on the Notes, an amount equal to the deficiency will be transferred from the Reserve Fund to the Collection Fund, if such deficiency has not been paid from the Capitalized Interest Fund. To the extent the amount in the Reserve Fund falls below the Specified Reserve Fund Balance, the Reserve Fund will be replenished on each Monthly Distribution Date from funds available in the Collection Fund as described under the captions "—Flow of Funds" below and "SECURITY AND SOURCES OF PAYMENT FOR THE NOTES—Collection Fund; Flow of Funds" herein. Funds on deposit in the Reserve Fund in excess of the Specified Reserve Fund Balance will be transferred to the Collection Fund upon Issuer Order. Other than such excess amounts, principal payments due on the Notes will be made from the Reserve Fund only (a) on the respective Note Final Maturity Date for the related class of Notes; (b) on any Monthly Distribution Date when the market value of securities and cash in the Reserve Fund and the Collection Fund is sufficient to pay the remaining principal amount of and interest accrued on the Notes; or (c) upon the exercise of the option to prepay the Notes described below.

The Department SAP Rebate Fund. The Trustee will establish a Department SAP Rebate Fund as part of the Trust Estate established under the Indenture. The Higher Education Act requires holders of Eligible Loans first disbursed on or after April 1, 2006 to rebate to the Department of Education interest received from borrowers on such loans that exceeds the applicable special allowance support levels. The Issuer expects that the Department of Education will reduce the special allowance and interest benefit payments payable to the Issuer by the amount of any such rebates owed by the Issuer. However, in certain circumstances the Issuer may owe a payment to the Department of Education or to another trust if amounts were deposited into the Trust Estate that represent amounts that are allocable to Eligible Loans that are not Financed Eligible Loans. If the Issuer believes that it is required to make any such payment, the Issuer will direct the Trustee to deposit into the Department SAP Rebate Fund from the Collection Fund the estimated amounts of any such payments. Money in the Department SAP Rebate Fund will be transferred to the Collection Fund to the extent amounts have been deducted

by the Department of Education from payments otherwise due to the Issuer, or will be paid to the Department of Education or to another trust if necessary to discharge the Issuer's rebate obligation. See "DESCRIPTION OF THE FEDERAL FAMILY EDUCATION LOAN PROGRAM—Special Allowance Payments" in Appendix A hereto.

Characteristics of the Student Loan Portfolio. The Issuer will pledge to the Trustee under the Indenture a portfolio of Eligible Loans originated under the FFELP, having, as of the Statistical Cut-Off Date, an aggregate outstanding principal balance of approximately $201,530,098, which includes $9,664,923 of interest expected to be capitalized upon commencement of repayment. As of the Statistical Cut-Off Date (and based on the aggregate outstanding principal balances of the Financed Eligible Loans as of such date), the weighted average annual interest rate of the Eligible Loans expected to be pledged to the Trustee under the Indenture (excluding Special Allowance Payments and not giving effect to currently utilized borrower benefit programs) was approximately 5.14% and their weighted average remaining term to scheduled maturity was approximately 169 months. The portfolio of Eligible Loans expected to be pledged by the Issuer to the Trustee is described more fully below under the caption "CHARACTERISTICS OF THE FINANCED ELIGIBLE LOANS" herein.

In the event that the principal amount of Eligible Loans required to provide collateral for the Notes varies from the amounts anticipated herein, whether by reason of a change in the collateral requirement necessary to obtain the expected ratings on the Notes (see the caption "—Ratings of the Notes" below), the rate of amortization or prepayment on the portfolio of Eligible Loans from the Statistical Cut-Off Date to the Date of Issuance varying from the rates that were anticipated, or otherwise, the portfolio of Eligible Loans to be pledged to the Trustee under the Indenture may consist of a subset of the pool of Eligible Loans described herein or may include additional Eligible Loans not described under the caption "CHARACTERISTICS OF THE FINANCED ELIGIBLE LOANS" herein.

The Issuer believes that the information set forth in this Offering Memorandum with respect to the Eligible Loans as of the Statistical Cut-Off Date is representative of the characteristics of the Financed Eligible Loans as they will exist on the Date of Issuance of the Notes.

As of the Statistical Cut-Off Date, approximately 4.71% of the Financed Eligible Loans by aggregate outstanding principal balance are "rehabilitation loans," which are Eligible Loans that have previously defaulted, but for which the borrower thereunder has made a specified number of on-time payments as described under "APPENDIX A—DESCRIPTION OF THE FEDERAL FAMILY EDUCATION LOAN PROGRAM—Insurance and Guarantees—*Rehabilitation of Defaulted Loans*" hereto.

Flow of Funds. Administration Fees and Servicing Fees will be paid to the Issuer and the Servicer (initially the Issuer) on each Monthly Distribution Date from money available in the Collection Fund. The amounts of the initial Trustee Fee, Administration Fee and the Servicing Fee payable in clauses Second, Third and Fourth below (including the amounts allocated for the payment of Program Fees) are specified under the caption "FEES AND EXPENSES" herein and are subject to increase upon satisfaction of the Rating Agency Condition. Carryover Servicing Fees in clause eleventh below are initially $0.00 and may only be increased to the extent permitted by the Indenture. The Issuer, as administrator, will be responsible for paying when due any fees or expenses owed to the Backup Servicer, the Rating Agencies and any other Program Fees. In addition, each month money available in the Collection Fund will be used to pay amounts due with respect to the Financed Eligible Loans to the Department of Education and to the Guaranty Agencies (including the State Guaranty Agency), to make any payments required under any applicable Joint Sharing Agreement or to otherwise remove amounts deposited in the Trust Estate which represent amounts that are allocable

to Eligible Loans that are not Financed Eligible Loans, to purchase from the lien of the Indenture Financed Eligible Loans in the limited circumstances described under the caption "SECURITY AND SOURCES OF PAYMENT FOR THE NOTES—Collection Fund; Flow of Funds" herein and to transfer amounts required to be deposited into the Department SAP Rebate Fund. On each Monthly Distribution Date, prior to an Event of Default, money in the Collection Fund will be used to make the following deposits and distributions, to the extent funds are available, as set forth in the following chart:

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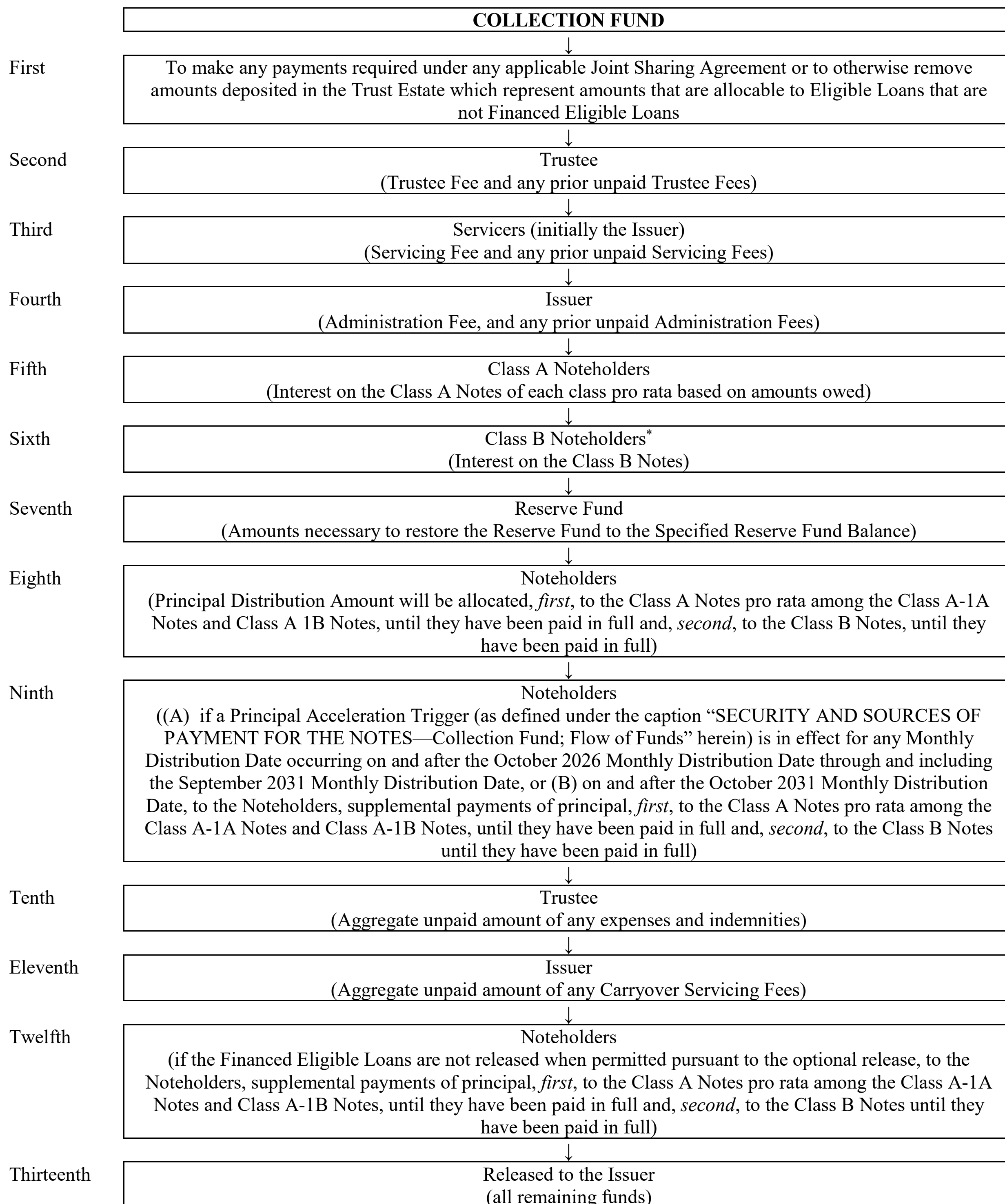

* On and after the Maturity Date of the Class A Notes, the Noteholders of each class of Class A Notes will receive amounts representing payment of the principal balance of each class of Class A Notes after clause Fifth above until each such class is paid in full prior to the Class B Notes receiving payments of any payments of interest pursuant to clause Sixth above.

Payments on Maturity Dates. Notwithstanding the foregoing, on and after the Class A-1A Maturity Date and the Class A-1B Maturity Date, the Class A-1A Noteholders and the Class A-1B Noteholders will receive amounts representing payment of the principal balance of the Class A-1A Notes and the Class A-1B Notes after clause Fifth above until the Class A-1A Notes and Class A-1B Notes have been paid in full and prior to the Class B Noteholders receiving interest payments on their Class B Notes pursuant to clause Sixth above.

Flow of Funds After Events of Default and Acceleration. Following the occurrence of an Event of Default that results in an acceleration of the maturity of the Notes and after the payment of certain fees and expenses, payments of principal and interest on the Notes will be made, ratably, without preference or priority of any kind, first, to the Class A Notes ratably and second, to the Class B Notes, in that order, until the Notes are repaid in full. See the caption "SUMMARY OF THE INDENTURE PROVISIONS—Remedies on Default" herein.

Credit Enhancement

Credit enhancement for the Notes will consist of overcollateralization, excess spread and cash on deposit in the Capitalized Interest Fund and the Reserve Fund and, for the Class A Notes, the subordination of the Class B Notes, as described under the caption "CREDIT ENHANCEMENT" herein.

Servicing and Administration

The Issuer will act as the Servicer for all the Financed Eligible Loans. The Issuer will be responsible for servicing and making collections on the Financed Eligible Loans and will be paid monthly Servicing Fees not to exceed the amounts set forth under the caption "FEES AND EXPENSES" herein.

PHEAA will act as the backup servicer (the "Backup Servicer") and will service the Financed Eligible Loans upon the occurrence of certain events described herein under the caption "SERVICING OF THE FINANCED ELIGIBLE LOANS—Backup Servicer and Backup Servicing Agreement" herein.

The Issuer will act as the administrator of the Trust Estate and will be paid a monthly Administration Fee not to exceed the amount set forth under the caption "FEES AND EXPENSES" herein. The Issuer, as administrator, will be responsible for paying when due any fees or expenses owed to the Backup Servicer, the Rating Agencies and any other Program Fees.

Optional Prepayment of Notes When the Then Outstanding Pool Balance is 10% or Less of Initial Pool Balance

The Issuer shall have the option to direct the release of the Financed Eligible Loans from the lien of the Indenture on the Monthly Distribution Date next succeeding the last day of the Collection Period on which the then outstanding Pool Balance is 10% or less of the initial Pool Balance, and on any Monthly Distribution Date thereafter. If this option is exercised, the Financed Eligible Loans and any other remaining assets of the Trust Estate will be released to the Issuer free from the lien of the Indenture.

For the Issuer to exercise its release option, the Issuer must deposit in the Collection Fund an amount that, when combined with amounts on deposit in the other funds and accounts held under the Indenture (other than the Department SAP Rebate Fund), would be sufficient to:

(a) reduce the Outstanding Amount of the Notes then outstanding on the related Monthly Distribution Date to zero;

(b) pay to the Noteholders the interest payable on the related Monthly Distribution Date; and

(c) pay any Monthly Consolidation Rebate Fees and other amounts payable to the Department of Education, pay amounts payable under any Joint Sharing Agreements or otherwise remove amounts deposited in the Trust Estate which represent amounts that are allocable to Eligible Loans that are not

Financed Eligible Loans, and pay unpaid Administration Fees, Servicing Fees, Trustee Fees and Program Fees.

Book-Entry Registration

The Notes will be delivered in book-entry form through The Depository Trust Company. Purchasers of the Notes will not receive a certificate representing their Notes except in very limited circumstances. See the caption "BOOK-ENTRY REGISTRATION" herein.

U.S. Federal Income Tax Consequences

Kutak Rock LLP will deliver an opinion to the effect that, for U.S. federal income tax purposes and assuming the accuracy of and compliance with certain assumptions, representations and covenants, when issued, the Notes will be characterized as debt if and to the extent beneficially acquired on the Date of Issuance by persons or entities unaffiliated with the Issuer. By accepting its Notes, each Noteholder agrees to treat its Notes as indebtedness for U.S. federal income tax and all applicable state and local income and franchise tax purposes in all tax filings, reports and returns and otherwise, and will not take, or participate in the taking of or permit to be taken, any action that is inconsistent with such tax treatment and tax reporting of the Notes, unless required by applicable law.

Although the Class A-1A Notes and the Class B Notes will be issued with a de minimis discount from par, the Class A-1A Notes, the Class A-1B Notes and the Class B Notes will not be issued with original issue discount ("OID") as defined in Section 1273 of the Internal Revenue Code of 1986, as amended (the "Code"), in each case, based on their initial offering prices to the public. Except as described below with respect to the Class B Notes, the stated interest on the Class A-1A Notes, the Class A-1B Notes and the Class B Notes will be includible in gross income when received or accrued by the Noteholders in accordance with their respective methods of tax accounting and the applicable provisions of the Code. However, the Class B Notes may be treated as issued with OID due to the possibility of interest deferral under the terms of the Class B Notes, and stated interest and the de minimis discount from par at issuance on the Class B Notes would be includible in gross income in accordance with the method under the Code that applies to OID. Absent official guidance on this point, the Issuer does not intend to treat the possibility of interest deferral on the Class B Notes as creating OID, although it may revise such treatment in the future if it should determine a change to be appropriate. See the caption "CERTAIN U.S. FEDERAL INCOME TAX CONSIDERATIONS" herein.

ERISA Considerations

Fiduciaries of employee benefit plans, retirement arrangements and other entities in which such plans or arrangements are invested may choose to invest in the Notes subject to the Code, the Employee Retirement Income Security Act of 1974, as amended, other applicable law, and the considerations and representations addressed under the caption "ERISA CONSIDERATIONS" herein.

Certain Investment Company Act Considerations

The Issuer is not registered or required to be registered as an "investment company" under the Investment Company Act of 1940, as amended (the "Investment Company Act"), pursuant to Section 2(b) of the Investment Company Act. The Issuer does not rely upon the exclusions from the definition of "investment company" set forth in Section 3(c)(1) or Section 3(c)(7) of the Investment Company Act. The Issuer does not constitute a "covered fund" for purposes of Section 619 of the Dodd-Frank Wall Street Reform and Consumer Protection Act, Pub. L. No. 111-203, 124 Stat. 1376 (2010), also known as the Volcker Rule (the "Volcker Rule"). Since the Issuer has not registered, and does not intend to register, as an investment company under the Investment Company Act, Noteholders will not be afforded protections of the provisions of the Investment Company Act designed to protect investment company investors.

Ratings of the Notes

It is a condition to the Underwriter's obligation to purchase the Notes that the Notes are rated at least as follows:

Class A Notes:

DBRS: "AAA (sf)"
S&P: "AA+(sf)"

Class B Notes:

DBRS: "A (sf)"
S&P: "AA(sf)"

A securities rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the assigning Rating Agency. See the caption "RATINGS" herein.

See the caption "RISK FACTORS—The ratings of the Notes are not a recommendation to purchase and may change" herein.

CUSIP Numbers†

Class A-1A Notes: 606072 LJ3
Class A-1B Notes: 606072 LK0
Class B Notes: 606072 LL8

International Securities Identification Numbers ("ISIN")

Class A-1A Notes: US606072LJ37
Class A-1B Notes: US606072LK00
Class B Notes: US606072LL82

†CUSIP is a registered trademark of the American Bankers Association. CUSIP and ISIN data herein is provided by Standard & Poor's CUSIP Global Services. The CUSIP and ISIN numbers listed above are being provided solely for the convenience of Noteholders only at the time of issuance of the Notes and the Issuer does not make any representation with respect to such numbers or undertake any responsibility for their accuracy now or at any time in the future.

RISK FACTORS

Potential investors in the Notes should consider the following risk factors together with all other information in this Offering Memorandum in deciding whether to purchase the Notes. The following discussion of possible risks is not meant to be an exhaustive list of the risks associated with the purchase of the Notes and does not necessarily reflect the relative importance of the various risks. The order in which these considerations are presented is not intended to represent the magnitude of the risks discussed. Additional risk factors relating to an investment in the Notes are described throughout this Offering Memorandum, whether or not specifically designated as risk factors. There can be no assurance that other risk factors will not become material in the future.

Although the various risks discussed in this Offering Memorandum are generally described separately, prospective investors in the Notes should consider the potential effects of the interplay of multiple risk factors. Where more than one significant risk factor is present, the risk of loss to an investor may be significantly increased.

Purchasers may have difficulty selling their Notes

There currently is no secondary market for the Notes. There is no assurance that any market will develop or, if it does develop, that it will continue or will provide investors with a sufficient level of liquidity for their investment. If a secondary market for the Notes does develop, the spread between the bid price and the asked price for the Notes may widen, thereby reducing the net proceeds to investors from the sale of their Notes. The Issuer does not intend to list the Notes on any exchange. From time to time, any existing secondary market for the Notes may be adversely affected by periods of general market illiquidity or by events in the global financial markets in general or in the securitization market in particular. Accordingly, investors may not be able to sell their Notes when they want to do so (and may be required to bear the financial risks of an investment in the Notes for an indefinite period of time) or they may not be able to obtain the price that they wish to receive for their Notes and, as a result, they may suffer a loss on their investment. The market values of the Notes may fluctuate and movements in price may be significant.

Additionally, recent events in the United States and the global financial markets as the result of the coronavirus pandemic may cause a reduction of liquidity in any existing secondary market for the Notes.

The Notes are not a suitable investment for all investors

The Notes are not a suitable investment if an investor requires a regular or predictable schedule of payments of interest or principal on any specific date. The Notes are complex investments that should be considered only by investors who, either alone or with their financial, tax and legal advisors, have the expertise to analyze the prepayment, reinvestment, default and market risk, the tax consequences of an investment, and the interaction of these factors.

Purchasers of the Notes may be unable to reinvest principal payments at the yield earned on the Notes

Asset-backed securities usually produce increased principal payments to investors when market interest rates fall below the interest rates on the collateral—the Financed Eligible Loans in this case—and decreased principal payments when market interest rates rise above the interest rates on the collateral. As a result, Noteholders may receive more money to reinvest at a time when other investments generally are

producing lower yields than the yield on the Notes. Similarly, Noteholders may receive less money to reinvest when other investments generally are producing higher yields than the yield on the Notes.

The Notes are payable solely from the Trust Estate and investors will have no other recourse against the Issuer or the State of Missouri

Interest and principal on the Notes will be paid solely from the funds and assets held in the discrete Trust Estate created under the Indenture. There will be no subsequent acquisitions of or recycling of Eligible Loans into the Trust Estate after the Date of Issuance. There may, however, be recall claims with respect to or for any repurchase of Eligible Loans that were previously Financed from a Guaranty Agency or a Servicer as described under the caption "SECURITY AND SOURCES OF PAYMENT FOR THE NOTES—Collection Fund; Flow of Funds" herein.

No insurance or guarantee of the Notes will be provided by any government agency or instrumentality, including the State of Missouri, by any insurance company or by any other person or entity. Therefore, an investor's receipt of payments on the Notes will depend solely on:

(a) the amount and timing of payments and collections on the Financed Eligible Loans and interest paid or earnings on the amounts held in the funds and accounts established pursuant to the Indenture; and

(b) amounts on deposit in the Collection Fund, the Capitalized Interest Fund, the Reserve Fund and certain other funds and accounts held in the Trust Estate.

Investors will have no recourse against any party if the Trust Estate created under the Indenture is insufficient for repayment of the Notes.

There will be no market valuation of the Financed Eligible Loans

The Financed Eligible Loans are all currently owned by the Issuer and are not being acquired pursuant to a bidding process, and the value of the Financed Eligible Loans is based on the amount necessary to release such Financed Eligible Loans from the lien of the Warehouse Agreement and is not based upon their fair market value as determined by any independent advisor.

State not liable with respect to the Notes

The Notes shall not be deemed to constitute a debt or liability or obligation of the State of Missouri or of any agency or political subdivision of the State of Missouri, nor shall the Notes and the obligations of the Issuer contained in the Indenture be deemed to constitute a pledge of the full faith and credit of the State of Missouri or of any agency or political subdivision of the State of Missouri. The Notes shall not directly, indirectly or contingently, obligate the State of Missouri or any agency or political subdivision thereof to levy any form of taxation therefor or to make any appropriation for their payment. The Notes are special, limited obligations of the Issuer and are secured by and payable solely from the trust estate pledged as security therefor as provided in the Indenture. No other assets of the Issuer are pledged to the payment of the Notes. The State of Missouri shall not be liable in any event for the payment of the principal of or interest on the Notes or for the performance of any pledge, mortgage, obligation, or agreement of any kind whatsoever which may be undertaken by the Issuer. No breach of any such pledge, mortgage, obligation,

or agreement may impose any pecuniary liability upon the State of Missouri or any charge upon the general credit or taxing power of the State of Missouri.

The Notes are not insured or guaranteed by any other government agency or instrumentality, by any insurance company or by any other person or entity. The Authorizing Act does not in any way create a so-called moral obligation of the Issuer, the State or of any political subdivision thereof to pay debt service in the event of a default. The Issuer does not have taxing power.

The ratings of the Notes are not a recommendation to purchase and may change

It is a condition to the Underwriter's obligation to purchase the Notes that DBRS assign a rating of at least "AAA (sf)" to the Class A Notes and "A (sf)" to the Class B Notes. It is a condition to the Underwriter's obligation to purchase the Notes that S&P assign a rating of at least "AA+(sf)" to the Class A Notes and "AA(sf)" to the Class B Notes. The S&P rating for the Class A Notes and the Class B Notes is a result of S&P's August 5, 2011 action lowering the long-term sovereign debt rating of the United States to "AA+" from "AAA." S&P has identified the Notes as being of a type that are impacted by the United States' credit rating due to the Notes being secured by Financed Eligible Loans originated under the FFEL Program. There can be no assurance that the ratings of the Notes will not be downgraded or placed on negative watch by DBRS or S&P or any other Rating Agency in the future.

Ratings are based primarily on the creditworthiness of the underlying Financed Eligible Loans, the amount of credit enhancement and the legal structure of the transaction. The ratings are not a recommendation to any investor to purchase, hold or sell the Notes inasmuch as the ratings do not comment as to the market price or suitability for any investor. The assignment of a credit rating to a class of Notes should not be interpreted to mean that there is no risk, or a reduced risk, of loss on that class. Further, no credit rating should be interpreted to be an indication of the expected return on a class of Notes. Ratings may be increased, lowered or withdrawn by any Rating Agency at any time if in the Rating Agency's judgment circumstances so warrant. A downgrade in the rating of the Notes is likely to decrease the price a subsequent purchaser will be willing to pay for an investor's Notes.

Certain actions affecting the Financed Eligible Loans and the Trust Estate, including actions relating to the servicing of the Financed Eligible Loans and the administration of the Trust Estate, including changes in the fees for such Servicing Fees and Administration Fees (including the amounts allocated for the payment of Program Fees), may be taken by the Issuer or the Trustee (at the written direction of the Issuer) upon satisfaction of a Rating Agency Condition.

Under the Indenture, a "Rating Agency Condition" is defined as a requirement, with respect to any proposed action, failure to act or other event expressly conditioned thereon in the Indenture that, prior to the effectuation thereof: (a) the Issuer shall have provided prior written notice to each Rating Agency at least 30 calendar days prior to such proposed action, failure to act, or other event specified therein; and (b) the Issuer shall have delivered an Issuer Order to the Trustee dated no less than 30 calendar days subsequent to the date of such written notice stating that, as of the date of such Issuer Order, the Issuer reasonably believes that completion of such proposed action, failure to act or other event will not result in a downgrade to any Rating then assigned to any of the Notes by any Rating Agency or cause such Rating Agency to suspend, withdraw or qualify any such Rating (other than a Rating that is then applicable only to Notes that will no longer be outstanding upon such completion).

There is the potential for conflicts of interest and regulatory scrutiny with respect to the Rating Agencies rating the Notes

The Issuer will pay fees to the Rating Agencies to assign the initial credit ratings to the Notes on or before the Date of Issuance and to maintain the ratings on the Notes. The SEC has said that being paid by an issuer to issue and/or maintain a credit rating on asset-backed securities creates a conflict of interest for a rating agency, and that this conflict is particularly acute because arrangers of asset-backed securities transactions provide repeat business to such a rating agency. This conflict of interest may affect the ratings that the Rating Agencies hired by the Issuer assign to the Notes and other functions that the Rating Agencies perform relating to the Notes.

Furthermore, the Rating Agencies have been and may continue to be under scrutiny by federal and state legislative and regulatory bodies and such scrutiny and any actions such legislative and regulatory bodies may take as a result thereof may also have an adverse effect on the price that a subsequent purchaser would be willing to pay for the Notes and an investor's ability to resell its Notes.

Subordination of the Class B Notes may result in a greater risk of loss for holders of Class B Notes

Payments of interest on the Class B Notes are subordinated in priority of payment to payments of interest on the Class A Notes. Similarly, payments of principal on the Class B Notes are subordinated to payments of interest and principal on the Class A Notes. Principal on the Class B Notes will not be paid until the Class A Notes have been paid in full. Thus, investors in the Class B Notes will bear a greater risk of loss than the holders of Class A Notes. Investors in the Class B Notes will also bear the risk of any adverse changes in the anticipated yield and weighted average life of their Class B Notes resulting from any variability in payments of principal or interest on the Class B Notes.

The Class B Notes are subordinated to the Class A Notes as to the direction of remedies upon an Event of Default. In addition, as long as any of the Class A Notes are outstanding, the failure to pay interest or principal on the Class B Notes will not constitute an Event of Default under the Indenture. Consequently, holders of the Class B Notes may bear a greater risk of losses or delays in payment than holders of Class A Notes.

Holders of the Notes may be required to accrue original issue discount as income for tax purposes before they receive cash attributable to such original issue discount

Although the Class A-1A Notes and the Class B Notes will be issued with a de minimis discount from par, the Class A-1A Notes, the Class A-1B Notes and the Class B Notes will not be issued with OID for U.S. federal income tax purposes, in each case, based on their initial offering prices to the public. However, the Class B Notes may be treated as issued with OID for U.S. federal income tax purposes due to the possibility of interest deferral under the terms of the Class B Notes, and stated interest and the de minimis discount from par at issuance on the Class B Notes would be includible in gross income in accordance with the method under the Code that applies to OID. However, absent official guidance on this point, the Issuer does not intend to treat the possibility of interest deferral on the Class B Notes as creating OID, although it may revise such treatment in the future if it should determine a change to be appropriate. If the Class B Notes were to be treated as issued with OID, a pro rata portion of OID would be allocable to each day in any "accrual period" using a constant yield method under the Code that takes into account both

the prepayment assumption used in pricing the Class B Notes and the actual prepayment experience. As a result, the amount of OID on the Class B Notes that would accrue in any given accrual period may either increase or decrease depending upon the actual prepayment rate and may increase due to any compounding of interest on the Class B Notes. No representation is made as to the actual rate at which the Financed Eligible Loans will prepay or that the Notes will prepay in accordance with any prepayment assumption. Such accrual of any OID could result in a holder of the Class B Notes being required to include OID in gross income in advance of the receipt of cash attributable to such income regardless of such holder's method of accounting. Also, if losses on the Financed Eligible Loans exceed available credit support, some or all of this cash may not be received. See the caption "TAX MATTERS—Taxation of Interest Income and Original Issue Discount" herein.

EU and UK Securitization Regulations may affect the liquidity of the Notes

If prospective investors' investment activities are subject to investment laws and regulations, regulatory capital requirements or review by regulatory authorities in the European Union ("EU") or the United Kingdom ("UK"), prospective investors may be subject to due diligence and monitoring requirements with respect to their investment in the Notes. Prospective investors should consult legal, tax and accounting advisers for assistance in determining the suitability of and consequences of the purchase, ownership and sale of the Notes.

Regulation (EU) 2017/2402 of the European Parliament and of the Council of 12 December 2017 (the "EU Securitization Regulation") has direct effect in member states of the EU and will be applicable in any non-EU states of the European Economic Area (the "EEA") in which it has been implemented.

Investors should independently assess and determine whether they are subject to the investor due diligence and monitoring requirements (the "EU Due Diligence Requirements") of Article 5 of the EU Securitization Regulation, which apply to "institutional investors," which are defined under the EU Securitization Regulation to include (a) a credit institution or an investment firm as defined in and for purposes of Regulation (EU) No 575/2013, as amended, known as the Capital Requirements Regulation (the "EU CRR"), (b) an insurance undertaking or a reinsurance undertaking as defined in Directive 2009/138/EC, as amended, known as Solvency II, (c) an alternative investment fund manager as defined in Directive 2011/61/EU that manages and/or markets alternative investment funds in the EU, (d) an undertaking for collective investment in transferable securities ("UCITS") management company, as defined in Directive 2009/65/EC, as amended, known as the UCITS Directive, or an internally managed UCITS, which is an investment company that is authorized in accordance with that Directive and has not designated such a management company for its management, and (e) with certain exceptions, an institution for occupational retirement provision falling within the scope of Directive (EU) 2016/2341, or an investment manager or an authorized entity appointed by such an institution for occupational retirement provision as provided in that Directive. Pursuant to Article 14 of the EU CRR, the EU Due Diligence Requirements also apply to investments by certain consolidated affiliates, wherever established or located, of institutions regulated under the EU CRR (such affiliates, together with all such institutional investors, "EU Affected Investors").

No party to the transaction described in this Offering Memorandum or any of their respective affiliates is required, or undertakes, to retain a material net economic interest in the securitization transaction described in this Offering Memorandum in accordance with the EU Securitization Regulation, or makes any representation or agreement that it or any other party is undertaking or will undertake to take or refrain from taking any other action to facilitate or enable the compliance by EU Affected Investors with the EU Due Diligence Requirements, or to comply with the requirements of any other law or regulation now or hereafter in effect in the EU or the EEA, in relation to risk retention, due diligence and monitoring, credit granting standards or any other conditions with respect to investments in securitization transactions

by EU Affected Investors. The transaction described in this Offering Memorandum is structured in a way that may not allow EU Affected Investors to comply with the EU Due Diligence Requirements.

Failure by an EU Affected Investor to comply with the EU Due Diligence Requirements with respect to an investment in the Notes described in this Offering Memorandum may result in the imposition of a penalty regulatory capital charge on such investment or of other regulatory sanctions by the competent authority of such EU Affected Investor.

With respect to the UK, relevant UK established or UK regulated persons (as described below) are subject to the restrictions and obligations of Regulation (EU) 2017/2402 as it forms part of UK domestic law by operation of the European Union (Withdrawal) Act 2018, as amended (the "EUWA"), and as amended by the Securitisation (Amendment) (EU Exit) Regulations 2019 (and as it may be further amended, supplemented or replaced, from time to time) (the "UK Securitization Regulation", and together with the EU Securitization Regulation, the "Securitization Regulations").

Article 5 of the UK Securitization Regulation places certain conditions on investments in a "securitisation" (as defined in the UK Securitization Regulation) (the "UK Due Diligence Requirements", and together with the EU Due Diligence Requirements, the "Due Diligence Requirements") by an "institutional investor", defined by the UK Securitization Regulation to include (a) an insurance undertaking as defined in section 417(1) of the Financial Services and Markets Act 2000, as amended ("FSMA"); (b) a reinsurance undertaking as defined in section 417(1) of the FSMA; (c) an occupational pension scheme as defined in section 1(1) of the Pension Schemes Act 1993 that has its main administration in the UK, or a fund manager of such a scheme appointed under section 34(2) of the Pensions Act 1995 that, in respect of activity undertaken pursuant to that appointment, is authorised for the purposes of section 31 of the FSMA; (d) an AIFM as defined in regulation 4(1) of the Alternative Investment Fund Managers Regulation 2013 which markets or manages AIFs (as defined in regulation 3 of those Regulations) in the UK; (e) a management company as defined in section 237(2) of the FSMA; (f) a UCITS as defined by section 236A of the FSMA, which is an authorized open ended investment company as defined in section 237(3) of the FSMA; and (g) a CRR firm as defined by Article 4(1)(2A) of Regulation (EU) No 575/2013, as it forms part of UK domestic law by virtue of the EUWA. The UK Due Diligence Requirements may also apply to investments by certain consolidated affiliates, wherever established or located, of such CRR firms (such affiliates, together with all such institutional investors, "UK Affected Investors", and together with EU Affected Investors, "Affected Investors").

No party to the transaction described in this Offering Memorandum or any of their respective affiliates is required, or undertakes, to retain a material net economic interest in the securitization transaction described in this Offering Memorandum in accordance with the UK Securitization Regulation, or makes any representation or agreement that it or any other party is undertaking or will undertake to take or refrain from taking any other action to facilitate or enable the compliance by UK Affected Investors with the UK Due Diligence Requirements, or to comply with the requirements of any other law or regulation now or hereafter in effect in the UK, in relation to risk retention, due diligence and monitoring, credit granting standards or any other conditions with respect to investments in securitization transactions by UK Affected Investors. The transaction described in this Offering Memorandum is structured in a way that may not allow UK Affected Investors to comply with the UK Due Diligence Requirements.

Failure by a UK Affected Investor to comply with the UK Due Diligence Requirements with respect to an investment in the Notes may result in the imposition of a penalty regulatory capital charge on that investment or of other regulatory sanctions by the competent authority of such UK Affected Investor.

Prospective investors should analyze their own regulatory position and are encouraged to consult with their own investment and legal advisors regarding compliance with the Securitization Regulations and

the suitability of the Notes for investment. None of the Issuer, the Servicer, the Backup Servicer, the Underwriter, the Trustee nor any other party to the transaction makes any representation to any prospective investor or purchaser of the Notes regarding the regulatory capital treatment of their investment in the Notes on the Date of Issuance or at any time in the future. Failure by a UK Affected Investor to comply with the UK Due Diligence Requirements with respect to an investment in the Notes may result in the imposition of a penalty regulatory capital charge on that investment or of other regulatory sanctions by the competent authority of such UK Affected Investor.

Funds available in the Reserve Fund and Capitalized Interest Fund are limited and, if depleted, there may be shortfalls in payments to Noteholders

The Reserve Fund and the Capitalized Interest Fund will each be funded on the Date of Issuance. Amounts on deposit in the Reserve Fund will be replenished to the extent of available funds in the Collection Fund so that the amount on deposit in the Reserve Fund will be maintained at the Specified Reserve Fund Balance. The Capitalized Interest Fund will not be replenished and will be available only for a limited period of time. Funds may be transferred out of the Reserve Fund and the Capitalized Interest Fund from time to time as described under the caption "SECURITY AND SOURCES OF PAYMENT FOR THE NOTES" herein. In the event that the funds on deposit in the Capitalized Interest Fund and the Reserve Fund are exhausted and there are insufficient available funds in the Collection Fund, the Noteholders will bear any risk of loss.

The target overcollateralization level may not be reached or maintained

The Specified Overcollateralization Amount is intended to protect the Noteholders from losses on the Financed Eligible Loans in excess of those anticipated. No assurances can be provided as to whether or when the target overcollateralization level will be met or, if such level is met, whether such level will be maintained.

Certain amendments to the Indenture and other actions may be taken without the consent of Noteholders, upon satisfaction of a Rating Agency Condition or by less than all of the Noteholders

The Indenture permits the Issuer and the Trustee (at the written direction of the Issuer) to take certain actions based upon satisfaction of a Rating Agency Condition, without the consent of the Noteholders. These include, without limitation, increases in certain fees, reduction of the Specified Reserve Fund Balance, addition of permitted investments and a change in a Servicer. In addition, subject to the limitations described under the caption "SUMMARY OF THE INDENTURE PROVISIONS—Supplemental Indentures—Supplemental Indentures Requiring Consent of Noteholders," changes may be made to the Indenture or other actions taken without the consent of the Noteholders and without satisfaction of a Rating Agency Condition. See the caption "SUMMARY OF THE INDENTURE PROVISIONS—Supplemental Indentures—Supplemental Indentures Not Requiring Consent of Noteholders" herein.

Under the Indenture, Noteholders of specified percentages of the Outstanding Amount of the Notes may amend or supplement or waive provisions of the Indenture without the consent of the other Noteholders, including, but not limited to, the ability to redeem the Notes at a price of par or greater with the consent of the Noteholders of a majority of the Outstanding Amount of the Notes. Investors have no

recourse if the required percentage of Noteholders vote and other investors disagree with the vote on these matters. The Noteholders may vote in a manner which impairs the ability to pay principal and interest on the Notes.

Rights to waive defaults may adversely affect Noteholders

Generally, the Noteholders of at least a majority of the outstanding principal amount of the Notes of the highest priority (initially the Class A Notes and thereafter the Class B Notes) (the "Highest Priority Notes") have the ability, with specified exceptions, to waive certain defaults under the Indenture, including defaults that could materially and adversely affect the Noteholders who did not vote to waive such default.

The rate of payments on the Financed Eligible Loans may affect the maturity and yield of the Notes

Financed Eligible Loans may be prepaid at any time without penalty. If the Issuer receives prepayments on the Financed Eligible Loans, those amounts will be used to make principal payments as described below under the caption "SECURITY AND SOURCES OF PAYMENT FOR THE NOTES—Collection Fund; Flow of Funds" herein, which could shorten the average life of the Notes. Factors affecting prepayment of loans include general economic conditions, legislative, executive orders and administrative initiatives, prevailing interest rates and changes in the borrower's job, including transfers and unemployment. Refinancing opportunities that may provide more favorable repayment terms, including those that may be offered under potential government initiatives to consolidate or otherwise refinance existing FFELP Loans to the Federal Direct Loan Program (the "Direct Loan Program"), also affect prepayment rates. For example, legislation has been proposed periodically that would allow eligible student loan borrowers with FFELP Loans or private loans to refinance those student loans at lower interest rates currently offered to new borrowers, with refinanced FFELP Loans to be fully paid and reissued as loans under the Direct Loan Program, and with borrower eligibility requirements to be established by the Department of Education based on income or debt-to-income financial need metrics. Also, the President of the United States has indicated his support for legislation or a potential executive order providing for the cancellation or prepayment of up to $50,000 per student in student debt. In addition, defaults on Financed Eligible Loans owned by the Issuer and pledged under the Indenture result in guarantee payments being made on such Financed Eligible Loans, which will accelerate the prepayment of the Notes.

Scheduled payments with respect to the Financed Eligible Loans may be reduced and the maturities of Financed Eligible Loans may be extended as authorized by the Higher Education Act. Also, periods of deferment and forbearance may lengthen the remaining term of the Financed Eligible Loans and the average life of the Notes.

The rate of principal payments to investors on the Notes will be directly related to the rate of payments of principal on the Financed Eligible Loans. Changes in the rate of prepayments may significantly affect investors' actual yield to maturity, even if the average rate of principal prepayments is consistent with investors' expectations. In general, the earlier a prepayment of principal of a loan, the greater the effect may be on an investor's yield to maturity. The effect on an investor's yield as a result of principal payments occurring at a rate higher or lower than the rate anticipated by an investor during the period immediately following the issuance of the Notes may not be offset by a subsequent like reduction, or increase, in the rate of principal payments on the Notes. Investors will bear entirely any reinvestment risks resulting from a faster or slower incidence of prepayment of the Financed Eligible Loans.

As of the Statistical Cut-Off Date, $9,496,737 of the principal amount of the Financed Eligible Loans (representing approximately 4.71% of the Financed Eligible Loans by principal amount) are "rehabilitation loans," which are Eligible Loans that have previously defaulted, but for which the borrower thereunder has made a specified number of on-time payments as described in "APPENDIX A—DESCRIPTION OF THE FEDERAL FAMILY EDUCATION LOAN PROGRAM—Insurance and Guarantees—*Rehabilitation of Defaulted Loans*" hereto. Although rehabilitation loans benefit from the same guarantees as other FFELP student loans, rehabilitation loans have generally experienced re-default rates that are higher than default rates for FFELP student loans that have not previously defaulted.

Different rates of change in interest rate indexes may affect Trust Estate cash flow

The interest rates on the Class A-1B Notes and Class B Notes may fluctuate from one Interest Accrual Period to another in response to changes in the specified index rates. The Eligible Loans that will be refinanced with the proceeds from the sale of the Notes bear interest either at fixed rates or at rates which are generally based upon the bond equivalent yield of the 91-day U.S. Treasury Bill rate. In addition, the Financed Eligible Loans may be entitled to receive Special Allowance Payments from the Department of Education based upon a one-month LIBOR rate or the 91-day U.S. Treasury Bill rate. See the caption "CHARACTERISTICS OF THE FINANCED ELIGIBLE LOANS" herein and "DESCRIPTION OF THE FEDERAL FAMILY EDUCATION LOAN PROGRAM" in Appendix A hereto. If there is a decline in the rates payable on Financed Eligible Loans, the amount of funds representing interest deposited into the Collection Fund may be reduced. If the interest rate payable on the Class A-1B Notes and Class B Notes does not decline in a similar manner and time, the Issuer may not have sufficient funds to pay interest on the Notes when due. Even if there is a similar reduction in the rate applicable to the Class A-1B Notes and Class B Notes, there may not necessarily be a reduction in the other amounts required to be paid by the Issuer, such as certain expenses, causing interest payments to be deferred to future periods. Similarly, if there is a rapid increase in the interest rate payable on the Class A-1B Notes and Class B Notes without a corresponding increase in rates payable on the Financed Eligible Loans, the Issuer may not have sufficient funds to pay interest on the Notes when due. Sufficient funds may not be available in future periods to make up for any shortfalls in the current payments of interest on the Notes or expenses of the Trust Estate created under the Indenture. In addition, if One-Month LIBOR is no longer available, the interest rate on the Class A-1B Notes and Class B Notes will bear interest based upon a replacement index as described under the caption "—LIBOR is being discontinued as a floating rate benchmark, and various aspects of the discontinuation are uncertain and will affect the financial markets and may also affect the Financed Eligible Loans and the Class A-1B Notes and the Class B Notes" below and the caption "DESCRIPTION OF THE NOTES—Benchmark Transition Event" herein. The Department of Education has not indicated what index it will use to calculate Special Allowance Payments presently based upon one-month LIBOR if one-month LIBOR is no longer available, and any such replacement index may differ from the index used to calculate interest on the Class A-1B Notes and the Class B Notes. A bill was recently introduced in the House of Representatives (the "Sherman Bill") that, at one point in its drafting, would have changed the index used to calculate Special Allowance Payments from One-Month LIBOR to a replacement benchmark rate established by the Board of Governors of the Federal Reserve System. This language related to Special Allowance Payments has been removed from the current version of the Sherman Bill, but if reinserted during the committee process could tie Special Allowance Payment to a replacement benchmark rate based upon SOFR that could take effect no later than June 30, 2023, unless the Board of Governors of the Federal Reserve System determines that any LIBOR tenor will cease to be published or ceases to be representative on a different date. No assurance can be given that the proposed Sherman Bill will be adopted or, if adopted, will be adopted in its current form or in a form containing a provision relating to a change in the calculation of Special Allowance Payments. If the Department of Education uses an alternative index to one-month LIBOR other than the Benchmark Replacement selected by the Issuer as described above to calculate Special Allowance Payments, the Issuer and the Trustee (at the written direction of the Issuer) may enter

into a LIBOR Related Amendment to change the index used to calculate the interest rate on the Class A-1B Notes and the Class B Notes to the applicable alternative index to one-month LIBOR selected by the Department of Education plus or minus a comparable spread and any associated changes that are reasonably necessary in the opinion of the Issuer to adopt or to implement such rate change, which shall become effective upon either (i) obtaining the consent of the Noteholders of not less than a majority of the Outstanding Amount of the Class A-1B Notes and the Class B Notes and satisfaction of the Rating Agency Condition, or (ii) obtaining the consent of the Noteholders of not less than a majority of the Outstanding Amount of each class of the Notes.

For Eligible Loans disbursed prior to April 1, 2006, lenders are entitled to retain interest income in excess of the special allowance support level in instances when the Eligible Loan interest rate exceeds the special allowance support level. However, owners of the Eligible Loans are not allowed to retain interest income in excess of the special allowance support level on loans disbursed on or after April 1, 2006 and are required to rebate any such "excess interest" to the federal government on a quarterly basis. This modification effectively limits such owners' returns on those loans to the special allowance support level and could require a lender to rebate excess interest accrued but not yet received. For fixed rate loans, the excess interest owed to the federal government will be greater when one-month LIBOR rate is relatively low, causing the special allowance support level to fall below the student loan rate. There can be no assurance that such factors or other types of factors will not occur or that, if they occur, such occurrence will not materially adversely affect the sufficiency of the Trust Estate established under the Indenture to pay the principal of and interest on the Notes, as and when due.

The timing of changes in the interest rates payable on the Class A-1B Notes and Class B Notes as compared to the Financed Eligible Loans may affect cash flow to the Trust Estate

The interest rates payable on most of the Eligible Loans held in the Trust Estate are fixed rates, with Special Allowance Payments that reset on a daily basis, while the interest rates payable on the Class A-1B Notes and Class B Notes reset on a monthly basis. In a declining interest rate environment, the differences in the timing of the interest rate resets may lead to a compression of the spread between the amount of Eligible Loan interest the Trust Estate receives, and the amount of interest paid on the Notes. In a rising interest rate environment, the spread may increase. If the spread between the amount of Eligible Loan interest received by the Trust Estate and the amount of interest paid on the Notes compresses, there may not be sufficient funds available in future periods to pay the expenses of the Trust Estate and interest and principal on the Notes.

Social and economic factors may adversely affect repayment of the Financed Eligible Loans

Collections on the Financed Eligible Loans during a Collection Period may vary greatly in both timing and amount from the payments actually due on the Financed Eligible Loans for that Collection Period due to a variety of economic, social and other factors. Economic factors include interest rates, unemployment levels, housing price declines, commodity prices, adjustments in the borrower's payment obligations under other indebtedness incurred by the borrower, the rate of inflation and consumer perceptions of economic conditions generally. Social factors include changes in consumer confidence levels and changing attitudes in respect of incurring debt and changing attitudes regarding the stigma of personal bankruptcy. Economic conditions may also be impacted by global or localized economic or political conditions, weather events, environmental disasters, national or localized outbreaks of a highly contagious or epidemic disease or pandemics and any related quarantines and terrorist events or wars or a

deterioration or improvement in economic conditions in one of the markets where borrowers of the Financed Eligible Loans are concentrated. The Issuer is unable to determine and has no basis to predict to what extent social or economic factors will affect the Financed Eligible Loans.

Following the financial crisis that began in 2008, the United States experienced an extended period of economic weakness or recession. This period was marked by high unemployment, substantial decreases in home value, increased mortgage and consumer loan delinquencies, decreased availability of consumer credit, increased volatility in financial markets, general deleveraging of consumer balance sheets, and defaults and losses on consumer loans and receivables, including personal loans similar to the Financed Eligible Loans. The United States began to experience a recession as a result of the COVID-19 pandemic and a significant increase to the unemployment rate as described under "—Deterioration of general economic conditions and turmoil in the credit markets as a result of COVID 19 Pandemic" below. The number of delinquencies and defaults on consumer receivables is significantly influenced by the employment status of borrowers. There can be no assurance that high levels of unemployment or underemployment will not recur, or that other factors relating to the uncertain economic climate will not result in increased delinquencies and defaults with respect to consumer receivables in the future. Such adverse economic conditions may also materially impair the ability of the Issuer, the Servicer, the Backup Servicer or the Trustee to meet their respective obligations under the transaction documents. The occurrence of any increased delinquencies or defaults with respect to the Financed Eligible Loans or material impairment of the ability of the above referenced parties to meet their respective obligations under the transaction documents could affect the timing and amount of Available Funds for any Collection Period and the payment of principal of and interest on the Notes.

Failures by borrowers to pay the principal of and interest on their Financed Eligible Loans on schedule or an increase in deferments or forbearances could affect the timing and amount of Available Funds for any Collection Period and the payment of principal of and interest on the Notes. The effect of these factors, including the effect on the timing and amounts of Available Funds for any Collection Period and the payment of principal of and interest on the Notes, is difficult to predict.

Deterioration of general economic conditions and turmoil in the credit markets as a result of COVID-19 Pandemic

Beginning at the end of March 2020, financial markets began to experience significant volatility as a result of the outbreak of COVID-19, and the United States economy and various other world economies experienced a sudden downturn. The COVID-19 Pandemic has adversely impacted local, state and national economic conditions and has resulted in substantial employment disruption in the United States and record unemployment claims. Additionally, several eviction moratoriums have been put into place by the U.S. Centers for Disease Control and Prevention since the beginning of the COVID-19 Pandemic which may result in widespread eviction actions once they fully expire. The long-term impact of a continuation of these developments, while currently unknown, could result in an increase in delays by borrowers in paying Financed Eligible Loans, thus causing increased default claims to be paid by a Guaranty Agency (including the State Guaranty Agency). It is impossible to predict the status of the economy or unemployment levels or at what point a downturn in the economy would significantly reduce Issuer revenues or a Guaranty Agency's (including the State Guaranty Agency's) ability to pay default claims. The COVID-19 Pandemic and the economic downturn might also affect the ability of the transaction parties to perform their duties and obligations under the transaction documents, which could adversely affect the market value of the Notes or limit the ability of an investor to resell its Notes.

General economic conditions may also be affected by other events including the prospect of increased hostilities abroad. Certain of such events may have other effects, the impact of which is difficult to project.

Impact of turmoil in the credit markets on the business of the Issuer

There have been changes in the national credit markets since the fall of 2007 and more recently since March 2020 that have dramatically changed the way that the Issuer does business. Since the Issuer's creation pursuant to the Authorizing Act in 1981, the Issuer regularly financed its student loan purchases on a long-term basis through the issuance of revenue bonds or notes secured by the student loans it had originated or purchased with the proceeds of such bonds or notes. Due to the turmoil in the credit markets, the cost of asset-backed financings has increased. Some of the issues that have made asset-backed borrowings more difficult include: the recession that began in March 2020 as the result of the COVID-19 Pandemic, the collapse of the auction rate securities market; the downgrade of national bond insurers; the investigations and related matters as to the manipulation of LIBOR; limited availability of credit support and liquidity in the market; the requirement by those credit and liquidity providers that are in the market of higher amounts of equity and higher fees payable to such credit and liquidity providers; the establishment by the credit rating agencies of significantly more rigorous cash flow assumptions and requirements; and the downgrading of the long-term sovereign credit rating on the obligations of the United States by S&P. In addition to the turmoil in the credit markets, the changes in the FFEL Program imposed by the Health Care and Education Reconciliation Act of 2010 (as discussed herein) have adversely impacted the profitability of financing FFELP Loans. In addition, the elimination of the FFEL Program described below has impacted the Issuer's business.

Cashflows to the Trust Estate may be affected by natural disasters or pandemics

Student loan borrowers in regions affected by natural disasters or pandemics may experience difficulty in timely payment of their Eligible Loans. This could reduce the funds available to the Issuer to pay principal and interest on the Notes.

Impact of COVID-19 Pandemic on the Issuer and student loan related legislation resulting from COVID-19 Pandemic

On January 31, 2020, the United States Department of Health and Human Services Secretary declared a public health emergency in response to the spread of the novel coronavirus ("COVID-19" and the "COVID-19 Pandemic"). On March 13, 2020, the President of the United States declared a national emergency beginning March 1, 2020. On April 3, 2020, the Missouri Governor issued an order restricting certain activities in the state, which restrictions were in effect from April 6, 2020 until May 4, 2020. The President's declaration of a national emergency allowed the Issuer to begin granting administrative forbearance under the federal regulations. In addition, the Department of Education's Office of Federal Student Aid ("FSA") has published several announcements permitting lenders of FFELP Loans to voluntarily grant the same relief that the Department of Education is granting to federally owned loans. The Issuer has advised its loan borrowers that it or the Department of Education has adopted a number of temporary relief measures, including:

- disaster forbearance allowing a borrower facing financial hardship to suspend interest and principal payments for up to 90 days; then 30-day increments at the verbal request of the borrower following the original 90 days;

- all otherwise available options to suspend or reduce monthly payments remain in full force;
- availability of reduced monthly payments for FFELP borrowers requesting relief continues to be available and is based on regulations and eligibility;
- temporary waiver or reduction of certain non-negotiable funds fees and late fees (as of July 1, 2020, the Issuer no longer assesses late fees and all outstanding late fees for the period prior to July 1, 2020 have been waived); and
- reports of delinquencies on non-defaulted loans to credit reporting agencies does not occur until 90 days past due.

The Issuer reserves the right to adopt additional relief measures in response to the COVID-19 Pandemic.

During the first few weeks of the COVID-19 Pandemic, the Issuer successfully increased the percentage of operations performed in a remote or "work-at-home" manner utilizing full system interfaces. The Issuer has begun to gradually phase in personnel to begin working in its facilities while complying with applicable federal, state and county restrictions. The Issuer has the ability to redeploy its employees to work from home if needed based on the future status of the COVID-19 Pandemic. Management continually reviews this strategy and expects to be able to adjust current staffing arrangements if necessary. The Issuer has never had to run its operations to such extent remotely for an extended period of time, and it is possible the Issuer will encounter significant challenges to running its businesses. The Issuer's operations rely on the efficient and secure collection, processing, storage, and transmission of personal, confidential, and other information in a significant number of customer transactions on a continuous basis through its computer systems and networks and those of its third-party service providers. Unanticipated issues arising from handling personal, confidential, and other information from a less efficient work-at-home environment could adversely impact the Issuer's operations and lead to greater risks for the Issuer, including cybersecurity risks. Approximately 73% of the Issuer's loan servicing portfolio is from the Federal Direct Loan Program. As a result of the Federal Relief Acts (defined below), approximately 1,625,000 borrowers in repayment were placed in a Federal Relief Acts forbearance status, which significantly reduced the call volume to the Issuer's call center and resulted in a reduction of approximately 20% of the Issuer's workforce.

The Federal Relief Acts. The United States Congress has enacted several COVID 19-related bills, including the Coronavirus Aid, Relief, and Economic Security Act, signed into law on March 27, 2020 ("CARES Act"), the Paycheck Protection and Health Care Enhancement Act, signed into law on April 24, 2020, the Student Veteran Coronavirus Response Act, signed into law on April 28, 2020, the COVID–19 Consumer Protection Act (Title XIV of the Consolidated Appropriations Act, 2021), signed into law on December 27, 2020 and the American Rescue Plan Act of 2021, signed into law on March 11, 2021 (collectively, the "Relief Acts"), that authorize numerous measures in response to the economic effects of the COVID-19 Pandemic. Such measures include, but are not limited to: direct financial aid to American families; temporary relief from certain federal tax requirements (including forgiveness of indebtedness on student loans), the scheduled payment of federally owned education loans, including federally owned FFELP Loans and loans originated under the Direct Loan Program ("Direct Loans"), and from certain other federal higher education aid requirements; temporary relief for borrowers with federally-related mortgage loans; payroll and operating expense support for small businesses and nonprofit entities; federal funding of higher education institutions' emergency aid to students and operations and support for the capital markets loan assistance for distressed industries; financial assistance to governmental entities; and capital market support.

The Relief Acts also authorized the United States Department of the Treasury (the "Treasury") to provide up to approximately $450 billion in loans, loan guarantees and other investments to support programs and facilities established by the Board of Governors of the Federal Reserve System (the "Federal Reserve") that are intended to provide liquidity to the financial system and facilitate lending to eligible businesses and to states, political subdivisions and instrumentalities. Such injection of liquidity followed actions by the Federal Reserve, including the purchase of Treasury securities and mortgage backed securities, facilitating the flow of credit to municipalities by expanding its Money Market Mutual Fund Liquidity Facility to include a wider range of securities, including certain municipal variable rate demand notes, and facilitating the flow of credit to municipalities by expanding its Commercial Paper Funding Facility to include high quality, tax exempt commercial paper as eligible securities. No assurance can be given that such liquidity assistance from the federal government will assure that a secondary market exists for Issuer debt obligations, including the Notes, or the availability to the Issuer of adequate liquidity to fully fund its program needs at any particular time.

On August 6, 2021, the President of the United States signed an executive order instructing the Department of Education to continue to extend the student loan payment forbearance and the halting of interest accrual and collections activities through January 31, 2022 for federally-owned loans (which do not include the Financed Eligible Loans). It is possible such period could be extended to a later date, although the Department of Education has stated that this extension will be the final extension. The Issuer provides COVID-19 related forbearances to borrowers of the Financed Eligible Loan upon request for 30-day periods. Interest continues to accrue on any Financed Eligible Loans for which a COVID-19 related forbearance is requested and granted. Such forbearances could cause the rate of repayment of the Financed Eligible Loans to be slower than expected, which would have a corresponding impact on the payment of the Notes.

Uncertainty of Future Impacts. As of the date hereof, the Issuer is not aware of federal or state consumer lending law changes in response to the COVID-19 Pandemic that it expects to materially and adversely affect its operation of its student loan program. Any further COVID-19 Pandemic relief measures that may be required by law or voluntarily implemented by the Issuer and that are applicable to the Financed Eligible Loans would be expected to result in a delay in the receipt of, or in a reduction of, the revenues received from the Financed Eligible Loans. The Issuer cannot accurately predict the number of Financed Eligible Loan borrowers that would utilize any benefit program that requires borrower action. The greater the number of borrowers that utilize any relief measures, the lower the total current loan receipts on the Financed Eligible Loans. If actual receipt of Financed Eligible Loan revenues or actual Financed Eligible Loan administrative expenditures were to vary materially from those projected, the ability of the Trust Estate created under the Indenture to provide sufficient revenues to fund interest and administrative costs and to amortize the Notes might be adversely affected.

The full impact of the COVID-19 Pandemic, and of directly and indirectly related developments, on the Issuer's finances and operations, on the performance of the Financed Eligible Loans constituting security for the Notes, and on the security, market value and liquidity of the Notes cannot be predicted at this time. It is not currently possible to project with certainty the nature, degree and duration of economic and legal changes that may result from the COVID-19 Pandemic. The COVID-19 Pandemic could adversely affect global, national, regional or local economies in a manner that might reduce the ability of certain Financed Eligible Loan borrowers to make full and timely loan repayment. The number and aggregate principal balance of Financed Eligible Loans for which repayment may be so affected by the COVID-19 Pandemic is not known at this time but may be significant. As a result, there may be a delay in, or reduction of, total Financed Eligible Loan collections that might materially and adversely affect the ability of the Trust Estate created under the Indenture to provide sufficient revenues to fund interest and administrative costs and to amortize the Notes, as initially projected or as projected herein. Further federal legislative or administrative action, including forgiveness of principal on Financed Eligible Loans by the

Department of Education, could result in an increase in the percentage of incidence of on-time payments of Financed Eligible Loan or of prepayments of Financed Eligible Loans. There can be no assurance, however, that such further federal action will occur, or as to the number or aggregate principal balance of Financed Eligible Loans that might be so affected. The Issuer is monitoring and assessing the economic and legal impact of the COVID-19 Pandemic and of governmental responses thereto, including orders, laws, regulations and mandates adopted by the State of Missouri or the federal government, on its operations and financial position.

Forbearance granted as a result of the COVID-19 Pandemic may delay payments of interest and principal

The Issuer, as the Servicer, has agreed to service the Financed Eligible Loans. The Higher Education Act permits, and in some cases requires, "forbearance" periods from loan collection in some circumstances. Interest that accrues during a forbearance period is never subsidized. Forbearance is most often granted to borrowers for periods of economic hardship affecting the borrower, which may occur for a variety of reasons. During periods of deteriorating economic conditions in the United States or globally, such as during disruptive political, social or economic events, forbearance requests typically increase. Forbearance is also often granted to borrowers when a federal disaster or emergency has been declared such as in response to COVID-19. See the caption "Impact of COVID-19 Pandemic on the Issuer and student loan related legislation resulting from COVID-19 Pandemic" above.

The COVID-19 Pandemic has resulted in a temporary increase in the number of borrowers of Financed Eligible Loans who have requested forbearance. In April of 2020, the Issuer placed the borrowers of any of its FFELP Loans, including any Financed Eligible Loans, that were more than 15 days' delinquent in their payments into a 90-day disaster forbearance period (which also deemed such borrowers to be "current" in their payments) As more borrowers contacted the Issuer to request such forbearances, delinquency rates dropped significantly as delinquent borrowers were moved from delinquent status to disaster forbearance status. For qualified loan borrowers who are adversely impacted by the COVID-19 pandemic, the Issuer continues to provide short-term, extended forbearance relief from payments upon request.

In May 2021, per a Dear Colleague Letter ("DCL") issued by the Department of Education, the Issuer reinstated the automatic disaster forbearance. All loans that were more than 30 days delinquent were brought current and a placed into a disaster forbearance. In addition, any loan that becomes more than 30 days delinquent will also have a 90-day disaster forbearance placed on the account. The Issuer will also clear any negative credit reported on borrowers eligible for the disaster forbearance retroactive to March 13, 2020. While the Department of Education has recently extended the automatic disaster forbearance for direct student loans to January 31, 2022, the Issuer is currently assessing whether to end its automatic disaster forbearance policies for FFELP Loans (including the Financed Eligible Loans) on September 30, 2021 or to extend such policies to January 31, 2022. If the Issuer terminates the automatic disaster forbearance, disaster forbearance would remain available to borrowers, at their request, during the disaster forbearance declaration period. As shown below, the reinstatement of this automatic disaster forbearance has caused the percentage of both the Issuer's portfolio of FFELP Loans and the Financed Eligible Loans in this status to increase.

Forbearance usage rates by principal amount of FFELP Loans owned by the Issuer in forbearance as a percentage of all FFELP Loans owned by the Issuer for the months indicated were approximately as follows:

Month-End	**Percentage of Issuer's FFELP Loans in Regular Forbearance**	**Percentage of Issuer's FFELP Loans in Disaster Forbearance**	**Total Percentage of Issuer's FFELP Loans in Forbearance**
December 2019	8.78%	0.19%	8.96%
January 2020	9.23%	0.02%	9.25%
February 2020	12.55%	0.02%	12.58%
March 2020	12.96%	0.06%	13.03%
April 2020	7.05%	18.49%	25.54%
May 2020	3.34%	28.47%	31.81%
June 2020	3.67%	19.87%	23.54%
July 2020	4.04%	18.45%	22.49%
August 2020	6.78%	12.64%	19.42%
September 2020	10.61%	3.83%	14.44%
October 2020	9.89%	4.37%	14.26%
November 2020	8.51%	4.66%	13.17%
December 2020	8.26%	4.98%	13.24%
January 2021	9.22%	3.99%	13.20%
February 2021	14.46%	2.96%	17.42%
March 2021	15.38%	2.70%	18.08%
April 2021	8.90%	14.69%	23.59%
May 2021	6.12%	18.96%	25.08%
June 2021	5.82%	23.22%	29.04%
July 2021	4.83%	26.19%	31.02%

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Forbearance usage rates by principal amount of Financed Eligible Loans in forbearance as a percentage of all Financed Eligible Loans for the months indicated were approximately as follows:

Month-End	Percentage of the Financed Eligible Loans in Regular Forbearance	Percentage of the Financed Eligible Loans in Disaster Forbearance	Total Percentage of the Financed Eligible Loans in Forbearance
December 2019	8.35%	0.09%	8.44%
January 2020	8.85%	0.00%	8.85%
February 2020	11.49%	0.01%	11.50%
March 2020	11.53%	0.03%	11.55%
April 2020	6.24%	17.44%	23.68%
May 2020	3.09%	26.69%	29.78%
June 2020	3.43%	18.50%	21.94%
July 2020	3.82%	15.92%	19.74%
August 2020	5.94%	10.73%	16.67%
September 2020	9.25%	3.54%	12.79%
October 2020	9.43%	4.05%	13.48%
November 2020	8.00%	4.53%	12.54%
December 2020	7.67%	4.55%	12.23%
January 2021	8.57%	3.31%	11.88%
February 2021	12.90%	2.66%	15.56%
March 2021	13.56%	2.37%	15.93%
April 2021	8.98%	14.36%	23.34%
May 2021	6.34%	18.55%	24.89%
June 2021	5.75%	22.18%	27.93%
July 2021	4.98%	25.50%	30.48%

For details of forbearance policies under the FFELP see "APPENDIX A—DESCRIPTION OF THE FEDERAL FAMILY EDUCATION LOAN PROGRAM—Deferment and Forbearance Periods" herein. An increase in forbearances on the Financed Eligible Loans may result in a delay in payments of interest or principal on the Financed Eligible Loans, which could negatively affect the ability of the Issuer to generate sufficient cash flow to pay its obligations and which, in turn, may cause losses on the Notes.

LIBOR is being discontinued as a floating rate benchmark, and various aspects of the discontinuation are uncertain and will affect the financial markets and may also affect the Financed Eligible Loans and the Class A-1B Notes and the Class B Notes

The interest rates payable on the Class A-1B Notes and Class B Notes and the Special Allowance Payments on substantially all of the Financed Eligible Loans are currently based on a spread over one-month LIBOR. See "APPENDIX B—DESCRIPTION OF THE FEDERAL FAMILY EDUCATION LOAN PROGRAM—Special Allowance Payments" hereto. The London Interbank Offered Rate, or LIBOR, serves as a global benchmark for home mortgages, student loans and what various issuers pay to borrow money. As a result of longstanding initiatives, LIBOR is being discontinued as a floating rate benchmark.

The United Kingdom's Financial Conduct Authority (the "FCA") assumed regulatory oversight and supervision of LIBOR and the regulator of the administration of LIBOR, which is ICE Benchmark Administration Ltd. (the "IBA").

On March 5, 2021, the FCA announced that, after specified dates (the "Cessation Dates"), LIBOR settings will cease to be provided by any administrator or will no longer be representative which Cessation Dates will be:

- June 30, 2023, in the case of the principal U.S. dollar LIBOR tenors (overnight and one, three, six and 12 months); and

- December 31, 2021, in all other cases (i.e., one week and two-month U.S. dollar LIBOR and all tenors of non-U.S. dollar LIBOR).

The FCA's announcement and a related announcement made by IBA on March 5, 2021 are referred to herein as the "FCA/IBA Announcements." The FCA and certain U.S. regulators have emphasized that, despite expected publication of U.S. dollar LIBOR through June 30, 2023, no new contracts using U.S. dollar LIBOR should be entered into after December 31, 2021 and that, for certain purposes, market participants should transition away from U.S. dollar LIBOR sooner.

As to any particular LIBOR-based obligation, the actual transition from LIBOR to another reference rate will generally require two events to occur. The first event includes the FCA/IBA Announcements; the second event is the occurrence of a contractually defined benchmark replacement date. Although in most cases the benchmark replacement date will correspond to the relevant Cessation Date, some may not, depending on the relevant contractual terms; as a result, the actual transition date in any one situation will not necessarily be the same in another situation (even if the two situations are similar).

Although the foregoing reflects the likely timing of the LIBOR discontinuation, and the balance of this risk factor reflects certain related details and consequences, there is no assurance that LIBOR, of any particular currency or tenor, will continue to be published until any particular date or in any particular form.

See the caption "DESCRIPTION OF THE NOTES—Benchmark Transition Event" herein for a description of the process for determining a replacement benchmark rate under the Indenture if One-Month LIBOR is no longer an available benchmark rate. The Department of Education has not indicated what index it will use to calculate Special Allowance Payments presently based upon One-Month LIBOR if One-Month LIBOR is no longer available, and any such replacement index may differ from the index used to calculate interest on the Class A-1B Notes and Class B Notes. If the Department of Education uses an alternative index to One-Month LIBOR other than the Benchmark Replacement selected by the Issuer as described under the caption "DESCRIPTION OF THE NOTES—Benchmark Transition Event" herein to calculate Special Allowance Payments, the Issuer and the Trustee (at the written direction of the Issuer) may enter into a LIBOR Related Amendment to change the index used to calculate the interest rate on the Class A-1B Notes and the Class B Notes to the applicable alternative index to One-Month LIBOR used by the Department of Education plus or minus a comparable spread and any associated changes that are reasonably necessary in the opinion of the Issuer to adopt or to implement such rate change, which shall become effective upon either (i) obtaining the consent of the Noteholders of not less than a majority of the Outstanding Amount of the Class A-1B Notes and the Class B Notes and satisfaction of the Rating Agency Condition, or (ii) obtaining the consent of the Noteholders of not less than a majority of the Outstanding Amount of each class of the Notes. The Issuer cannot provide any assurances that any replacement benchmark rate will be representative of market interest rates or consistent with previously published One-Month LIBOR during the life of the Notes. If a published One-Month LIBOR is unavailable at any time prior to the occurrence of a Benchmark Transition Event and its related Benchmark Replacement Date

(each as defined under the caption "DESCRIPTION OF THE NOTES—Benchmark Transition Event" herein), One-Month LIBOR will be the same as the rate of interest for the immediately preceding Interest Accrual Period, and could remain the rate of interest for the remaining life of the Class A-1B Notes and the Class B Notes. See the caption "DESCRIPTION OF THE NOTES—Calculation of LIBOR" herein.

In addition, as described under the caption "DESCRIPTION OF THE NOTES—Benchmark Transition Event" herein, One-Month LIBOR will be replaced as the benchmark for the Class A-1B Notes and Class B Notes following the occurrence of a Benchmark Transition Event (which has occurred, as described below) and its related Benchmark Replacement Date (which has not occurred, as described below). The Benchmark Transition Events generally include the making of public statements or publication of information by the administrator of the benchmark, its regulatory supervisor or certain other governmental authorities that the benchmark will no longer be provided or is no longer representative of market interest rates, and such benchmark administrator permanently or indefinitely ceasing to provide the benchmark or when a specified percentage of the underlying assets convert to an alternate index. In the Issuer's opinion, the FCA/IBA Announcements on future cessation and loss of representativeness of the LIBOR benchmarks constitute a "Benchmark Transition Event" under the Indenture. It appears, based on the FCA/IBA Announcements, that the related Benchmark Replacement Date will not occur until the first interest determination date after June 30, 2023. It is possible for additional Benchmark Transition Events to occur under the Indenture, which may result in a different (and possibly earlier) Benchmark Replacement Date. The Class A-1B Notes and the Class B Notes will accrue interest by reference to LIBOR until the Benchmark Replacement Date.

Further, as described under the caption "DESCRIPTION OF THE NOTES—Benchmark Transition Event" herein, the Benchmark Replacement (as defined under the caption "DESCRIPTION OF THE NOTES—Benchmark Transition Event" herein), will depend on the availability of various alternative benchmarks, the first of which is Term SOFR, the second of which is Compounded SOFR or Simple Average SOFR, at the option of the Issuer (each as defined under the caption "DESCRIPTION OF THE NOTES—Benchmark Transition Event" herein) and the last two of which are not currently specified. The Secured Overnight Financing Rate, or "SOFR," was selected by the Alternative Reference Rates Committee, or "ARRC," of the Federal Reserve Bank of New York, or the "FRBNY," as the replacement for LIBOR plus, in the case of existing LIBOR contracts and obligations, a spread adjustment; as a consequence of the FCA/IBA Announcements, the spread adjustments for different tenors of U.S. dollar LIBOR have been set. There are important fundamental differences between LIBOR and SOFR. LIBOR is an unsecured rate that represents interbank funding costs for different short-term maturities or "tenors." LIBOR is a forward-looking rate reflecting expectations regarding interest rates for those tenors. LIBOR is intended to be sensitive, in certain respects, to bank credit risk and to term interest rate risk. SOFR, on the other hand, is a secured, risk-free rate, intended to be a broad measure of the cost of borrowing funds overnight in transactions that are collateralized by U.S. Treasury securities. Thus, SOFR is largely insensitive to credit risk considerations and to short-term interest rate risks. As a result, SOFR will not be representative of LIBOR. The FRBNY started publishing SOFR in April 2018. The FRBNY has also started publishing historical indicative SOFR dating back to 2014, although such historical indicative data inherently involves assumptions, estimates and approximations. Since the initial publication of SOFR, daily changes in SOFR have, on occasion, been more volatile than daily changes in comparable benchmark or market rates, and SOFR over the term of the Notes may bear little or no relation to the historical actual or historical indicative data. For these reasons, among others, there is no assurance that SOFR or rates derived from SOFR will perform in the same or similar ways as LIBOR would have performed at any time, and there is no assurance that SOFR-based rates will be a suitable substitute for LIBOR and that SOFR-based rates, as modified by an applicable spread adjustment, will be the economic equivalent of LIBOR.

Term SOFR, which is expected to be a similar forward-looking term rate which will be based on SOFR, is the first alternative among the Benchmark Replacement alternatives. On July 29, 2021, the ARRC

announced its recommendation of Term SOFR rates published by the CME Group Inc. An earlier ARRC announcement stated that legacy contracts that have adopted the ARRC's recommended fallback provisions will fall back to rates based on the Term SOFR rates when the legacy contracts' contractual LIBOR replacement date occurs. The fallback provisions of the Class A-1B Notes and Class B Notes are based on the ARRC's recommended fallback provisions, and, accordingly, it is expected that Term SOFR (plus the Benchmark Replacement Adjustment) will be the benchmark replacement as of the Benchmark Replacement Date. Nonetheless, there is no assurance that such form of Term SOFR, or any other form, will be available as of the Benchmark Replacement Date. For example, it is possible, though not expected, that the ARRC could revise or withdraw its recommendation regarding Term SOFR rates before the Benchmark Replacement Date and, in the latter case, that neither the ARRC nor another Relevant Governmental Body may have selected or recommended another forward-looking term rate based on SOFR. If Term SOFR for the appropriate tenor is not available as of the Benchmark Replacement Date, the next available Benchmark Replacement is Compounded SOFR or Simple Average SOFR, at the option of the Issuer. In order to compensate for these differences in the benchmark, a Benchmark Replacement Adjustment (as defined under the caption "DESCRIPTION OF THE NOTES—Benchmark Transition Event" herein) will be included in any Benchmark Replacement. However, the Issuer cannot provide any assurances that any Benchmark Replacement Adjustment will be sufficient to produce the economic equivalent of the then-current benchmark, either at the Benchmark Replacement Date or over the life of the Class A-1B Notes and the Class B Notes. As a result of each of the foregoing factors, the Issuer cannot provide any assurances that the characteristics of any Benchmark Replacement will be similar to the then-current benchmark that it is replacing, or that any Benchmark Replacement will produce the economic equivalent of the then-current benchmark that it is replacing. However, if the initial Benchmark Replacement is either Compounded SOFR or Simple Average SOFR and the Issuer later determines that Term SOFR can be determined, then, in the absence of a LIBOR Related Amendment, Term SOFR will become the new Unadjusted Benchmark Replacement and will, together with a new Benchmark Replacement Adjustment for Term SOFR, replace Compounded SOFR or Simple Average SOFR, as applicable on the next Benchmark determination date for Term SOFR, which could lead to further volatility in the interest rate on the Class A-1B Notes and the Class B Notes.

Finally, the Issuer will have discretion in certain elements of the Benchmark Replacement process, including determining when a Benchmark Replacement Date will occur, determining which Benchmark Replacement (and related Benchmark Replacement Adjustment) is available and, if no other designated Benchmark Replacements are available, selecting a Benchmark Replacement and determining its Benchmark Replacement Adjustment, and making Benchmark Replacement Conforming Changes (as defined under the caption "DESCRIPTION OF THE NOTES—Benchmark Transition Event" herein). The Noteholders will not have any right to approve or disapprove of these changes and will be deemed to have agreed to waive and release any and all claims relating to any such determinations.

As a result of the foregoing, the rate at which the Class A-1B Notes and Class B Notes bear interest could be adversely affected by misconduct in the rate-setting process for One-Month LIBOR, changes to such process or the phasing out of the rate entirely. There may be a negative effect on the interest rate on, or the market value of, the Class A-1B Notes and Class B Notes if the One-Month LIBOR global benchmark is no longer available or if any Benchmark Replacement does not produce the economic equivalent of the then-current benchmark that it is replacing.

The discontinuation of LIBOR, particularly if the replacement for LIBOR is not well received by borrowers, the CFPB, the Department of Education or other governmental authorities that regulate education lending, may also have an adverse impact on the Issuer and could give rise to litigation or regulatory actions. The Issuer continues to evaluate the potential impact of the LIBOR transition and the establishment of an alternative reference rate, and it cannot predict what impact any related changes may have on the Financed Eligible Loans or the Class A-1B Notes and the Class B Notes.

Financial markets, particularly the trading market for LIBOR-based obligations, may be adversely affected by the discontinuation of LIBOR, the remaining uncertainties regarding its discontinuation, the alternative reference rates that will be used when LIBOR is discontinued (including SOFR-based rates) and other developments related to LIBOR and its replacement.

The occurrence and implementation of a Benchmark Transition Event also may have certain adverse U.S. federal income tax consequences to the Noteholders. See the captions "DESCRIPTION OF THE NOTES—Benchmark Transition Event" and "CERTAIN U.S. FEDERAL INCOME TAX CONSIDERATIONS—Sale or Exchange of Notes" herein.

Federal financial regulatory legislation may affect the Notes

The Dodd Frank Wall Street Reform and Consumer Protection Act, Pub. L. No. 111-203, 124 Stat. 1376 (2010) (the "Dodd-Frank Act"), which was enacted in July 2010, represented a comprehensive overhaul of the financial services industry within the United States, and established the federal Consumer Financial Protection Bureau (the "CFPB"). The CFPB, an independent agency within the Federal Reserve, regulates consumer financial products, including education loans, and other financial services offered primarily for personal, family, or household purposes, and the CFPB and other federal agencies, including the Securities and Exchange Commission (the "SEC") and the Commodity Futures Trading Commission (the "CFTC"), are required to undertake various assessments and rulemakings to implement the law. The majority of the provisions in the Dodd-Frank Act are aimed at financial institutions. However, there are components of the law that have impacted the Issuer.

In December 2014, the SEC and federal banking agencies published final regulations, effective December 24, 2016 for issuers of student loan asset-backed securities, generally requiring issuers of asset-backed securities or persons who organize and initiate asset-backed securities transactions to retain a portion of the underlying assets' credit risk; however, the Issuer is exempt from these risk retention rules. In addition, the SEC approved changes to the rules applicable to issuers of asset-backed securities under the Securities Act and the Securities Exchange Act, that substantially revise Regulation AB and other rules governing the offering process, disclosure and reporting for asset-backed securities issued in registered and certain unregistered transactions. It is not clear how the revisions to Regulation AB will be implemented, and to what extent the Issuer may be affected. No assurance can be given that the new standards contained in the amended Regulation AB will not have an adverse impact on the Issuer or on the value or marketability of the Notes.

The documents entered into in connection with prior Issuer sponsored securitization transactions and this transaction contain covenants requiring the repurchase or replacement of Eligible Loans in the case of a breach of certain representations and warranties. Therefore, pursuant to Rule 15Ga-1, the Issuer is responsible for disclosure of all fulfilled and unfulfilled repurchase requests for student loans in such securitization transactions. There have not been any unfulfilled repurchase requests for student loans with respect to any of the Issuer sponsored securitization transactions. With respect to the Notes, the Issuer will furnish a Form ABS-15G at the times required by and pursuant to Rule 15Ga-1 of the Securities Exchange Act as required by the SEC, which will be furnished on the Municipal Securities Rulemaking Board through its EMMA system ("EMMA") at www.emma.msrb.org, which information and website are not part of, and are not incorporated by reference into, this Offering Memorandum.

In September 2014, the SEC adopted new rules further regulating rating agencies' activities with respect to rating asset-backed securities, and requiring that issuers of asset-backed securities, effective June 15, 2015, disclose third-party due diligence findings, including certain agreed-upon procedure reviews. The Issuer engaged Ernst & Young LLP to perform certain agreed-upon procedures which

compared or recomputed information contained in a data file containing information with respect to the Financed Eligible Loans to or based upon the corresponding information in the loan files for certain randomly selected Financed Eligible Loans, and no exceptions were noted. The Issuer has made such report publicly available on EMMA at www.emma.msrb.org, which information and website are not part of, and are not incorporated by reference into, this Offering Memorandum.

Student loans and student loan servicing are top priorities for the CFPB. In May 2015, the CFPB launched a public inquiry into student loan servicing practices throughout the industry. In September 2015, the CFPB issued a report discussing public comments submitted in response to the inquiry and, in consultation with the Department of Education and Department of the Treasury, released recommendations to reform student loan servicing to improve borrower outcomes and reduce defaults. In July 2016, the Department of Education expanded on these joint principles by outlining enhanced customer service standards and protections that will be incorporated into federal servicing contracts and guidelines. The CFPB has also announced that it may issue student loan servicing rules in the future.

The Dodd-Frank Act gave the CFPB authority to supervise private education lenders. In addition, the CFPB adopted a rule in December 2013 that enables it to federally supervise certain non-bank student loan servicers that service more than one million borrower accounts, to ensure that bank and non-bank servicers follow the same rules in the student loan servicing market. The rule covers both federal and private student loans. Both the Issuer and the Backup Servicer currently service more than one million student loan borrower accounts and would therefore be subject to this rule. The CFPB has on several occasions audited various aspects of the Issuer's servicing activities. These audits have not resulted in any threats of or actual legal actions against the Issuer or the imposition of any financial penalties. See also the caption "SERVICING OF THE FINANCED ELIGIBLE LOANS—Backup Servicer and Backup Servicing Agreement—Consumer Protection and Similar Laws" herein. If the CFPB were to determine that a servicer is not in compliance, it is possible that this could result in material adverse consequences to such servicer, including, without limitation, settlements, fines, penalties, adverse regulatory actions, changes in a servicer's business practices, or other actions. However, it is not possible to estimate at this time any potential financial or other impact to any such Servicer, including any impact on its ability to satisfy its obligations with respect to the Financed Eligible Loans, that could result from the CFPB's examinations, in the event that any adverse regulatory actions occur.

In addition to its supervisory authority, the CFPB has broad authority to enforce compliance with federal consumer financial laws applicable to private student lenders and student loan servicers, including the Dodd-Frank Act's prohibition on unfair, deceptive or abusive acts or practices, by conducting investigations and hearings, imposing monetary penalties, collecting fines and requiring consumer restitution in the event of violations. It may also bring a federal lawsuit or administrative proceeding.

Also in December 2013, the banking regulators and other agencies principally responsible for banking and financial market regulation in the United States implemented the final rule under the so-called Volcker Rule under the Dodd-Frank Act, which in general prohibits "banking entities" (as defined therein) from (a) engaging in proprietary trading; (b) acquiring or retaining an ownership interest in or sponsoring certain hedge funds, private equity funds (broadly defined to include any entity that would be an investment company under the Investment Company Act but for the exemptions provided in Section 3(c)(1) or 3(c)(7) of the Investment Company Act) and certain similar funds; and (c) entering into certain relationships with such funds. Although the Issuer is not registered or required to be registered as an "investment company" under the Investment Company Act pursuant to Section 2(b) thereof and, as such, is not a covered fund, the general effects of the final rules implementing the Volcker Rule remain uncertain. Any prospective investor in the Notes, including a U.S. or foreign bank or an affiliate or subsidiary thereof, should consult its own legal advisors regarding such matters and other effects of the Volcker Rule and regulatory implementation.

At this time, it is also difficult to predict the extent to which the Dodd-Frank Act or the resulting regulations will impact the Issuer's business and operations and the business and operations of a Servicer, the Backup Servicer and their affiliates. As rules and regulations are promulgated by the federal agencies responsible for implementing and enforcing the provisions of the Dodd-Frank Act, the Issuer, each Servicer, and the Backup Servicer will need to apply adequate resources to ensure that they are in compliance with all applicable provisions. Compliance with these new laws and regulations may result in additional costs and may otherwise adversely impact the Issuer's, another Servicer's and the Backup Servicer's results of operations, financial condition, or liquidity.

Changes to the Higher Education Act, including the enactment of the Health Care and Education Reconciliation Act of 2010, changes to other applicable law and other Congressional action may affect investors' Notes and the Financed Eligible Loans

On March 30, 2010, the Health Care and Education Reconciliation Act of 2010 ("HCERA" or the "Reconciliation Act") was enacted into law. Effective July 1, 2010, the Reconciliation Act eliminated the origination of new FFELP Loans. All loans made under the Higher Education Act beginning on July 1, 2010 have been, and in the future will be, originated under the Direct Loan Program. The terms of FFELP Loans originated prior to July 1, 2010 are not materially affected by the Reconciliation Act and continue to be subject to the terms of the FFEL Program.

The curtailment of the FFEL Program could have a material adverse impact on the Issuer, the Servicer, the Backup Servicer and the Guaranty Agencies. For example, the Servicers (including the Issuer and the Backup Servicer) may experience increased costs due to reduced economies of scale to the extent the volume of loans serviced by such Servicers is reduced. Those cost increases could affect the ability of the Servicers to satisfy their obligations to service the Financed Eligible Loans held in the Trust Estate securing the Notes. FFELP Loan volume reductions could further reduce revenues received by the Guaranty Agencies available to pay claims on defaulted FFELP Loans. In addition, the level of competition currently in existence in the secondary market for FFELP Loans could be reduced, resulting in fewer potential buyers of FFELP Loans and lower prices available in the secondary market for those FFELP Loans.

In addition to the passage of the Reconciliation Act, Title IV of the Higher Education Act and the regulations promulgated by the Department of Education thereunder have been the subject of frequent and extensive amendments and reauthorizations. See "APPENDIX A—DESCRIPTION OF THE FEDERAL FAMILY EDUCATION LOAN PROGRAM" hereto for more information on the Higher Education Act and various amendments thereto. There can be no assurance that the Higher Education Act or other relevant federal or state laws, rules and regulations may not be further amended or modified in the future in a manner that could adversely affect the Issuer or its student loan programs, the Trust Estate created under the Indenture, the Financed Eligible Loans, or the financial condition of or ability of the Issuer, the Servicer, the Backup Servicer or the Guaranty Agencies to comply with their obligations under the various transaction documents or the Notes. Future changes could also have a material adverse effect on the revenues received by the Guaranty Agencies that are available to pay claims on defaulted Financed Eligible Loans in a timely manner. In addition, if legislation were to be passed in the future requiring the sale of the Financed Eligible Loans held in the Trust Estate to the federal government, proceeds from such sale would be deposited to the Collection Fund and used to pay the Notes in advance of their current expected Maturity Date. No assurance can be given as to the amount that would be received from such sale or whether such amount would be sufficient to pay all principal and accrued interest due on the Notes, as there

is no way to know what purchase price would be paid by the federal government for the Financed Eligible Loans.

Funds for payment of Interest Benefit Payments, Special Allowance Payments and other payments under the FFEL Program are subject to annual budgetary appropriations by Congress. Federal budget legislation has contained provisions that restricted payments made under the FFEL Program to achieve reductions in federal spending. For example, federal budget provisions that became effective on July 1, 2014 reduced payments by the Department of Education to Guaranty Agencies for assisting student loan borrowers with the rehabilitation of defaulted loans under the FFEL Program. As a result, the revenue earned by the Issuer from rehabilitating defaulted FFEL Program loans (collection services) on behalf of Guaranty Agencies decreased, and the Issuer anticipates such revenue will continue to be negatively impacted by these federal budget provisions. Future federal budget legislation may adversely affect expenditures by the Department of Education, and the financial condition of the Issuer, the Servicer, the Backup Servicer and Guaranty Agencies.

Bills have been proposed which would forgive all or part of existing federal student loans. If such bills were to pass, if FFELP Loans are included in such loan forgiveness, or if such legislation creates an incentive for FFELP Loan borrowers to consolidate their loans into Federal Direct Consolidation loans, repayment rates on the Eligible Loans could increase, thereby increasing monthly distributions of principal on the Notes.

The Issuer cannot predict whether any other changes will be made to the Higher Education Act or other relevant federal laws, and rules and regulations promulgated by the Secretary of Education in future legislation, or the effect of such legislation or executive orders on the Issuer, the Servicer, the Backup Servicer, the Guaranty Agencies, the Financed Eligible Loans or the Issuer's loan programs.

Competition from the Federal Direct Student Loan Program

The Direct Loan Program was established under the Student Loan Reform Act of 1993. Under the Direct Loan Program, approved institutions of higher education, or alternative loan originators approved by the Department of Education, make loans to students or parents without application to or funding from outside lenders or guaranty agencies. The Department of Education provides the funds for such loans, and the program provides for a variety of flexible repayment plans, including consolidations under the Direct Loan Program of existing FFEL Program student loans. Such consolidation permits borrowers to prepay existing student loans and consolidate them into a Federal Direct Consolidation Loan under the Direct Loan Program. As a result of the enactment of the Reconciliation Act, no FFELP Loans have been, or in the future will be, originated after June 30, 2010, and all loans made under the Higher Education Act will be originated under the Direct Loan Program. The Direct Loan Program may result in prepayments of Financed Eligible Loans if such Financed Eligible Loans are consolidated under the Direct Loan Program.

Because of the limited recourse nature of the Trust Estate created under the Indenture for the Notes, competition from the Direct Loan Program should not impact the payment of the Notes unless it causes (a) erosion in the finances of the Issuer to such an extent that it cannot honor any administration or similar obligations under the Indenture; or (b) prepayments of Financed Eligible Loans if such Financed Eligible Loans are consolidated under the Direct Loan Program. See the caption "—The rate of payments on the Financed Eligible Loans may affect the maturity and yield of the Notes" above.

Other litigation risks

The Issuer may be subject to various claims, lawsuits, tax audits and proceedings that arise from time to time. See the caption "LEGAL PROCEEDINGS" herein.

The Issuer may be subject to student loan industry investigations

A number of state attorneys general and the U.S. Senate Committee on Health, Education, Labor and Pensions have conducted broad inquiries or investigations of the activities of various participants in the student loan industry, including, but not limited to, activities that may involve perceived conflicts of interest.

The Issuer has made loans to students from across the country. The Issuer has been periodically contacted by various Attorneys General over the years, but none of those Attorneys General have ever followed-up on those initial contacts and it has been nearly a decade since the last contact. Since such processes are typically confidential, the Issuer will not necessarily be able to advise of any such contacts or its involvement in such matters. The activity and number of investigations nationally appears to have greatly diminished.

The Department of Education has adopted regulations that impact the practices which are the subject of the foregoing investigations. See the caption "—Changes to the Higher Education Act, including the enactment of the Health Care and Education Reconciliation Act of 2010, changes to other applicable law and other Congressional action may affect investors' Notes and the Financed Eligible Loans" above.

There is no assurance that the Issuer will not be subject to inquiries or investigations. While the ultimate outcome of any inquiry or investigation cannot be predicted, it is possible that these inquiries or investigations and regulatory developments may materially affect the Issuer's ability to perform its obligations under the Indenture or the Issuer's ability to pay principal of and interest on the Notes from assets in the Trust Estate.

Military service obligations, natural disasters and pandemics may cause a delay in payments on the Financed Eligible Loans

Military service obligations, natural disasters and pandemics may result in delayed payments from borrowers. Congress has enacted, and may enact in the future, statutes and other guidelines that provide relief to borrowers who enter active military service, to borrowers in reserve status who are called to active duty after the origination of their Eligible Loan, and to individuals who live in a disaster area or suffer a direct economic hardship as a result of a national emergency.

The number and aggregate principal balance of the Financed Eligible Loans that may be affected by the application of these statutes and other guidelines will not be known at the time the Notes are issued. If a substantial number of borrowers of the Financed Eligible Loans become eligible for the relief under these statutes and other guidelines, or any actions Congress may take to respond to natural disasters or pandemics, there could be an adverse effect on the total collections on those Financed Eligible Loans and the Issuer's ability to provide for payments of principal and interest on the Notes.

The Servicemembers Civil Relief Act limits the ability of a lender under the FFELP to take legal action against a borrower during the borrower's period of active duty and, in some cases, during an additional three-month period thereafter, and may limit the interest rate on a Financed Eligible Loan to 6%

per annum while the borrower is in military service if the loan was incurred before the borrower's entry into military service.

The Issuer does not know how many Financed Eligible Loans have been or may be affected by the application of the Servicemembers Civil Relief Act. Payments on Financed Eligible Loans may be delayed as a result of these requirements, which may reduce the funds available to the Issuer to pay principal and interest on the Notes.

Higher Education Relief Opportunities for Students Act of 2003 may result in delayed payments from borrowers

The Higher Education Relief Opportunities for Students Act of 2003 ("HEROS Act of 2003"), signed into law on August 18, 2003, authorizes the Secretary of Education to waive or modify any statutory or regulatory provisions applicable to student financial aid programs under Title IV of the Higher Education Act as the Secretary deems necessary for the benefit of "affected individuals" who:

(a) are serving on active military duty or performing qualifying national guard duty during a war or other military operation or national emergency;

(b) reside or are employed in an area that is declared by any federal, state or local office to be a disaster area in connection with a national emergency; or

(c) suffered direct economic hardship as a direct result of war or other military operation or national emergency, as determined by the Secretary.

The Secretary is authorized to waive or modify any provision of the Higher Education Act to ensure that:

(a) such recipients of student financial assistance are not placed in a worse financial position in relation to that assistance;

(b) administrative requirements in relation to that assistance are minimized;

(c) calculations used to determine need for such assistance accurately reflect the financial condition of such individuals;

(d) provision is made for amended calculations of overpayment; and

(e) institutions of higher education, eligible lenders, guaranty agencies and other entities participating in such student financial aid programs that are located in, or whose operations are directly affected by, areas that are declared to be disaster areas by any federal, state or local official in connection with a national emergency may be temporarily relieved from requirements that are rendered infeasible or unreasonable.

The number and aggregate principal balance of Financed Eligible Loans that may be affected by the application of the HEROS Act of 2003 is not known at this time. Accordingly, payments the Issuer receives on Financed Eligible Loans made to a borrower who qualifies for such relief may be subject to certain limitations. If a substantial number of borrowers become eligible for the relief provided under the HEROS Act of 2003, there could be an adverse effect on the total collections on the Financed Eligible Loans and the Issuer's ability to pay principal and interest on the Notes.

Consumer protection laws may affect enforceability of Financed Eligible Loans

Numerous federal and state consumer protection laws, including various state usury laws and related regulations, impose substantial requirements upon lenders and servicers involved in consumer finance. Some states impose finance charge ceilings and other restrictions on certain consumer transactions and require contract disclosures in addition to those required under federal law. These requirements impose specific statutory liability that could affect an assignee's ability to enforce consumer finance contracts such as the Financed Eligible Loans. In addition, the remedies available to the Trustee or the Noteholders upon an Event of Default under the Indenture may not be readily available or may be limited by applicable state and federal laws.

Noteholders will rely on the Servicers for the servicing of the Financed Eligible Loans

Noteholders will be relying on the Issuer to service all of the Financed Eligible Loans. The Issuer is dependent on PHEAA to provide certain equipment, software, training and related support with respect to the Financed Eligible Loans serviced by the Issuer, and PHEAA will also be engaged to act as the Backup Servicer upon the occurrence of certain events described under the caption "SERVICING OF THE FINANCED ELIGIBLE LOANS—Backup Servicer and Backup Servicing Agreement" herein. The cash flow projections relied upon by the Issuer in structuring the issuance of the Notes were based upon assumptions with respect to servicing costs which the Issuer based on its costs to service the Financed Eligible Loans and PHEAA's costs to act as Backup Servicer. No assurance can be made that the costs to the Issuer and the Backup Servicer for servicing the Financed Eligible Loans will not increase, or that the Issuer would be successful in entering into servicing agreements with other Servicers that would be acceptable to the Rating Agencies at the assumed level of servicing cost. Although the Issuer and the Backup Servicer are obligated to service the Financed Eligible Loans in accordance with the Higher Education Act and the Indenture, the timing of payments to be actually received with respect to the Financed Eligible Loans will be dependent upon the ability of the Issuer or any future Servicer to adequately service the Financed Eligible Loans. In addition, the Noteholders will be relying on the Issuer's and any future Servicer's compliance with applicable federal and state laws and regulations.

Bankruptcy or insolvency of PHEAA could result in payment delays to Noteholders

The Financed Eligible Loans are on PHEAA's servicing system, which the Issuer uses pursuant to PHEAA's Remote Servicing line of business. PHEAA provides the Issuer with certain equipment, software, training and related support necessary for the Issuer to service the Financed Eligible Loans. PHEAA also acts as the Backup Servicer for the Issuer. In the event of PHEAA's insolvency or bankruptcy, the Issuer may lose its ability to access the servicing system, software and support provided by PHEAA and would have to develop or contract with a new provider of a computer servicing system and engage a substitute Backup Servicer, and delays in collections in respect of the Financed Eligible Loans may occur. Any delay in the collections of Financed Eligible Loans may delay payments to Noteholders.

A default by a Servicer could adversely affect the Notes

If the Issuer defaults on its obligations to service the Financed Eligible Loans serviced by it, the Backup Servicer would become the successor Servicer for those Financed Eligible Loans. In the event of a default by any third-party Servicer or the removal of any Servicer, including the Issuer, and the appointment of a successor Servicer, there may be additional costs associated with the transfer of servicing

to the successor Servicer, including, but not limited to, an increase in the Servicing Fees the successor Servicer charges. In addition, the Issuer cannot predict the ability of the successor Servicer to perform the obligations and duties under any servicing agreement. If any such successor third-party Servicer defaults on its obligations to service the loans serviced by it, the Issuer may remove the third-party successor Servicer without the consent of any other party.

If a Servicer or a successor Servicer fails to comply with the Department of Education's or State License Regulator's regulations, payments on the Notes could be adversely affected

The Department of Education regulates each servicer of federal student loans. Numerous states have implemented legislation requiring the licensing and regulation of student loan servicers. Under these regulations, a servicer is jointly and severally liable with its client lenders for liabilities to the Department of Education arising from its violation of applicable requirements. Liabilities are also imposed for violations of state servicer licensing laws. In addition, if any lender or servicer fails to meet standards of financial responsibility or administrative capability included in the federal regulations, or violates other requirements, the Department of Education may impose penalties or fines and limit, suspend, or terminate the lender's ability to participate in or a servicer's eligibility to contract to service loans originated under the FFEL Program.

If a Servicer (including the Issuer as lender or as Servicer) were so fined, or its FFEL Program eligibility were limited, suspended or terminated, payment on the Notes could be adversely affected. If any successor Servicer were so fined or held liable, or its FFEL Program eligibility were limited, suspended, or terminated, its ability to properly service the Financed Eligible Loans and to satisfy any remedies owed by it to the Issuer under a servicing agreement relating to Financed Eligible Loans could be adversely affected. In addition, if the Department of Education terminates a Servicer's eligibility, a servicing transfer will take place and there may be delays in collections and temporary disruptions in servicing. Any servicing transfer may temporarily adversely affect payments to the Noteholders.

Servicing Fees may increase over time in relation to the outstanding principal balance of the Financed Eligible Loans

The amount of monthly Servicing Fees payable out of the Trust Estate is equal to the greater of the percentage specified under "FEES AND EXPENSES" of the Pool Balance as of the last day of the preceding month and a Servicing Fee Floor equal to a monthly per borrower amount specified under "FEES AND EXPENSES" as adjusted for inflation. To the extent that the Servicing Fees are calculated based on the per borrower Servicing Fee Floor rather than as a percentage of the Pool Balance, the amount of Servicing Fees (stated as a percentage of the principal balance of the Financed Eligible Loans) would increase over time. If the optional release of the Financed Eligible Loans from the lien of the Indenture is not exercised when the Pool Balance is 10% or less of the Initial Pool Balance as described under "DESCRIPTION OF THE NOTES—Optional Release," the likelihood that the Servicing Fees would be calculated based on the Servicing Fee Floor is expected to increase, affecting the timing of payment of the Notes. It is not expected that such increase in Servicing Fees would have an adverse effect on the ultimate payment of the Notes.

Failure to comply with loan origination and servicing procedures for Financed Eligible Loans may result in loss of Guarantee or other benefits

The Issuer and other lenders must meet various requirements in order to maintain the federal guarantee on the Financed Eligible Loans. These requirements establish servicing requirements and procedural guidelines and specify school and borrower eligibility criteria.

A Guaranty Agency (including the State Guaranty Agency and any other Guaranty Agency guaranteeing the Financed Eligible Loans) may reject an Eligible Loan for claim payment due to a violation of the FFEL Program due diligence collection and servicing requirements. In addition, a Guaranty Agency may reject claims under other circumstances, including, for example, if a claim is not timely filed or adequate documentation is not maintained. Once a Financed Eligible Loan ceases to be guaranteed, it is ineligible for federal interest benefit and Special Allowance Payments. If a Financed Eligible Loan is rejected for claim payment by a Guaranty Agency, the Issuer continues to pursue the borrower for payment or institutes a process to reinstate the guarantee. Guaranty agencies may reject claims as to portions of interest for certain violations of the due diligence collection and servicing requirements even though the remainder of a claim may be paid.

Examples of errors that cause claim rejections include isolated missed collection calls, or failures to send collection letters as and when required. Violations of due diligence collection and servicing requirements can result from human error. Violations can also result from computer processing system errors, or from problems arising in connection with the implementation of a new computer platform or the conversion of additional loans to a servicing system.

Limitation on enforceability of remedies against the Issuer could result in payment delays or losses

The remedies available to the Trustee or the Noteholders upon an Event of Default under the Indenture are in many respects dependent upon regulatory and judicial actions which are often subject to discretion and delay. Under existing constitutional and statutory law and judicial decisions, including specifically Title 11 of the United States Code, the remedies specified by the Indenture and such other documents may not be readily available or may be limited. The various legal opinions to be delivered concurrently with the delivery of the Notes and the Indenture will be qualified as to the enforceability of the various legal instruments by limitations imposed by bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors generally.

In addition, the Higher Education Act provides that a security interest in FFELP Loans may be perfected by the filing of notice of such security interest in the manner in which security interests in accounts may be perfected by applicable state law, which, under the Missouri Uniform Commercial Code, is accomplished by filing a financing statement with the Missouri Secretary of State. Nonetheless, if through fraud, inadvertence or otherwise a third-party lender or purchaser acting in good faith were to obtain possession of any of the promissory notes evidencing the Financed Eligible Loans (or, in the case of a master promissory note, a copy thereof), any security interest of the Trustee in the related Financed Eligible Loans could be preempted. The Issuer currently maintains control and shall continue to maintain control of all Financed Eligible Loans that are evidenced by an electronically signed note in compliance with applicable federal and state laws. Custody of all other promissory notes relating to Financed Eligible Loans will be maintained by the Issuer, or a custodial agent on its behalf, or by the Servicer (if other than the Issuer).

Lewis and Clark Discovery Initiative

The Issuer has been and may be significantly financially impacted by a Missouri law which established the Lewis and Clark Discovery Initiative (the "Initiative") and became effective August 28, 2007. See "THE HIGHER EDUCATION LOAN AUTHORITY OF THE STATE OF MISSOURI—Lewis and Clark Discovery Initiative; Scholarship Funding" herein for a more complete discussion of such law and its impact on the Issuer.

Due to the limited recourse nature of the Notes, the Initiative should not impact the payment of the Notes unless it causes erosion in the finances of the Issuer to such an extent that it cannot honor any repurchase, administration or similar obligations under the Indenture.

The obligations of each of the Trustee, the Servicer and the Backup Servicer are limited

The duties, actions and obligations of each of the Trustee, the Servicer and the Backup Servicer are limited to such duties, actions and obligations specifically set forth in the transaction documents and no implied covenants, duties or obligations are read into such documents. The remedies available against such transaction parties are similarly limited by the terms of the transaction documents. None of the foregoing transaction parties has any duty or obligation to take any additional action unless specifically directed to take such action and satisfactorily indemnified therefor. Additionally, certain of the duties and obligations of such parties are dependent upon receipt of information from other parties. Any failure of one party to timely and accurately deliver any information, or perform its duties and obligations, could prevent another party from being able to fulfill its duties and obligations.

Certain factors relating to security

The Issuer has covenanted in the Indenture that the assets constituting the trust estate pledged by the Issuer under the Indenture are and will be owned by the Issuer free and clear of any pledge, lien, charge or encumbrance thereon or with respect thereto prior to, of equal rank with or subordinate to the respective pledges created by the Indenture, and that all action on the part of the Issuer to that end has been duly and validly taken. The Issuer acquired the Financed Eligible Loans by purchasing such loans from other lenders. When purchasing student loans, the Issuer obtained warranties from the sellers as to certain matters, including that the loans were originated in accordance with the Higher Education Act and that the loans will be transferred to the Issuer free of any liens and that all filings (including UCC filings) necessary in any jurisdiction to give the Trustee, on behalf of the Issuer, ownership of the Financed Eligible Loans have been made. Notwithstanding the foregoing, under applicable law, security interests in such loans may exist and may not be ascertained by the Issuer. Therefore, no absolute assurance can be given that liens other than the lien of the Indenture do not and will not exist.

The use of master promissory notes for the Financed Eligible Loans may compromise the Trustee's security interest

Student loans made under the FFEL Program may be evidenced by a master promissory note. Once a borrower executes a master promissory note with a lender, additional FFELP Loans made by the lender to such borrower are evidenced by a confirmation sent to the borrower, and all Eligible Loans are governed by the single master promissory note.

A FFELP Loan evidenced by a master promissory note may be sold independently of the other Eligible Loans governed by the master promissory note. If the Issuer originated a Financed Eligible Loan

governed by a master promissory note and does not retain possession of the master promissory note, other parties could claim an interest in the Financed Eligible Loan. This could occur if the holder of the master promissory note were to take an action inconsistent with the Issuer's rights to a Financed Eligible Loan, such as delivery of a duplicate copy of the master promissory note to a third-party for value. Although such action would not defeat the Issuer's rights to the Financed Eligible Loan or impair the security interest held by the Trustee for the investors' benefit, it could delay receipt of principal and interest payments on the Financed Eligible Loan.

Investors may incur losses or delays in payment on their Notes if borrowers do not make timely payments or default on their Financed Eligible Loans

For a variety of economic, social and other reasons all the payments that are actually due on Financed Eligible Loans may not be made or may not be made in a timely fashion. Borrowers' failure to make timely payments of the principal and interest due on the Financed Eligible Loans will affect the revenues of the Trust Estate created under the Indenture, which may reduce the amounts available to pay principal and interest due on the Notes.

The cash flow from the Financed Eligible Loans, and the Issuer's ability to make payments due on the Notes will be reduced to the extent interest is not currently payable on the Financed Eligible Loans. The borrowers on most Eligible Loans are not required to make payments during the period in which they are in school and for certain authorized periods thereafter, as described in the Higher Education Act. The Department of Education will make all interest payments while payments are deferred under the Higher Education Act on certain subsidized Eligible Loans that qualify for interest benefit payments. For all other Eligible Loans, interest generally will be capitalized and added to the principal balance of the Eligible Loans. The Financed Eligible Loans will consist of Eligible Loans for which payments are deferred as well as Eligible Loans for which the borrower is currently required to make payments of principal and interest. The proportions of the Financed Eligible Loans for which payments are deferred and currently in repayment will vary during the period that the Notes are outstanding.

In general, a Guaranty Agency (including the State Guaranty Agency) reinsured by the Department of Education will guarantee 98% of each Financed Eligible Loan with a first disbursement after October 1, 1993 and before July 1, 2006, and 97% of each Financed Eligible Loan with a first disbursement on or after July 1, 2006. All but an insignificant component of the Financed Eligible Loans had their first disbursements on or after October 1, 1993. As a result, if a borrower of a Financed Eligible Loan defaults, the Issuer will experience a loss of approximately 2% or 3% of the outstanding principal and accrued interest on each of the defaulted loans depending upon when it was first disbursed. The Issuer does not have any right to pursue the borrower for the remaining portion that is not subject to the guarantee. If defaults occur on the Financed Eligible Loans and the credit enhancement described herein is not sufficient, investors may suffer a delay in payment or a loss on their investment.

As of the Statistical Cut-Off Date, $9,496,737 of the principal amount of the Financed Eligible Loans (representing approximately 4.71% of the Financed Eligible Loans by principal amount) are "rehabilitation loans," which are Eligible Loans that have previously defaulted, but for which the borrower thereunder has made a specified number of on-time payments as described in "APPENDIX A—DESCRIPTION OF THE FEDERAL FAMILY EDUCATION LOAN PROGRAM—Insurance and Guarantees—*Rehabilitation of Defaulted Loans*" hereto. Although rehabilitation loans benefit from the same guarantees as other Eligible Loans, rehabilitation loans have generally experienced re-default rates that are higher than default rates for Eligible Loans that have not previously defaulted.

Risk of geographic concentration of the Financed Eligible Loans

The concentration of the Financed Eligible Loans in specific geographic areas may increase the risk of losses on the Financed Eligible Loans. Economic conditions in the states where borrowers reside may affect the delinquency, loan loss and recovery experience with respect to the Financed Eligible Loans. As of the Statistical Cut-Off Date, approximately 44.9%, 9.7% and 5.3% of the Financed Eligible Loans by principal balance were to borrowers with current billing addresses in the States of Missouri, Mississippi and Arkansas, respectively. As of the Statistical Cut-Off Date, no other State accounts for more than 5.0% of the Financed Eligible Loans by principal balance. Economic conditions in any state or region may decline over time and from time to time. Because of the concentrations of the borrowers in the above referenced states any adverse economic conditions, including the ongoing COVID-19 Pandemic, adversely and disproportionately affecting those states may have a greater effect on the performance of the Notes than if these concentrations did not exist.

The Trustee may be forced to sell the Financed Eligible Loans at a loss after an event of default

Generally, if an Event of Default occurs under the Indenture, the Trustee may sell, and, at the direction of Noteholders (in varying percentages and priority class as specified in the Indenture), will sell the Financed Eligible Loans. However, the Trustee may not find a purchaser for the Financed Eligible Loans, or the market value of the Financed Eligible Loans plus other assets in the Trust Estate created under the Indenture might not equal the principal amount of outstanding Notes plus accrued interest. Competition currently existing in the secondary market for student loans made under the FFEL Program also could be reduced, resulting in fewer potential buyers of the Financed Eligible Loans and lower prices available in the secondary market for the Financed Eligible Loans. Investors may suffer a loss if the Trustee is unable to find purchasers willing to pay prices for the Financed Eligible Loans sufficient to pay the principal amount of the Notes plus accrued interest.

The Notes may be repaid early due to an optional prepayment, which may affect their yield, and investors will bear reinvestment risk

The Notes may be repaid before investors expect them to be in the event of an optional release when the then outstanding Pool Balance is 10% or less of the initial Pool Balance of the Financed Eligible Loans, as described under the caption "DESCRIPTION OF THE NOTES—Optional Prepayment of Notes When the Then Outstanding Pool Balance is 10% or Less of Initial Pool Balance" herein. Such event would result in the early retirement of the Notes outstanding on that date. If this happens, the yield on the Notes may be affected and investors will bear the risk that they cannot reinvest the money they receive in comparable investments at an equivalent yield.

The characteristics of the portfolio of Financed Eligible Loans may change

The characteristics of the pool of Eligible Loans expected to be pledged to the Trustee under the Indenture are described herein as of the Statistical Cut-Off Date. The aggregate characteristics of the entire pool of Eligible Loans, including the composition of the Eligible Loans and the related borrowers, the related Guaranty Agencies, the distribution by student loan type, the distribution by interest rate, the distribution by principal balance and the distribution by remaining term to scheduled maturity, may vary from the information presented herein, since the information presented herein is as of the Statistical Cut-Off

Date, and the date that the Financed Eligible Loans will be pledged to the Trustee under the Indenture will occur after that date.

In the event that the principal amount of Eligible Loans required to provide collateral for the Notes varies from the amounts anticipated herein, whether by reason of a change in the collateral requirement necessary to obtain the rating on the Notes from each Rating Agency that will rate the Notes as indicated under "SUMMARY OF TERMS—Rating of the Notes" herein, the pricing of the interest rate on the Notes, the principal amount of Notes to be offered, the rate of amortization or prepayment on the portfolio of Eligible Loans from the Statistical Cut-Off Date to the Date of Issuance varying from the rates that were anticipated, or otherwise, the portfolio of Eligible Loans to be pledged to the Trustee under the Indenture may consist of a subset of the pool of Eligible Loans described herein or may include additional Eligible Loans not described under "CHARACTERISTICS OF THE FINANCED ELIGIBLE LOANS" herein.

The Issuer believes that the information set forth in this Offering Memorandum with respect to the pool of Eligible Loans as of the Statistical Cut-Off Date is representative of the characteristics of the pool of Eligible Loans as they will exist on the Date of Issuance for the Notes. However, investors should consider potential variances when making their investment decision concerning the Notes. See the caption "CHARACTERISTICS OF THE FINANCED ELIGIBLE LOANS" herein.

Payment offsets by a Guaranty Agency or the Department of Education could prevent the Issuer from paying Noteholders the full amount of the principal and interest due on the Notes

The Issuer uses the same Department of Education lender identification number for the Financed Eligible Loans included in the Trust Estate established under the Indenture as it uses for certain other Eligible Loans it holds. These include the Eligible Loans held under the Warehouse Agreement released upon issuance of the Notes and the resolutions and indentures securing other notes issued by the Issuer. See the caption "THE HIGHER EDUCATION LOAN AUTHORITY OF THE STATE OF MISSOURI—Previous Financings of the Issuer" herein. As a consequence, the billings submitted to the Department of Education and the claims submitted to the applicable Guaranty Agency (including the State Guaranty Agency) for the Financed Eligible Loans will be consolidated with the billings and claims for payments for Eligible Loans that are not included in the Trust Estate but using the same lender identification number. Payments on those billings by the Department of Education as well as claim payments by any applicable Guaranty Agency will be made to the Issuer in lump sum form. Those payments must be allocated by the Issuer to the Trust Estate and to the other trust estates or indentures of the Issuer or other Eligible Loans held by the Issuer that use the same lender identification number.

If the Department of Education or a Guaranty Agency determines that the Issuer owes any amount on any Eligible Loan held by it under a lender identification number, the Department of Education or a Guaranty Agency may seek to collect such amount by offsetting it against any payments due to the Issuer under that lender identification number. If the amount of any such offset exceeds the amount owed to the Trust Estate or other holder of such Eligible Loan, the offset could reduce the amounts otherwise available for payment in respect of Eligible Loans in the other trust estates, indentures and bond resolutions, including the Financed Eligible Loans pledged to secure the Notes. Any offsetting or shortfall of payments due to the Issuer could adversely affect the amount of funds available to the Trust Estate created under the Indenture and the Issuer's ability to pay principal and interest on the Notes.

The Financed Eligible Loans are unsecured and the ability of the applicable Guaranty Agency to honor its Guarantee may become impaired

The Higher Education Act requires that all FFELP Loans be unsecured. As a result, the only security for payment of the Financed Eligible Loans are the guarantees provided by the applicable Guaranty Agency.

A deterioration in the financial status of an applicable Guaranty Agency and its ability to honor guarantee claims on defaulted Financed Eligible Loans could delay or impair that Guaranty Agency's ability to make claims payments to the Trustee. The financial condition of a Guaranty Agency can be adversely affected if it submits a sufficiently large number of reimbursement claims to the Department of Education, which results in a reduction of the amount of reimbursement that the Department of Education is obligated to pay a Guaranty Agency. The Department of Education may also require a Guaranty Agency to return its reserve funds to the Department of Education upon a finding that the reserves are unnecessary for a Guaranty Agency to pay its program fees or to serve the best interests of the Federal Family Education Loan Program. The inability of a Guaranty Agency to meet its guarantee obligations could reduce the amount of money available to pay principal and interest to the owners of the Notes or delay those payments past their due date.

If the Department of Education has determined that the applicable Guaranty Agency is unable to meet its guarantee obligations, the Eligible Loan holder may submit claims directly to the Department of Education and the Department of Education is required to pay the full guarantee claim amount due with respect to such claims. However, the Department of Education's obligation to pay guarantee claims directly in this fashion is contingent upon the Department of Education making the determination that a Guaranty Agency is unable to meet its guarantee obligations. The Department of Education may not ever make this determination with respect to a Guaranty Agency and, even if the Department of Education does make this determination, payment of the guarantee claims may not be made in a timely manner. See the caption "GUARANTY AGENCIES" herein and "APPENDIX A—DESCRIPTION OF THE FEDERAL FAMILY EDUCATION LOAN PROGRAM—Insurance and Guarantees" hereto.

Commingling of payments on Financed Eligible Loans could prevent the Issuer from paying the full amount of the principal and interest due on the Notes

Payments received on the Financed Eligible Loans generally are deposited into an account in the name of the Issuer each Business Day. Payments received on the Financed Eligible Loans may not always be segregated from payments the Issuer receives on other Eligible Loans it owns or services, and payments received on the Financed Eligible Loans that are part of the Trust Estate created under the Indenture may not be segregated from payments received on other Eligible Loans that are not part of the Trust Estate created under the Indenture. Such amounts that relate to the Financed Eligible Loans once identified by the Issuer as such are transferred to the Trustee for deposit into the Collection Fund within an average of two Business Days of receipt. If the Issuer fails to transfer such funds to the Trustee, Noteholders may suffer a loss.

Incentive or borrower benefit programs may affect the Notes

Substantially all of the Financed Eligible Loans are eligible to receive an interest rate reduction for enrolling in automatic bank draft payments. Certain of the Financed Eligible Loans are subject to other borrower benefit programs, which may vary. Any incentive program that effectively reduces borrower payments or principal balances on Financed Eligible Loans may result in the principal amount of Financed Eligible Loans amortizing faster than anticipated. The Issuer may discontinue, increase or modify such benefits at any time, but only subject to the provisions of the Indenture. The Issuer cannot accurately predict the number of borrowers that will utilize the borrower benefits provided under these programs. The greater the number of borrowers that utilize such benefits with respect to Financed Eligible Loans, the lower the total loan receipts on such Financed Eligible Loans. Although such borrower benefits may decrease the payments to be received from the Financed Eligible Loans, the Issuer does not expect these borrower benefits to impair its ability to make payments of principal and interest on the Notes when due. See the caption "CHARACTERISTICS OF THE FINANCED ELIGIBLE LOANS—Borrower Benefits" herein.

The Notes are expected to be issued only in book-entry form

The Notes are expected to be initially represented by certificates registered in the name of Cede & Co., the nominee for DTC, and will not be registered in any investor's name or the name of any investor's nominee. Unless and until definitive securities are issued, holders of the Notes will not be recognized by the Trustee as Noteholders as that term is used in the Indenture. Until definitive securities are issued, holders of the Notes will only be able to exercise the rights of Noteholders indirectly through DTC and its participating organizations. See the caption "BOOK-ENTRY REGISTRATION" herein.

Structuring tables are based upon assumptions and models

The decrement tables appearing in Appendix B hereto have been prepared on the basis of the modeling assumptions set forth in such Appendix B. The model used in this Offering Memorandum for prepayments does not purport to be an historical description of prepayment experience or a prediction of the anticipated rate of prepayment of any pool of loans, including the Financed Eligible Loans in the pool. It is highly unlikely that the Financed Eligible Loans will prepay at the rates specified. The prepayment assumptions are for illustrative purposes only. For these reasons, the actual weighted average lives of the Notes may differ significantly from the weighted average lives shown in the decrement tables.

HIGHER EDUCATION LOAN AUTHORITY OF THE STATE OF MISSOURI

General

The Issuer was established in 1981 pursuant to the Missouri Higher Education Loan Authority Act, Title XI, Chapter 173, Sections 173.350 to 173.445 of the Missouri Revised Statues, inclusive, as amended (the "Authorizing Act") for the purpose of assuring that all eligible post-secondary education students have access to guaranteed student loans. The Authorizing Act has been amended over the years to provide the Issuer with generally expanded powers, including the power to finance, acquire and service student loans including, but not limited to, those guaranteed or insured pursuant to the Higher Education Act, and in certain other respects.

The headquarters of the Issuer is 633 Spirit Drive, Chesterfield, Missouri 63005-1243 (at which approximately 272 employees are located). The Issuer also has facilities in Columbia, Missouri (at which

approximately 72 employees are located) and Washington, D.C. (at which approximately 4 employees are located). The telephone number of the Issuer is (636) 733-3700. The Issuer's website address is http://www.mohela.com, where its financial statements and additional information can be found in the "About Us" section. The Issuer's website is not incorporated into and shall not be deemed to be a part of this Offering Memorandum.

The Issuer provides full-service loan servicing for private student loans and FFELP Loans owned by the Issuer and by third parties. The Issuer also services Direct Loans for the Department of Education, having been awarded a servicing contract as a not-for-profit servicer (an "NFP Servicer") in September 2011. As of June 30, 2021, MOHELA was servicing $1.1 billion in FFELP loans representing 59,181 accounts, $18.6 billion in third-party lender owned private loans representing 320,566 accounts, $132.8 million in MOHELA-owned private loans representing 6,202 accounts and $59.1 billion in Direct Loans representing 2,726,179 accounts.

As described herein, the Issuer has significant private loan experience, including the third-party lender-owned private loans referred to above. It also originated and services loans for its own private loan program which it began in 1995. The Issuer originated and serviced over $370 million in private loans for over 30,000 borrowers before ending the program in 2008. Through an affiliate and since 2013, the Issuer also services the Missouri Family Education Loan Program ("MOFELP"), an interest-free loan program for Missouri students meeting certain financial need and academic achievement standards. As of June 30, 2021, MOFELP had approximately $23.5 million outstanding with 4,465 borrowers in repayment.

The Issuer licenses COMPASS, the servicing system used by PHEAA.

The Issuer's present contract to service Federal Direct Loans runs to March 31, 2022. However, the Issuer was one of five bidders awarded a contract on June 24, 2020 by the Department of Education pursuant to its Business Process Operations Solicitation (the "BPO Contract") to service all Federal Direct Loans. The Department of Education procedures for the BPO Contract may not be operational for some time. In a related development, the Department of Education on October 28, 2020 issued a Solicitation to acquire an "Interim Servicing Solution" ("ISS") impacting the servicing of student loans and the BPO Contract. The Issuer filed a Pre-Award Protest with the U.S. Government Accountability Office (the "GAO") as to the terms of this ISS Solicitation. The Department of Education recently advised the GAO that it would be taking corrective action by either amending or cancelling the ISS Solicitation. In response thereto, the GAO dismissed the Issuer's protest on January 12, 2021.

Members and Staff

The Issuer is governed by a board of seven members, five of whom are appointed by the Governor of the State, subject to the advice and consent of the Senate of the State, and two others who are designated by statute: the State Commissioner of Higher Education and a member of the State Coordinating Board for Higher Education. A member continues to serve after the expiration of his or her term until a successor is appointed and qualified or he/she is reappointed. The present members are listed on the next page:

Name	Term Expires	Occupation/Affiliation
Mr. Jason C. Ramsey, Chair Columbia, Missouri	October 2017	Lending Institution Representative Assistant Vice President The Callaway Bank
Mr. Robert Ballsrud, Vice Chair St. Louis, Missouri	October 2025	Public at Large Retired Attorney, Private Practice
Mr. Marvin E. Wright, Secretary Columbia, Missouri	October 2019	Public Higher Education Representative Retired General Counsel, University of Missouri
Ms. Tonya K. Grimm, Treasurer Kirksville, Missouri	October 2018	Private Higher Education Representative Assistant Vice President, Finance A.T. Still University
Mr. Peter W. Detweiler Kirksville, Missouri	October 2016	Lending Institution Representative President and CEO Alliant Bank
Mr. Dudley McCarter St. Louis, Missouri	Indefinite	CBHE Designate
Ms. Zora Mulligan Jefferson City, Missouri	Indefinite	MDHEWD Designate Commissioner, Missouri Department of Higher Education and Workforce Development

The following is biographical information on the executive staff of the Issuer.

Raymond H. Bayer, Jr. serves as Executive Director, Chief Executive Officer, and Assistant Secretary of the Issuer. Reporting directly to the Issuer's Board of Directors, he is responsible for all of the Issuer's operations and oversees each of its business units. Mr. Bayer joined the Issuer in 1985. Prior to becoming the Executive Director in 2006, he oversaw various business units including Loan Servicing, Loan Origination, and Business Development. He holds a Bachelor of Science degree in Business Administration from the University of Missouri-St. Louis, a Master of Business Administration degree from Webster University, and a Master of Arts in Finance degree from Webster University. Mr. Bayer serves as Secretary and Director of First State Bancshares of St. Charles of Missouri. Additionally, Mr. Bayer serves as the Board Chair of the Missouri Scholarship and Loan Foundation and the Board Chair of Knowledge Finance, both non-profit companies controlled by the Issuer. Mr. Bayer announced recently that he plans to retire on September 30, 2021 and he will be succeeded by Scott Giles, the Issuer's Deputy Executive Director.

Scott D. Giles serves as the Deputy Executive Director and Chief Operating Officer for the Issuer and, as of October 1, 2021, will become the Executive Director and Chief Executive Officer of the Issuer. Mr. Giles previously served as the Director of Finance and the Chief Financial Officer for the Issuer from 2006 to 2018 and as Treasurer for the Issuer from 2005 to 2006. In his prior roles with the Issuer, he was responsible for the Finance, Accounting, Treasury Management, Procurement, Printing and Mail Support Services, Facilities, Contracted Loan Servicing, and Lender Services and Reconciliation areas, as well as the Issuer's capital structure strategy, financing transactions, interest rate risk management, cash management, investing, and insurance. Mr. Giles most recently served as the President and Chief Executive Officer of Trellis Company from 2018 to 2021. Prior to joining the Issuer in 2005, he served as the Director of the Missouri Student Loan Group of the Missouri Department of Higher Education. Mr. Giles is currently the Chairman of the Board of Directors of the National Council of Higher Education Resources and he previously served as a member and Chairman of the Board for Mapping Your Future. He has also served as a commissioned bank examiner with the Federal Reserve Bank of St. Louis and as an assistant bank examiner with the Missouri Division of Finance. Mr. Giles holds a Bachelor of Science degree in Business Administration with an emphasis in Finance from Southeast Missouri State University and Master of Public Administration degree from the University of Missouri-Columbia.

Ginny Burns serves as Director of Borrower Experience & Processing. She is responsible for the overall Borrower Experience of the Issuer, including the Customer Advocacy Team, Specialty Servicing, Loan Servicing and Quality Assurance Group. Ms. Burns joined the Issuer in 2013. For the 28 years prior, she served as the Vice President-Manager of the Student Services division of Commerce Bank. Ms. Burns holds a Bachelor of Arts degree in Business Communication and a Master of Arts in Business Management from Lindenwood University, located in St. Charles, Missouri.

Laura Catlett serves as the Director of the Contact Center and Digital Customer Care for the Issuer. She is responsible for the Customer Service Operations and Contact Center strategic direction in addition to the customer experience on digital platforms like the website and mobile app. Customer Service units include: Inbound and Outbound call center teams at the Issuer's three locations, Chesterfield and Columbia, Missouri, and Washington D.C., Contact Center Workforce and Dialing Strategy, and Contact Center Operations/Systems Analysis. Ms. Catlett holds a Bachelor of Science in Business Administration from the University of Missouri-St. Louis and a Master of Business Administration from Webster University. Prior to joining the Issuer in June 2013, Ms. Catlett had oversight of Brown Shoe Company contact center operations. Ms. Catlett has over 18 years prior experience in the contact center industry and has served on expert panels.

Jennifer Farmer serves as Director of Federal Contracts. She is responsible for initiating, building and maintaining relationships with the Federal government and others related to Education Loan Services. Ms. Farmer is also responsible for oversight of the planning, design, and implementation of new and existing systems, processes and procedures, and borrower and school services associated with Federal Contracts. She has served on NCHELP Operations and Debt Management committees and currently participates in various workgroups associated with Federal Servicing. Ms. Farmer holds a Bachelor of Science degree in Business Administration from Lindenwood University located in Saint Charles, Missouri. Ms. Farmer joined the Issuer in 1995 and has held various senior and executive management roles throughout the organization.

Marie George serves as Chief Information Officer of the Issuer. She is responsible for Information Systems strategic direction, IT operations, software development, information security and business continuity management. Prior to joining the Issuer, Ms. George served in critical leadership roles for Mercy between 2007 and 2018, most recently serving as Executive Director IT—ERP, Supply Chain, Revenue. Prior to Mercy, her experience included quality assurance management responsibilities for Express Scripts. She is a graduate of Saint Louis University with a degree in Aerospace Engineering and received her

Master's Degree in Business Administration from Fontbonne University. She also holds a Graduate Certificate of Information Management from Washington University.

Frank Reyes serves as Director of Finance and the Chief Financial Officer for the Issuer. Mr. Reyes previously served as the Controller for the Issuer for 3 years. Prior to serving as Controller, he served as Assistant Controller for the Issuer for nearly 7 years. His duties are primarily in the Accounting, Finance, Treasury Management, Accounts Payable, Accounts Receivable, Procurement and Lender Services and Reconciliation areas. Mr. Reyes is a certified public accountant and holds a Bachelor of Science degree with an emphasis in Accounting from Saint Louis University and a Master of Business Administration degree from Webster University. Mr. Reyes joined the Issuer in April 2011 and has experience in auditing and financial reporting and analysis with large accounting firms and private companies.

Dr. James Matchefts serves as General Counsel for the Issuer. Dr. Matchefts joined the Issuer in 2008. Prior to joining the Issuer, Dr. Matchefts served for 10 years as General Counsel to the Missouri Department of Higher Education ("MDHE"). As part of his duties with MDHE, Dr. Matchefts oversaw the operation of the MDHE Student Loan Program, which is Missouri's state-designated guaranty agency under the Federal Family Education Loan Program. For five years before joining MDHE, he worked in the St. Louis, Missouri City Counselor's Office, representing the City of St. Louis in various civil litigation and corporate matters. He received his Juris Doctorate degree from Washington University in 1985 and his Doctor of Education degree from Saint Louis University in 2002.

William C. Shaffner serves as the Director of Business Development and Governmental Relations. Starting with the Issuer in 2004 to help expand the Issuer's presence across the country, his duties have expanded to include Business Development, School Channel Sales and Lender Channel Support, E-Commerce, Marketing and Industry and Government Relations. He also serves on the Missouri Scholarship & Loan Foundation Board of Directors. Mr. Shaffner has over 38 years of experience in the Federal Family Education Loan Program working at University of Central Florida, USA Funds, USA Group, Sallie Mae and American Student Assistance. Mr. Shaffner is a graduate of the University of Central Florida and holds a Bachelor of Science degree in Business Administration.

Paul J. Mosquera serves as Chief Compliance and Risk Management Officer of the Issuer. He is responsible for the compliance management system as well as the internal audit and risk management functions. Prior to joining the Issuer in 2017, Mr. Mosquera held senior and executive management roles in the financial services industry spanning over 25 years with an emphasis in banking. His most recent position was at Scottrade, Inc., where he oversaw the audit teams for the $17 billion Scottrade Bank and brokerage operations. He holds a Bachelor of Arts degree in Economics from the University of Arizona and a Juris Doctorate from Harvard Law School. Mr. Mosquera also served four years as General Counsel and Legislative Liaison for a college in the western suburbs of Chicago.

Permissible Activities; Limitations

The Issuer was not formed as a "special purpose" entity and is legally authorized to and does operate as an active student loan lender and servicer and in related activities. The Issuer generally does not have any significant restrictions on its activities to serve as a student loan lender and servicer under the Authorizing Act, including with respect to issuing bonds or other debt obligations or borrowing money or making student loans. Under existing constitutional and statutory law and judicial decisions, specifically including Title XI of the United States Code, the remedies specified by the trust indentures and such other documents may not be readily available or may be limited.

Previous Financings of the Issuer

The Issuer has previously issued a significant number of series of bonds and notes secured by student loans. The Issuer inadvertently made an underpayment of debt service on a recent transaction that resulted from a miscalculation of debt service due. This underpayment was promptly corrected. Otherwise, the Issuer has paid in full all scheduled interest due and payable on each outstanding series of bonds and notes, and there are no prior payment defaults on any debt securities issued by the Issuer. As of June 30, 2021, the Issuer had outstanding bonds and notes in the following amounts issued under the following indentures and loan agreement. The following table does not give effect to the issuance of the Notes as described herein or the use of certain proceeds from the sale of the Notes as described under the caption "USE OF PROCEEDS" herein to partially pay down the Warehouse Agreement listed below.

Financing	Amounts Outstanding
2021-1 Indenture[1]	$ 431,313,961
2021-2 Indenture[2]	521,277,229
Warehouse Agreement[3]	145,819,000
Total	$1,098,410,190

[1]Notes were issued pursuant to the Indenture of Trust dated as of February 1, 2021.
[2]Notes were issued pursuant to the Indenture of Trust dated as of April 1, 2021.
[3]The Issuer borrowed funds pursuant to the Revolving Credit and Security Agreement, dated as of December 19, 2018, as amended, among the Issuer, Bank of America, N.A., as the lender, and U.S. Bank National Association, as collateral agent (the "Warehouse Agreement").

These outstanding notes issued by the Issuer were issued under the indentures and Warehouse Agreement referred to above, are secured by separate collateral from and are not subject to the lien of the Indenture under which the Notes will be issued. Furthermore, the Notes to be issued under the Indenture will not be secured by the indentures or the Warehouse Agreement referred to above, or any other resolution or transaction document with respect to the Issuer's prior issuances of bonds and notes or other debt obligations.

In addition, as of June 30, 2021, the Issuer had outstanding short-term indebtedness of $67.4 million, including arbitrage rebate payable, trade payables and Special Allowance Payments and Monthly Consolidation Rebate Fees payable to the Department, all of which is either unsecured or is secured by collateral separate and distinct from, and none of which has any interest in, the trust estate under the Indenture. The Issuer also has a note payable to Commerce Bank in the principal amount as of June 30, 2021 of $10,745,708. This loan is not secured by student loans.

Financial and Other Information

The most recent audited financial statements of the Issuer are available on the Issuer's website located at https://www.mohela.com/DL/common/publicInfo/financialStatements.aspx, which information and website are not part of, and are not incorporated by reference into, this Offering Memorandum. The Issuer's financial statements include information with respect to its loan programs generally, including its FFELP Loan program and other information regarding the Issuer. These financial statements are referenced for general background purposes only and for the convenience of Noteholders. Since the Notes are limited obligations of the Issuer, payable solely from the Financed Eligible Loans and other assets pledged to the Trustee under the Indenture, the overall financial status of the Issuer, or that of its other programs, does not indicate and does not affect whether the Trust Estate created under the Indenture will be sufficient to fund

the timely and full payment of principal and interest on the Notes. See "SECURITY AND SOURCES OF PAYMENT FOR THE NOTES."

The Issuer's financial information included in this Offering Memorandum that is reported as of any date other than for the year ended June 30, 2020 is unaudited.

Repurchase Requests

The documents entered into in connection with prior Issuer sponsored securitization transactions and this transaction contain covenants requiring the repurchase or replacement of Eligible Loans in the case of a breach of certain representations and warranties. Therefore, pursuant to Rule 15Ga-1, the Issuer is responsible for disclosure of all fulfilled and unfulfilled repurchase requests for Eligible Loans in such securitization transactions. There have not been any unfulfilled repurchase requests for Eligible Loans with respect to any of the Issuer sponsored securitization transactions. With respect to the Notes, the Issuer will furnish a Form ABS-15G at the times required by and pursuant to Rule 15Ga-1 of the Securities Exchange Act as required by the SEC, which will be furnished on the Municipal Securities Rulemaking Board through its EMMA system at www.emma.msrb.org, which information and website are not part of, and are not incorporated by reference into, this Offering Memorandum.

Lewis and Clark Discovery Initiative; Scholarship Funding

In 2007, state legislation was enacted relative to the then Missouri Governor's Lewis and Clark Discovery Initiative (the "Initiative") providing for the Issuer to fund designated capital projects at Missouri's public higher education institutions (the "Projects"). Pursuant to the legislation, the Issuer was to distribute $350 million for the Projects into a fund in the State treasury known as the "Lewis and Clark Discovery Fund" (the "Fund"). The payments were scheduled to begin with $230 million in Fall of 2007 and $5 million quarterly thereafter. The Issuer distributed $245 million into the Fund by early 2008 but further distributions were then delayed due to Issuer determinations made pursuant to the terms of the legislation. The determinations were based on dramatic changes in the federal student loan program and the credit market crisis and related great recession. Shortly thereafter, in early 2009, the new Governor suspended the Projects and the Initiative became dormant. Accordingly, with no Projects to fund and changes in the student loan program continuing, no further contributions to the Fund have been made by the Issuer pursuant to the terms of the legislation. Related to the foregoing, successive Governors have made scholarship funding requests of the Issuer which are more consistent with its historical mission. In response to those Governors' requests, since 2010, the Issuer has provided nearly $100 million in funding for college scholarships in the State of Missouri. The Issuer has also established another vehicle for providing significant scholarship and grant funding to students at Missouri colleges and universities through its nonprofit Missouri Scholarship and Loan Foundation established in 2010.

Direct Loan Servicing

Prior to July 1, 2010, the Issuer primarily originated, acquired and serviced FFELP Loans. The Issuer has not originated FFELP Loans since July 1, 2010. This is due to the enactment of the Reconciliation Act, including the Student Aid and Fiscal Responsibility Act ("SAFRA"), which prohibited the origination of new FFELP Loans after June 30, 2010. As of July 1, 2010, all loans made under the Higher Education Act are originated under the Direct Loan Program. The terms of existing FFELP Loans are not materially affected by the Reconciliation Act.

The Issuer obtained a contract with the Department of Education to service Direct Loans in accordance with the HCERA, which requires the Department of Education to contract with each eligible

and qualified NFP Servicer to service loans. On April 29, 2010, the Department of Education began the process to identify eligible NFP Servicers by issuing a Sources Sought Notice (Solicitation Number: NFP-SS-2010) (the "Sources Sought Notice") requesting that interested entities submit information to the Department of Education demonstrating eligibility as an eligible NFP servicer under the criteria set forth in the Reconciliation Act.

The Issuer responded to the Sources Sought Notice and was among the first twelve NFP Servicers that the Department of Education determined met the NFP Servicer eligibility criteria under the Reconciliation Act. The Issuer applied to the Department of Education on November 24, 2010, to be permitted to proceed to develop a Memorandum of Understanding. On February 2, 2011, the Department of Education published a determination that the Issuer was permitted to enter into a Memorandum of Understanding to pursue an Authorization to Operate ("ATO") and a contract award as an NFP Servicer. The Pennsylvania Higher Education Assistance Agency ("PHEAA") was identified as a key subcontractor for this arrangement. On March 30, 2011, the Issuer entered into a Memorandum of Understanding with the Department of Education. The Issuer was awarded an ATO on September 22, 2011 and a servicing contract to become an NFP Servicer to service federal assets including Direct Loans on September 27, 2011. As of June 30, 2021, the Issuer had entered into "teaming arrangements" with 18 other NFP Servicers and was servicing approximately 2.7 million federal asset accounts, which are primarily Direct Loans, representing approximately $59.1 billion in student loans.

In addition to a federal loan servicing contract, the Issuer services approximately $1.1 billion of its own FFELP Loans which secure the bonds issued by the Issuer and will provide the Issuer ongoing revenue streams for many years to come. This legacy portfolio and its related revenue have assisted and will continue to assist the Issuer in a gradual and smooth transition to a federal asset servicing business model. See the further discussion of the Issuer's Direct Loan Program servicing under the caption "HIGHER EDUCATION LOAN AUTHORITY OF THE STATE OF MISSOURI—General" herein.

Direct Loan Servicing Performance Metrics

Pursuant to its contractual agreement with each of its Direct Loan servicers, the Department of Education measures servicer performance in the areas of customer satisfaction and default prevention on a quarterly basis. The Department of Education has stated its intention use such metrics to determine each servicer's allocation of future Direct Loan volume.

The Department of Education has provided the Issuer with its most recent Direct Loan servicer performance results for the quarters ended September 30, 2020 and December 31, 2020, and the allocations in effect from March 1, 2021 through August 31, 2021. The average results for September 30, 2020 and December 31, 2020 were used to rank all servicers, both the original Title IV Additional Servicers ("TIVAS") and the NFP Servicers. Based upon these recent performance scores, the Issuer was ranked 1st among all Direct Loan servicers on a combined pool basis. The most current Direct Loan servicer customer service performance results are available by visiting the following web site: https://studentaid.gov/data-center/business-info/contracts/loan-servicing/servicer-performance, which information and website are not part of, and are not incorporated by reference into, this Offering Memorandum.

THE ISSUER'S FFEL PROGRAM

General

Since its inception, the Issuer has established a program for financing certain student loans originated pursuant to the Federal Family Education Loan Program ("FFELP" or the "FFEL Program"), authorized by Title IV of the federal Higher Education Act (such loans, "FFELP Loans"). The FFEL

Program authorized by the Higher Education Act is described in "APPENDIX A—DESCRIPTION OF THE FEDERAL FAMILY EDUCATION LOAN PROGRAM" attached hereto.

On March 30, 2010, the Reconciliation Act was enacted into federal law. Included in the Reconciliation Act were provisions that eliminated the origination of new FFELP Loans under the FFEL Program. As of July 1, 2010, no additional FFELP Loans may be originated and all new federal student loans will be originated solely under the Direct Loan Program. However, FFELP Loans originated under the Higher Education Act prior to July 1, 2010 which have been acquired by the Issuer (including the loans described in this Offering Memorandum under the caption "CHARACTERISTICS OF THE FINANCED ELIGIBLE LOANS" herein) continue to be subject to the provisions of the FFEL Program, and are not materially affected by the Reconciliation Act.

The Issuer has established its loan purchase program with respect to FFELP Loans (the "Program") in order to effectuate the general purposes of the Issuer and the specific objective of assisting students in obtaining a post-secondary education. It has modified the Program over the years and regularly reviews the Program. Through its Program, the Issuer seeks to increase the availability of funds for such purposes by financing: (a) loans that are guaranteed by a Guaranty Agency and reinsured by the Secretary pursuant to the Higher Education Act; (b) loans that are insured by the Secretary of Health and Human Services under the Public Health Service Act ("HEAL loans"); or (c) other educational loans permitted under the Authorizing Act. Such loans may be financed through the issuance of bonds and notes, subject to the terms and conditions of the particular bond resolutions or indentures securing such obligations. The Financed Eligible Loans pledged to the Trustee under the Indenture will consist only of loans described in clause (a) above.

Under the Authorizing Act and pursuant to the Program, the Issuer is authorized to either originate or acquire certain types of student loans. While the Issuer has, for some time, been permitted to either originate or acquire PLUS loans, Consolidation loans, HEAL loans, and loans by the Issuer to certain institutions of higher education pursuant to the Issuer's qualified institution loan program, until about 2008 it could not originate subsidized and unsubsidized Stafford loans. In 2008, a Missouri law was adopted allowing the Issuer to originate a limited amount of Stafford loans for borrowers attending Missouri institutions of higher education. As a result of the recent changes to the FFEL Program, as of July 1, 2010, no entity, including the Issuer, can originate new FFELP Loans under the FFEL Program.

In order to participate in the Issuer's finance programs with respect to FFEL Loans, each third-party lender had to enter into a loan purchase agreement with the Issuer and must have been an "eligible lender" under the Higher Education Act or be otherwise approved by the Issuer. An "eligible lender" under the Higher Education Act included certain commercial banks, mutual savings banks, savings and loan associations, credit unions, insurance companies, pension funds, certain trust companies and educational institutions. In its agreement with the Issuer, the selling lender had to make certain representations with respect to the loans to be sold, and agree to repurchase the loan at the Issuer's request if any representation or warranty made by the lender regarding the loan proves to be materially incorrect, if a maker or endorser of a note evidencing the loan asserts a defense which raises a reasonable doubt as to its legal enforcement or if the Secretary refuses to honor a claim with respect to the loan because of circumstances which occurred prior to the Issuer's purchase of the loan. See "APPENDIX A—DESCRIPTION OF THE FEDERAL FAMILY EDUCATION LOAN PROGRAM" hereto.

Most Financed Eligible Loans purchased or originated by the Issuer prior to July 1, 2008, were eligible, subject to certain conditions precedent in the Indenture, for rate relief programs offered by the Issuer (the "RR Programs"). Except for the 0.25% interest rate reduction for borrowers using auto-debit to make loan payments, the other RR Programs closed to new enrollments on January 1, 2010. Financed Eligible Loans purchased or made by the Issuer prior to July 1, 2008, which were participating in the RR

Programs prior to January 1, 2010, will continue to be eligible for certain interest rate reductions on such loans. Substantially all of the Financed Eligible Loans securing the Notes are eligible to receive an interest rate reduction for enrolling in automatic bank draft payments. Some of the Financed Eligible Loans are eligible to participate in other borrower benefit programs, which may vary. See the caption "CHARACTERISTICS OF THE FINANCED ELIGIBLE LOANS—Borrower Benefits" herein. The RR Programs and other benefits offered by the Issuer with respect to Financed Eligible Loans may be modified or terminated by the Issuer, provided the Issuer may not modify the RR Programs or other benefits other than as provided in the Indenture.

HEAL loans will not be eligible to be financed under the Indenture.

In addition, the Issuer may, to the extent permitted under the Authorizing Act, enter into agreements to finance loans that are not guaranteed or insured under the Higher Education Act. Any such agreement may or may not have conditions similar to the Issuer's current agreements, including certain limitations on the principal amount of such loans. Student loans subject to such agreements will not be eligible to be financed under the Indenture.

Change to Index for Calculation of Special Allowance Payments

The Issuer made an affirmative election under Public Law 112-74 to permanently change the index for Special Allowance Payment calculations on substantially all FFELP Loans in its portfolio disbursed after January 1, 2000 (including all of the Financed Eligible Loans with such disbursement dates) from the three-month commercial paper rate to the one-month LIBOR index, commencing with the Special Allowance Payment calculations for the calendar quarter beginning on April 1, 2012. See the caption "CHARACTERISTICS OF THE FINANCED ELIGIBLE LOANS— Distribution of the Financed Eligible Loans by SAP Interest Rate Index" herein and "APPENDIX A—DESCRIPTION OF THE FEDERAL FAMILY EDUCATION LOAN PROGRAM—Special Allowance Payments" hereto.

SERVICING OF THE FINANCED ELIGIBLE LOANS

The Issuer and each other Servicer is required under the Higher Education Act, the rules and regulations of the Guaranty Agencies and, in the case of the Issuer, the Indenture, to use due diligence in the servicing and collection of the Financed Eligible Loans. The Higher Education Act defines due diligence as requiring the use of collection practices at least as extensive and forceful as those generally practiced by financial institutions for the collection of consumer loans. The Higher Education Act also requires the exercise of reasonable care and diligence in the making and servicing of student loans originated under the Higher Education Act and provides that the Secretary may disqualify an "eligible lender" (which could include the Issuer or the Trustee as holder of student loans originated under the Higher Education) from further federal insurance if the Secretary is not satisfied that the foregoing standards have been or will be met. An eligible lender may not relieve itself of its responsibility for meeting these standards by delegation of its responsibility to any servicing agent and, accordingly, if any Servicer fails to meet such standards, the Issuer's ability to realize the benefits of insurance may be adversely affected.

The Higher Education Act requires that a Guaranty Agency ensure that due diligence will be exercised by an eligible lender in making and servicing student loans originated under the Higher Education Act guaranteed by such Guaranty Agency. Each Guaranty Agency establishes procedures and standards for due diligence to be exercised by the servicer and by eligible lenders which service loans subject to such guaranty agencies' guarantee. If the Issuer or any other Servicer does not comply with the established due diligence standards, the Issuer's ability to realize the benefits of any guaranty may be adversely affected.

The Trustee has no duties or obligations to service, collect or monitor the servicing and collecting of the Financed Eligible Loans. The Trustee also is not responsible for accounting and reporting functions required under the Higher Education Act to preserve the guarantee of any Guaranty Agency or the insurance of the Secretary on the Financed Eligible Loans.

Servicing by the Issuer

The Issuer currently services the Financed Eligible Loans serviced by it with the assistance of software developed and maintained by PHEAA. The Issuer has entered into an agreement with PHEAA pursuant to which PHEAA has agreed to provide the equipment, software, training and related support necessary to enable the Issuer to comply with the provisions of the Higher Education Act. As of June 30, 2021, the Issuer was servicing $1.1 billion in FFELP loans representing 59,181 accounts. The Issuer services education loans for other lenders in addition to servicing most of the Issuer's own loan portfolio. As of June 30, 2021, the Issuer was also servicing $18.6 billion in third-party lender owned private loans representing 320,566 accounts, $132.8 million in Issuer-owned private loans representing 6,202 accounts and $59.1 billion in Direct Loans representing 2,726,179 accounts.

In its capacity as servicer of FFELP student loans, the Issuer submits default claims to guaranty agencies that guarantee the payment of principal and interest of such student loans. See "APPENDIXA—DESCRIPTION OF THE FEDERAL FAMILY EDUCATION LOAN PROGRAM—Insurance and Guarantees" hereto. A default claim package must include all information and documentation required under the FFELP regulations and the guaranty agency's policies and procedures. Under certain circumstances, a guaranty agency may reject a default claim. Set forth below is a table showing the Issuer's gross claim rejection ratio for the calendar years listed.

Calendar Year	Gross Claim Reject Rate
2020	0.16%
2019	0.44
2018	0.12
2017	0.21
2016	0.33

All of the Financed Eligible Loans will, when pledged to the Trustee under the Indenture, be serviced by the Issuer pursuant to the servicing provisions set forth in the Indenture. See the caption "SUMMARY OF THE INDENTURE PROVISIONS—Additional Covenants With Respect to the Higher Education Act" herein. Under the Indenture, the Issuer has agreed to service the Financed Eligible Loans diligently and in accordance with the Higher Education Act, the policies and procedures of the Guaranty Agency and the terms of the Indenture, and the Servicer's standard practices and procedures. Pursuant to the Indenture, the Issuer as Servicer will be paid the Servicing Fee (as defined under the caption "GLOSSARY OF TERMS" herein). The Issuer may from time to time enter into other servicing agreements and arrangements in accordance with the terms of the Indenture.

The Issuer has covenanted in the Indenture that the Issuer will always have a Backup Servicing Agreement with a third-party servicer with respect to all Financed Eligible Loans serviced by it. Below is certain additional information with respect to PHEAA as Backup Servicer and the Backup Servicing Agreement.

Backup Servicing by PHEAA

PHEAA is expected to initially act as Backup Servicer with respect to the Financed Eligible Loans serviced by the Issuer, and currently acts as backup servicer with respect to Eligible Loans currently serviced by the Issuer and previously financed by the Issuer under various indentures.

PHEAA

The following information has been furnished by PHEAA for use in this Offering Memorandum. Neither the Issuer nor the Underwriter makes any guarantee or any representation as to the accuracy or completeness thereof or the absence of material adverse change in such information or in the condition of PHEAA subsequent to the date hereof.

PHEAA is a body corporate and politic constituting a public corporation and government instrumentality created pursuant to an act of the Pennsylvania Legislature. Under its enabling legislation, PHEAA is authorized to issue bonds or notes, with the approval of the Governor of the Commonwealth of Pennsylvania for the purpose of purchasing, making, or guaranteeing loans. Its enabling legislation also authorizes PHEAA to undertake the origination and servicing of loans made by PHEAA and others. PHEAA's headquarters are located in Harrisburg, Pennsylvania with regional offices located throughout Pennsylvania. For further information on PHEAA, see the caption "GUARANTY AGENCIES—Information Regarding PHEAA" herein.

As of March 31, 2021, PHEAA had approximately 2,400 employees and contractors. PHEAA services student loans through its Commercial Servicing line of business, FedLoan Servicing ("FLS") line of business and Remote Servicing line of business. The Commercial Servicing line of business services private student loans and FFELP Loans for customers which consist of national and regional banks and credit unions, secondary markets, and government entities. The FLS line of business services federally owned FFELP and Direct Loan Program loans. The Remote Servicing line of business provides PHEAA's systems to guarantors, other servicers and Not-for-Profit ("NFP") servicers, who were awarded servicing contracts under the Direct Loan Program for use in servicing borrowers.

As of March 31, 2021, PHEAA serviced approximately 9.7 million student borrowers representing an aggregate of approximately $416.2 billion outstanding principal amount under its Commercial Servicing and FLS lines of business.

Through its Commercial Servicing line of business, PHEAA serviced $26.9 billion for lenders as of March 31, 2021, with an approximately $7.4 billion principal balance of private student loans outstanding, which makes PHEAA one of the nation's largest servicers of private student loans.

PHEAA is also one of four primary servicers that were awarded a contract to service Title IV loans owned by the Department of Education. The initial phase of the Title IV Servicing Management contract involved FFELP Loans, which were sold to the Department of Education under the Ensuring Continued Access to Student Loans Act ("ECASLA"). ECASLA gave the Department of Education authority to purchase FFELP Loans from private lenders. In addition, PHEAA began servicing student loans originated under the Federal Direct Program during the 2010-2011 academic year. PHEAA's FLS line of business services the federally owned program loans, and as of March 31, 2021, the portfolio balance of loans and grants serviced by FLS was $389.3 billion.

Under PHEAA's Remote Servicing line of business, the remote clients service approximately 3.3 million student loan borrowers representing an approximately $82.3 billion outstanding principal amount, including $58.5 billion owned by the Department of Education.

FFELP Net Reject Rate

As a servicer, PHEAA works to minimize the net reject rate, which is the amount of claims submitted for payment that are rejected by the guarantor and are subsequently unable to be cured. The net reject rate for both the number and dollar value of PHEAA's FFELP loans for the last three calendar years is listed below.

	FFELP Net Reject Rate	
Year	**Loans**	**Dollars**
2020	0.021%	0.016%
2019	0.020%	0.011%
2018	0.008%	0.008%

The net reject rate is calculated based on claims submitted three years prior which were unable to be cured during the three-year cure period which ended during the calendar years noted above. The number and dollar value of rejected claims not cured is divided by the total claims filed during that same period three years prior.

PHEAA's most recent audited financial reports are available from PHEAA.

Litigation and Inquiries

PHEAA is subject to various claims, lawsuits and other actions that arise in the normal course of business. PHEAA believes that these claims, lawsuits and other actions will not, individually or in the aggregate, have a material adverse effect on its business, financial condition or results of operations. Most of these matters are claims against its servicing and collection operations by borrowers and debtors alleging the violation of state or federal laws in connection with servicing or collection activities on such borrower's or debtor's student loans. In addition, PHEAA is routinely named in lawsuits in which the plaintiffs allege that PHEAA has violated a federal or state law in the process of collecting their accounts.

In the ordinary course of its business, it is common for PHEAA to receive information and document requests and investigative demands from legislative committees and administrative and enforcement agencies. These requests may be informational or regulatory in nature and may relate to PHEAA's business practices, the industries in which it operates, or other companies with whom it conducts business. PHEAA's practice has been, and currently is, to cooperate with these bodies and to be responsive to any such requests. However, PHEAA may find it necessary to initiate litigation to enforce its rights, to protect its business operations and practices or to determine the scope and validity of the rights of such bodies. Litigation is costly and time-consuming, and there can be no assurance that PHEAA's litigation expenses will not be significant in the future or that it will prevail in any such litigation.

Such inquiries and related information demands increase costs and resources PHEAA must dedicate to timely respond to these requests and may, depending on their outcome, result in payments of additional amounts of restitution, fines and penalties in addition to those described below under "Consumer Protection and Similar Laws."

Commonwealth of Massachusetts

In September 2017, the Attorney General's Office for the Commonwealth of Massachusetts ("MA AG") commenced litigation against PHEAA in state court in Massachusetts, generally alleging that PHEAA's federal student loan servicing activities violated various state and federal consumer protection laws. After substantial discovery and thorough negotiations, on February 9, 2021 the trial court approved a settlement agreement between PHEAA and the MA AG. Most notably, the settlement agreement included no admission of liability, and did not assess any fine or penalty against PHEAA. Instead, PHEAA agreed, upon the submission of a claim-form, to review the accounts of federal student loan borrowers in Massachusetts for alleged errors or discrepancies. To the extent errors are discovered, accounts will be adjusted accordingly. In addition, out of approximately 250,000 federal student loan borrowers in Massachusetts, PHEAA agreed to remediate 25 borrowers through account-edits, or where edits could not be made, a limited refund of payments received. PHEAA also agreed to provide enhanced quality-assurance reviews for Massachusetts borrowers. Ultimately, the settlement agreement resulted in no financial impact to PHEAA, and the outcome demonstrates PHEAA's strong commitment to assisting borrowers.

State of New York

Similar to the Massachusetts litigation described above, on October 3, 2019, the Attorney General for the State of New York filed an action against PHEAA in the United States District Court for the Southern District of New York. This action predominantly focuses on PHEAA's federal student loan servicing activities related to federal loans eligible for Public Service Loan Forgiveness ("PSLF"), as well as various types of unique deferments and repayment options. New York alleges violations of the Consumer Financial Protection Act, as well as a variety of New York statutory and common law claims. PHEAA strongly disagrees with the allegation of the Complaint. PHEAA believes that the risk of loss is remote and will continue to contest this matter vigorously.

Multi-District Litigation

Similar to both actions noted above, several individual borrowers previously filed lawsuits against PHEAA and the Department of Education in several different federal courts related to PHEAA's activities as a federal student loan servicer. These lawsuits challenge PHEAA's servicing activities surrounding PSLF, deferment and forbearance, and loan repayment programs. These actions were previously ordered to be consolidated into one lawsuit to be filed in the United States District Court for the Eastern District of Pennsylvania. In October 2019, the plaintiffs collectively filed their one, Amended Complaint which purports to state all claims on behalf of all plaintiffs. The allegations against PHEAA and the Department of Education include a variety of tort-based statutory and common law claims. As of the date of this report, PHEAA and the Department of Education have filed their respective Motions to Dismiss, which have yet to be adjudicated. PHEAA believes the risk of loss is remote and will continue to contest this matter vigorously.

Consumer Protection and Similar Laws

The CFPB has issued regulations subjecting PHEAA to the supervision of the CFPB as a "larger participant" (as defined for purposes of the Dodd-Frank Act). Applicable regulations provide for the examination and monitoring by the CFPB of larger participants in student loan servicing, such as PHEAA, thus giving the CFPB broad authority to examine, investigate, supervise, and otherwise regulate PHEAA's business, including the authority to impose fines and require changes with respect to any requirements that the CFPB finds to be unfair, deceptive or abusive. The CFPB seeks to make sure that all relevant federal consumer financial laws are followed by nonbank student loan servicers, such as PHEAA, and that such

rules are applied to both federal and private student loans, from origination through servicing to debt collection. The CFPB has substantial power and discretion to define the rights of consumers and the responsibilities of certain entities, such as PHEAA. There is continuing uncertainty regarding how the CFPB's strategies and priorities will impact PHEAA's, and other large nonbank student loan servicers', business and results of operations going forward. Additionally, the Dodd-Frank Act gives the CFPB authority to pursue administrative proceedings and litigation for violations of federal consumer financial laws. In these proceedings, the CFPB can obtain cease and desist orders (which can include orders for restitution or rescission of contracts, as well as other kinds of affirmative relief) and monetary penalties ranging from $5,000 per day for minor violations of federal consumer financial laws (including the CFPB's own rules) to $25,000 per day for reckless violations and $1 million per day for knowing violations. Also, where an entity has violated Title X of the Dodd-Frank Act (the Consumer Financial Protection Act of 2010) or CFPB regulations under Title X, the Dodd-Frank Act empowers state attorneys general and state regulators to bring civil actions for the kind of cease and desist orders available to the CFPB (but not for civil penalties). If the CFPB or one or more state or other federal officials find that PHEAA or its affiliates have violated the foregoing or other laws, they could exercise their enforcement powers in ways that may have a material adverse effect on PHEAA.

In addition to enforcing consumer financial laws directed at specific loan origination and servicing functions, such as loan disclosures and debt collection procedures, the CFPB is directed to prohibit "unfair, deceptive or abusive" acts or practices, and to ensure that all consumers have access to fair, transparent and competitive markets for consumer financial products and services. The review of services and practices to prevent unfair, deceptive or abusive conduct will be a continuing focus of the CFPB, as well as PHEAA's own internal reviews. Such ongoing internal and regulatory reviews are likely to result in changes in PHEAA's policies and practices, increased costs related to regulatory oversight, compliance, supervision and examination and may result in regulatory actions, including civil monetary penalties.

Since 2013, the CFPB has been a party to numerous public enforcement actions, either independently or in conjunction with other federal and state enforcement agencies, to enforce consumer protection laws within its jurisdiction or to support consumer protection efforts nationwide. The CFPB has also been investigating, based on potentially problematic practices identified by the CFPB or reported by consumers or others or investigations transferred to the CFPB by regulators or other federal agencies, potential violations of federal consumer financial laws. Potential penalties are significant, and several large settlements have been entered into by the CFPB and/or other federal and state agencies with, among others, consumer loan originators, servicers and other consumer credit businesses.

Because such supervision and enforcement authority continues to be subject to intensive rulemaking and public comment, which may result in further regulations and/or regulatory interpretations, PHEAA is unable to predict the final form that this regulatory regime will take or the ultimate effect such supervision or required examinations or enforcement actions, if any, could have on PHEAA's operations. PHEAA's operational expenses will likely increase to address new or additional compliance requirements that could be imposed on PHEAA's operations as a result of these developments and CFPB supervision and examination and, depending on their outcome, result in payments of additional amounts of restitution, fines and penalties in addition to those described above.

In response to the evolving regulatory environment, PHEAA has enhanced its compliance management system, has conducted and continues to conduct internal reviews, and has engaged outside firms to assist in compliance and risk assessments. This initiative has enabled PHEAA to better identify deficiencies in its existing processes, policies and procedures. PHEAA has made a commitment to continue to dedicate significant resources to address and remediate any deficiencies it has identified as well as those which may be identified as a result of future reviews and assessments. Notwithstanding such efforts, it is possible that PHEAA may be found to be out of compliance with certain laws applicable to servicing or

originating student loans, including the Financed Eligible Loans. Although management of PHEAA does not believe any such deficiencies would materially and adversely affect the ability of PHEAA to perform its obligations as a servicer, such an outcome cannot be assured.

COVID-19 Pandemic

An outbreak of a new coronavirus, detected in China in December 2019, spread internationally in the first quarter of calendar year 2020 causing widespread disruption of the global economy and a rise in market volatility. Health officials have declared this to be a pandemic. The course of the pandemic and its ultimate effect on the United States, the global economy and markets are not fully known at this time. Management's evaluation is ongoing and it is not possible to predict the extent of the effect that the pandemic may have on PHEAA's financial position as the financial environment continues to change.

Backup Servicing Agreement

The Issuer covenants in the Indenture to maintain a Backup Servicing Agreement with a third-party servicer with respect to all of the Financed Eligible Loans serviced by it and to pay all fees and expenses of such third-party servicer associated therewith. PHEAA will initially act as backup servicer (the "Backup Servicer") with respect to all of the Financed Eligible Loans serviced by the Issuer pursuant to a backup third-party servicing agreement dated July 9, 2021 (the "Backup Servicing Agreement"), between the Issuer and the Backup Servicer. The following is a summary of some of the provisions included in the Backup Servicing Agreement. All statements included in this summary are intended to be descriptive of the provisions of the Backup Servicing Agreement, but does not address all of the provisions of the Backup Servicing Agreement, does not fully state the provisions addressed and is subject to all of the definitive terms and conditions of the Backup Servicing Agreement in its entirety.

The Backup Servicing Agreement has a two-year term commencing on its effective date, unless earlier terminated by the Issuer or the Backup Servicer for the events described below (after notice of the same to the breaching party and the expiration of any applicable cure period) and automatically extends for successive one-year periods unless a party provides the other party of written notice of termination not less than 90 days prior to the annual termination date. In addition, to the extent the Backup Servicing Agreement is no longer required pursuant to the terms of the Indenture (which would require an amendment to the Indenture), the Backup Servicing Agreement will terminate 90 days after receipt of written notice from the Issuer of such event.

The Issuer may terminate the Backup Servicing Agreement upon the occurrence of any of the following events (with respect to the first, second and fourth bullet points below, after notice to the Backup Servicer and the right within 60 days to cure any such breach or error to the full satisfaction of the Issuer and the Trustee):

- material breaches of representations or warranties made by the Backup Servicer in or pursuant to the Backup Servicing Agreement (or any information or report delivered by it) that has a Material Adverse Effect or Servicer Material Adverse Effect;

- failure in any material respect of the Backup Servicer to perform or observe any term, covenant or agreement under the Backup Servicing Agreement which has a Material Adverse Effect or Servicer Material Adverse Effect;

- the Backup Servicer discontinues its business, generally fails to pay its debts as such debts become due, makes a general assignment for the benefit of creditors, is subject to a voluntary or involuntary bankruptcy, reorganization, insolvency or other proceeding (whether

federal or state) relating to relief of debtors, or any judgment, decree or order, entered by a court of competent jurisdiction, which approves a petition seeking the Backup Servicer's reorganization or appoints a receiver, custodian, trustee, interim trustee or liquidator for itself or all or a substantial part of its assets continues in effect for thirty (30) consecutive days;

- a Servicer Material Adverse Effect shall have occurred;

- the Backup Servicer fails to remain eligible to service FFELP Loans under the Higher Education Act and related regulations; or

- certain force majeure events continue for over 20 days or to the extent that the Backup Servicer is unable to perform any obligations arising under the Backup Servicing Agreement as a result of having to give priority to administer existing programs on behalf of the Commonwealth of Pennsylvania.

A "Material Adverse Effect" means (a) a material adverse change in the value of a material portion of the Financed Eligible Loans or (b) any event which could reasonably be viewed as having a material adverse effect on (1) the validity, enforceability or collectability of a material portion of the Financed Eligible Loans or the Notes; (2) the status, existence, perfection, priority or enforceability of the Trustee's security interest in a material portion of the Financed Eligible Loans or (3) a Guaranty Agency's obligation to continue to guarantee payment of a material portion of the Financed Eligible Loans.

A "Servicer Material Adverse Effect" means the occurrence of an event or a change in circumstances that would have a material adverse effect on the ability of the Backup Servicer to perform its obligations under the Backup Servicing Agreement.

The Backup Servicer may terminate the Backup Servicing Agreement upon the occurrence of any of the following events:

- failure by the Issuer to perform or observe any of the material provisions or covenants of the Backup Servicing Agreement which materially and adversely affects the Backup Servicer's ability to perform its obligations thereunder;

- the Backup Servicer determines that it is no longer able to perform its obligations as a back-up third party servicer, upon one hundred eighty (180) days written notice to the Issuer and the Trustee;

- the Issuer and the Backup Servicer are unable to agree on a proposed increase in fees of the Backup Servicer (which increase may result from changes in applicable governmental regulations, guaranty agency program requirements or regulations, or any change in postage rates), after 270 days prior written notice to the Trustee and the Issuer; or

- failure of the Issuer to pay the Backup Servicer its fees due under the Backup Servicing Agreement (subject to the notice and cure periods specified therein).

If the Issuer determines that it does not want to continue servicing the Financed Eligible Loans (and provides 60 days written notice to the Backup Servicer) or if the Issuer is in material violation of its obligations to service the Financed Eligible Loans serviced by it as set forth in the Indenture, as determined by the Issuer (in which case it will promptly notify the Trustee of such), the Trustee (which has no duty to make such determination but is required to provide notice of any such material violation to the Noteholders) or the Noteholders of at least a majority of the principal amount of the Notes outstanding, and such violation

remains uncured after notice thereof and the expiration of any applicable cure period, and the Trustee (at the written direction of the Issuer or the Noteholders of at least a majority of the principal amount of the Notes outstanding) gives 60 days written notice to the Issuer and the Backup Servicer, the Backup Servicer would become the successor Servicer for the Financed Eligible Loans serviced by the Issuer.

GUARANTY AGENCIES

All of the Financed Eligible Loans expected to be financed with proceeds of the Notes offered hereby are loans guaranteed (with respect to payments of principal and interest) by a Guaranty Agency and reinsured by the Secretary under the Higher Education Act. The Guarantee provided by a Guaranty Agency is an obligation solely of that Guaranty Agency and is not supported by the full faith and credit of the federal or any state government. However, the Higher Education Act provides that if the Secretary determines that a Guaranty Agency is unable to meet its insurance obligations, the Secretary shall assume responsibility for all functions of that Guaranty Agency under its loan insurance program. Additional discussion that relates to Guaranty Agencies generally under the FFEL Program is included in "APPENDIX A—DESCRIPTION OF THE FEDERAL FAMILY EDUCATION LOAN PROGRAM" hereto.

In the issuance of Guarantees on loans, each Guaranty Agency is required to review loan applications to verify the completion of required information. In addition, each Guaranty Agency is required to make a determination that the applicant has not borrowed amounts in excess of those permitted under the Higher Education Act. In addition to the Guaranty Agencies described below, the Indenture provides that Financed Eligible Loans may be guaranteed by any entity authorized to guarantee student loans under the Higher Education Act and with which the Issuer has entered into a Guarantee Agreement.

As of the Statistical Cut-Off date (and based on the aggregate outstanding principal balances of the Financed Eligible Loans as of such date), of the Financed Eligible Loans to be held in the Trust Estate created under the Indenture, approximately:

—54.3% are guaranteed by the Missouri Department of Higher Education (the "State Guaranty Agency");

—18.9% are guaranteed by Pennsylvania Higher Education Assistance Agency;

—10.6% are guaranteed by Ascendium Education Solutions, Inc. (f/k/a Great Lakes Higher Education Guaranty Corporation); and

—the remaining approximately 16.2% are guaranteed by other Guaranty Agencies (each such Guaranty Agency guarantees less than 10% of the Financed Eligible Loans as of the Statistical Cut-Off Date).

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The following is certain additional information with respect to the Guaranty Agencies which are expected to guarantee at least 10% of the Financed Eligible Loans held under the Indenture.

Information Regarding the State Guaranty Agency

The following information has been furnished by the State Guaranty Agency for use in this Offering Memorandum. The Issuer makes no guarantee or representation as to the accuracy or completeness thereof or the absence of material adverse change in such information or in the condition of the State Guaranty Agency subsequent to the date hereof.

In 1978, the Missouri General Assembly enacted legislation authorizing the Missouri Guaranteed Student Loan Program. The State Guaranty Agency has been designated to administer the FFEL Program on behalf of the Coordinating Board for Higher Education. The Missouri Guaranteed Student Loan Program became operative during October 1979. To be eligible for FFEL Program funds under the Missouri Guaranteed Student Loan Program, students must have attended institutions which are eligible institutions under the Higher Education Act.

The State Guaranty Agency has offices at 301 W High Street, Jefferson City, Missouri 65101 and currently employs 19 full time equivalent employees to administer the Federal subsidized and unsubsidized Stafford, SLS and PLUS programs. Certain processing and operational functions for these programs are performed by Educational Credit Management Corporation, Minneapolis, Minnesota, pursuant to a contract with the State Guaranty Agency.

The State Guaranty Agency's "reserve ratio" represents a measure of its ability to meet its future obligations on the existing portfolio of loans. The "reserve ratio" is computed by dividing the State Guaranty Agency's total Reserve Account balance by the amount of outstanding loans. The State Guaranty Agency's "reserve ratio" exceeds the regulatory minimum. The State Guaranty Agency's "federal trigger rate" represents the percentage of default claims (based on dollar value) submitted as reinsurance claims to the Secretary relative to its existing portfolio of loans in repayment. For the last five fiscal years, the State Guaranty Agency's "federal trigger rate" was as follows:

Fiscal Year	Federal Trigger Rate
2020	-0.32%*
2019	1.49%
2018	5.37%
2017	1.72%
2016	0.76%

*The negative percentage is due to the number of accounts that were moved out of default status (mostly through rehabilitation of such loans) being greater than the number of accounts that were moved into default status (defaulted claims) during that Fiscal Year.

Since December 2015, the State Guaranty Agency has been reimbursed by the Secretary 100% of the amount the State Guaranty Agency paid lenders on claims.

The State Guaranty Agency's "recovery rate" is an indicator of the effectiveness of the State Guaranty Agency's collection efforts regarding student loans with respect to which the State Guaranty

Agency has paid default claims. One method of calculating the "recovery rate" is by dividing the gross amount recovered during the year by the amount of defaulted loans in the State Guaranty Agency's portfolio at the beginning of the year. Using this calculation method, the State Guaranty Agency's "recovery rate" for the last five fiscal years was as follows:

Fiscal Year	Recovery Rate
2020	24.06%
2019	31.19%
2018	26.33%
2017	27.39%
2016	24.99%

The 1998 Amendments to the Higher Education Act required the State Guaranty Agency to establish an Agency Operating Fund and a Federal Student Loan Reserve Fund. The primary purpose of the Agency Operating Fund is to finance guaranty agency and other student financial aid related activities, as selected by the State Guaranty Agency. The primary purpose of the Federal Student Loan Reserve Fund is to purchase defaulted student loans from lending institutions. The unobligated moneys not currently needed are invested by the state treasurer. As of June 30, 2020, the State Guaranty Agency had total assets of $24,734,752, deferrals, accounts payable and other liabilities of $375,134, and an Agency Operating Fund balance of $24,359,618.

Information Regarding PHEAA

The following information has been furnished by PHEAA for use in this Offering Memorandum. The Issuer makes no guarantee or representation as to the accuracy or completeness thereof or the absence of material adverse change in such information or in the condition of PHEAA subsequent to the date hereof.

Pennsylvania Higher Education Assistance Agency ("PHEAA") is a body corporate and politic constituting a public corporation and government instrumentality created pursuant to the Pennsylvania Act of August 7, 1963, P.L. 549, as amended (the "Pennsylvania Act"). For further information on PHEAA, see the caption "SERVICING OF THE FINANCED ELIGIBLE LOANS—Backup Servicing by PHEAA—*PHEAA*" herein.

PHEAA has been guaranteeing student loans since 1964. As of March 31, 2021, PHEAA has guaranteed a total of approximately $48.8 billion principal amount of Stafford Loans, $7.9 billion principal amount of PLUS and SLS Loans, and $52.1 billion principal amount of Consolidation Loans under the Higher Education Act. PHEAA initially guaranteed loans only to residents of the Commonwealth of Pennsylvania (the "Commonwealth") or persons who planned to attend or were attending eligible education institutions in the Commonwealth. In May 1986, PHEAA began guaranteeing loans to borrowers who did not meet these residency requirements pursuant to its national guarantee program. Under the Pennsylvania Act, guarantee payments on loans under PHEAA's national guarantee program may not be paid from funds appropriated by the Commonwealth.

Effective April 1, 2013, PHEAA was designated as the guarantor for the State of Georgia. PHEAA accepted the transfer and assignment of the rights, duties and responsibilities as a Guaranty Agency under the Federal Family Education Loan Program from the Georgia Higher Education Assistance Corporation's (GHEAC), the previous designated guarantor for the State of Georgia. As a result, PHEAA accepted the transfer and assignment of student loans with an aggregate of $687.8 million in original principal, net of

cancellations. All percentages and results for PHEAA in the charts below for periods of activity after April 1, 2013, include the impact of the additional guaranty volume received in the transfer.

PHEAA has adopted a default prevention program consisting of (i) informing new borrowers of the serious financial obligations incurred by them and stressing the financial and legal consequences of failure to meet all terms of the loan, (ii) working with institutions to make certain that student borrowers are enrolled in sound education programs and that the proper individual enrollment records are being maintained, (iii) assisting lenders with operational programs to ensure sound lending policies and procedures, (iv) maintaining up-to-date student status and address records of all borrowers in the guaranty program, (v) initiating prompt collection actions with borrowers who become delinquent on their loans, do not establish repayment schedules or "skip," (vi) taking prompt action, including legal action and garnishment of wages, to collect on all defaulted loans, and (vii) adopting a general policy that no loan will be automatically "written off." Since the loan servicing program was initiated in 1974, PHEAA has never exceeded an annual default claims percentage of 5 percent and, as a result, federal reimbursement for default claims has thus far been at the maximum federal reimbursement level.

For the last five federal fiscal years (ended September 30), the annual default claims percentages have been as follows:

Federal Fiscal Year	Annual Default Claims
2016	0.46%
2017	0.59
2018	1.10
2019	1.49
2020	0.82

As of March 31, 2021, PHEAA had total federal reserve fund assets of approximately $93.0 million. Through March 31, 2021, the outstanding amount of original principal on loans that had been directly guaranteed by PHEAA and loans transferred from GHEAC under the Federal Family Education Loan Program was approximately $16.4 billion. In addition, as of March 31, 2021, PHEAA had total assets of $4.1 billion, which does not include Federal Reserve Fund assets.

Guarantee Volume. PHEAA's new origination guaranty volume (the approximate aggregate principal amount of federally reinsured education loans, including PLUS Loans but excluding federal consolidation loans) was zero for each of the last five federal fiscal years (ended September 30).

Reserve Ratio. Under current law, PHEAA is required to manage the Federal Fund so net assets are greater than 0.25% of the original principal balance of outstanding guarantees. The table below shows the reserve ratio for PHEAA for the last five federal fiscal years (ended September 30):

Federal Fiscal Year	Reserve Ratio
2016	0.37%
2017	0.50
2018	0.60
2019	0.56
2020	0.61

The table displays PHEAA's calculation of the reserve ratio on a regulatory basis of accounting. Each year the reserve ratio includes an adjustment for gain contingencies not recognized under generally accepted accounting principles.

Recovery Rates. A guarantor's recovery rate, which provides a measure of the effectiveness of the collection efforts against defaulting borrowers after the guarantee claim has been satisfied, is determined for each year by dividing the current year collections by the total outstanding claim portfolio for the prior fiscal year.

The recovery rate decreased in 2020 due to the decrease in recoveries as a result of the COVID-19 Pandemic. The CARES Act provided an interest reprieve and implemented an automatic forbearance effective March 2020, for any borrower with a student loan held by the Department of Education. PHEAA took into account this guidance and addressed management of the default portfolio by suspending active garnishments and ceased referral of accounts to outside collection vendors. In addition, PHEAA suspended the series of standard default due diligence letters hence accounts were treated as deferred from further collections effective March 2020. PHEAA also limited outbound calls to borrowers.

The table below shows the cumulative recovery rates for PHEAA for the five federal fiscal years (ended September 30):

Federal Fiscal Year	Reserve Ratio
2016	28.35%
2017	28.96
2018	25.82
2019	27.48
2020	23.91

Information Regarding Ascendium

Ascendium Education Solutions, Inc. f/k/a Great Lakes Higher Education Guaranty Corporation ("Ascendium") is a Wisconsin nonstock, nonprofit corporation, the sole member of which is Ascendium Education Group, Inc. f/k/a Great Lakes Higher Education Corporation ("Ascendium Education Group"). Ascendium's predecessor organization, Ascendium Education Group, was organized as a Wisconsin nonstock, nonprofit corporation and began guaranteeing student loans under the Higher Education Act in 1967. Ascendium is the designated guaranty agency under the Higher Education Act for Wisconsin, Arkansas, Iowa, Minnesota, Montana, North Dakota, Ohio, South Dakota, Puerto Rico and the Virgin Islands. On January 1, 2002, Ascendium Education Group (and Ascendium directly and through its support services agreement with Ascendium Education Group), outsourced certain aspects of its student loan program guaranty support operations to Great Lakes Educational Loan Services, Inc. Ascendium continues as the "guaranty agency" as defined in Section 435(j) of the Higher Education Act and continues its default aversion, claim purchase and compliance, collection support and federal reporting responsibilities as well as custody and responsibility for all revenues, expenses and assets related to that status. The primary operations center for Ascendium Education Group and its affiliates (including Ascendium) is in Madison, Wisconsin, which includes operational staff offices for guaranty functions. Ascendium also maintain offices in: Eagan, Minnesota; Aberdeen, South Dakota; and Indianapolis, Indiana. Ascendium will provide a copy of Ascendium Education Group's most recent consolidated financial statements on receipt of a written request directed to 2501 International Lane, Madison, Wisconsin 53704, Attention: Chief Financial Officer.

United Student Aid Funds, Inc. ("USAF") was organized as a private, nonprofit corporation under the General Corporation Law of the State of Delaware in 1960. USAF (i) maintained facilities for the provision of guarantee services with respect to approved education loans made to or for the benefit of eligible students attending approved educational institutions; (ii) guaranteed education loans made pursuant to certain loan programs under the Higher Education Act, as well as loans made under certain private loan programs; and (iii) served as the designated guarantor for education-loan programs under the Higher Education Act in Arizona, Hawaii and certain Pacific Islands, Indiana, Kansas, Maryland, Mississippi, Nevada and Wyoming.

USAF was the sole member of the Northwest Education Loan Association ("NELA"), a guarantor serving the states of Washington, Idaho and the Northwest. Ascendium Education Group became a member of USAF effective January 1, 2017.

Effective as of December 31, 2018, NELA was dissolved, with its remaining assets going to its sole member, USAF. Immediately thereafter, USAF was merged into Ascendium. Thus, the portfolios previously held by USAF and NELA are now held by Ascendium.

The information in the following tables has been provided to the Issuer from reports provided by or to the U.S. Department of Education and has not been verified by the Issuer, Ascendium, or the Underwriter. No representation is made by the Issuer, Ascendium, or the Underwriter as to the accuracy or completeness of this information. Prospective investors may consult the U.S. Department of Education Data Books and Web sites http://www2.ed.gov/finaid/prof/resources/data/opeloanvol.html and http://www.fp.ed.gov/pubs.html for further information concerning Ascendium or any other guaranty agency. Such websites are not incorporated into this Offering Memorandum.

Guaranty Volume. Pursuant to the Reconciliation Act of 2010, Ascendium, the former USAF, and the former NELA ceased issuing new loan guarantees on June 30, 2010. The most recent year for which the U.S. Department of Education has issued guaranty volume information is 2009. Ascendium issued $7.0 billion in new loan guarantees in that year.

Reserve Ratio. The reserve ratios for Ascendium, the former USAF and the former NELA are as follows:

The Ascendium Portfolio*

Following are Ascendium's reserve fund levels as calculated in accordance with 34 CFR 682.410(a)(10) for the last five federal fiscal years:

Federal Fiscal Year	Federal Guaranty Reserve Fund Level[1]
2016	1.37%
2017	1.80
2018	2.21
2019	0.64
2020	0.96

The U.S. Department of Education's website has posted reserve ratios for Ascendium for federal years 2016, 2017, 2018, 2019 and 2020 of 0.827%, 1.000%,1.480%, 0.49% and 0.59% respectively. Ascendium believes the Department of Education has not calculated the reserve ratio in accordance with the Act and the correct ratio should be 1.37%, 1.80%, 2.21%, 0.64% and 0.96% respectively, as shown

above and as explained in the following footnote. On November 17, 2006, the U.S. Department of Education advised Ascendium that beginning in Federal Fiscal Year 2006 it will publish reserve ratios that include loan loss provision and deferred revenues. Ascendium believes this change more closely approximates the statutory calculation. According to the U.S. Department of Education, available cash reserves may not always be an accurate barometer of a guarantor's financial health.

[1/] In accordance with Section 428(c)(9) of the Higher Education Act, does not include loans transferred from the former Higher Education Assistance Foundation, Northstar Guarantee Inc., Ohio Student Aid Commission, Puerto Rico Higher Education Assistance Corporation, Student Loan Guarantee Foundation of Arkansas, Student Loans of North Dakota, Montana Guaranteed Student Loan Program, or designated states of Arizona, Hawaii, Idaho, Indiana, Kansas, Maryland, Mississippi, Nevada, Washington, Wyoming, and certain Pacific Trust Territories. (The minimum reserve fund ratio under the Higher Education Act is 0.25%.)

[*] The percentages for 2015-2018 include only the Ascendium portfolio; the percentage for 2019 include the combined portfolios of Ascendium, USAF and NELA.

The Former USAF Portfolio Now Held by Ascendium

Following are USAF's reserve fund levels as calculated in accordance with 34 CFR 682.410(a)(10) for the five federal fiscal years presented:

Federal Fiscal Year	Federal Guaranty Reserve Fund Level[1]
2014	0.277%
2015	0.251
2016	0.308
2017	0.350
2018	0.363

[1/] In accordance with Section 428(c)(9) of the Higher Education Act, does not include loans transferred from the former Higher Education Assistance Foundation, Northstar Guarantee Inc., Ohio Student Aid Commission, Puerto Rico Higher Education Assistance Corporation, Student Loan Guarantee Foundation of Arkansas, Student Loans of North Dakota, Montana Guaranteed Student Loan Program, or designated states of Arizona, Hawaii, Idaho, Indiana, Kansas, Maryland, Mississippi, Nevada, Washington, Wyoming, and certain Pacific Trust Territories. (The minimum reserve fund ratio under the Higher Education Act is 0.25%.)

The Former NELA Portfolio Now Held by Ascendium

Following are NELA's reserve fund levels as calculated in accordance with 34 CFR 682.410(a)(10) for the five federal fiscal years presented:

Federal Fiscal Year	Federal Guaranty Reserve Fund Level[1]
2014	0.377%
2015	0.295
2016	0.373
2017	0.430
2018	0.460

[1/] In accordance with Section 428(c)(9) of the Higher Education Act, does not include loans transferred from the former Higher Education Assistance Foundation, Northstar Guarantee Inc., Ohio Student Aid Commission, Puerto Rico

Higher Education Assistance Corporation, Student Loan Guarantee Foundation of Arkansas, Student Loans of North Dakota, Montana Guaranteed Student Loan Program, or designated states of Arizona, Hawaii, Idaho, Indiana, Kansas, Maryland, Mississippi, Nevada, Washington, Wyoming, and certain Pacific Trust Territories. (The minimum reserve fund ratio under the Higher Education Act is 0.25%.)

Claims Rate. The claims rate for Ascendium, USAF and NELA are as follows:

The Ascendium Portfolio*

For the past five federal fiscal years, Ascendium's claims rate has not exceeded 5%, and, as a result, the highest allowable reinsurance has been paid on all Ascendium's claims. The actual claims rates are as follows:

Federal Fiscal Year	Claims Rate
2016	1.00%
2017	0.35
2018	0.35
2019	2.00
2020	1.40

* The percentages for 2016 through 2018 include only the Ascendium portfolio; the percentages for 2019 and 2020 include the combined portfolios of Ascendium, USAF and NELA.

The Former USAF Portfolio Now Held by Ascendium

For the five federal fiscal years presented, USAF's claims rate has not exceeded 5%, and, as a result, the highest allowable reinsurance has been paid on all USAF's claims. The actual claims rates are as follows:

Federal Fiscal Year	Claims Rate
2014	4.73%
2015	4.71
2016	0.60
2017	0.67
2018	2.15

The Former NELA Portfolio Now Held by Ascendium

For the five federal fiscal years presented, NELA's claims rate has not exceeded 5%, and, as a result, the highest allowable reinsurance has been paid on all NELA's claims. The actual claims rates are as follows:

Federal Fiscal Year	Claims Rate
2014	1.37%
2015	0.60
2016	1.31
2017	0.63
2018	1.52

As a result of various statutory and regulatory changes over the past several years, historical rates may not be an accurate indicator of current delinquency or default trends or future claims rates.

FEES AND EXPENSES

The maximum Administration Fees (including the amounts allocated for the payment of Program Fees), Servicing Fees and the Trustee Fees payable by the Issuer under the Indenture are set forth in the table below. The priority of payment of such fees and expenses is described under the caption "SECURITY AND SOURCES OF PAYMENT FOR THE NOTES—Collection Fund; Flow of Funds" herein. The amounts below are subject to increase upon satisfaction of a Rating Agency Condition.

Fees	Recipient	Amount
Administration Fee	The Issuer	0.05% per annum[1]
Servicing Fee	The Issuer	0.80% per annum[2]
Trustee Fee	U.S. Bank National Association	0.03% per annum[3], plus expenses

[1] As a percentage of the Pool Balance, payable monthly in arrears and determined as of the last day of the preceding calendar month, with no inflation adjustment. The Administration Fee will also include annual reimbursement of expenses incurred by the Issuer under the Indenture (such as fees and expenses due to the Rating Agencies and the Backup Servicer and other fees of the Program (including compliance audits), limited to $100,000, less the portion of the Expense Cap (as hereafter defined) paid to the Trustee as described below during such year, which amount shall be payable solely on the Monthly Distribution Date in September of each year beginning in 2022.

[2] As a percentage of the Pool Balance, payable monthly in arrears and determined as of the last day of the preceding month, with no inflation adjustment. The Servicing Fee for each month will not exceed the greater of the amount specified above and a servicing fee floor equal to $2.50 per borrower per month, subject to 3% annual inflation from the date of issuance.

[3] As a percentage of the outstanding principal amount of the Notes, payable quarterly in arrears, with a quarterly minimum of $1,500.

The Trustee is also entitled, as a part of the Trustee Fee, to expense reimbursement up to a maximum annual amount (prior to an Event of Default) equal to $50,000 (the "Expense Cap"). Any amounts described in the prior sentence that are not paid or reimbursed to the Trustee in any year shall be available to the Issuer (as administrator), as a part of the Administration Fee, on the September Monthly Distribution Date of each year beginning in 2022 to pay or reimburse the Issuer for Program Fees and other expenses of the Issuer incurred under the Indenture.

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USE OF PROCEEDS

The estimated sources and uses are expected to be applied as follows. All amounts reflected in the table below are estimates and the final amounts will not be determined until the Date of Issuance.

Source of Funds:	
Proceeds of the Notes	$197,500,000
Less original issue discount	44,703
Less underwriting discount	1,055,930
Total	$196,399,367
Uses:	
Deposit to Student Loan Fund[1]	$188,421,083
Deposit to Capitalized Interest Fund	6,000,000
Deposit to the Reserve Fund	1,307,534
Deposit to Cost of Issuance Fund	670,750
Total	$196,399,367

[1] To be used to refinance the Financed Eligible Loans as described below.

Certain of the proceeds deposited into the Student Loan Fund on the Date of Issuance will be (i) transferred by the Trustee to the lender under the Warehouse Agreement to refinance certain Eligible Loans that are being pledged to the Indenture and (ii) transferred by the Trustee to the Issuer in consideration of the pledge by the Issuer of certain Eligible Loans held unencumbered by the Issuer. Contemporaneously with the receipt of such proceeds by the lender under the Warehouse Agreement, the applicable Eligible Loans under the Warehouse Agreement will be released, such Eligible Loans will be deposited to the credit of the Student Loan Fund, and such Eligible Loans will constitute Financed Eligible Loans under the Indenture. Contemporaneously with the receipt of such proceeds by the Issuer, the Eligible Loans previously held unencumbered by the Issuer will be pledged by the Issuer under the Indenture, will be deposited to the credit of the Student Loan Fund and will constitute Financed Eligible Loans under the Indenture.

CHARACTERISTICS OF THE FINANCED ELIGIBLE LOANS

General

The Eligible Loans expected to be pledged pursuant to the Indenture are loans made to finance post-secondary education made under the Higher Education Act (the "Eligible Loans"). Loans that meet the foregoing criteria are sometimes referred to in this Offering Memorandum as "Financed Eligible Loans." As of the Statistical Cut-Off Date (June 30, 2021), the characteristics of the pool of Eligible Loans the Issuer expects to pledge to the Trustee pursuant to the Indenture on the Date of Issuance were collectively as described below. The aggregate outstanding principal balance of the Eligible Loans in each of the following tables includes the principal balance due from borrowers and approximately $9,664,923 of interest expected to be capitalized upon commencement of repayment. The percentages set forth in the tables below may not always add to 100% and the balances may not always add to $201,530,098 due to rounding.

In the event that the principal amount of Eligible Loans required to provide collateral for the Notes varies from the amounts anticipated herein, whether by reason of a change in the collateral requirement necessary to obtain the rating on the Notes from each Rating Agency that will rate the Notes as indicated under the caption "SUMMARY OF TERMS—Rating of the Notes" herein, the pricing of the interest rate

on the Notes, the principal amount of Notes to be offered, the rate of amortization or prepayment on the portfolio of Eligible Loans from the Statistical Cut-Off Date to the Date of Issuance varying from the rates that were anticipated, or otherwise, the portfolio of Eligible Loans to be pledged to the Trustee under the Indenture may consist of a subset of the pool of Eligible Loans described below or may include additional Eligible Loans not described below.

The aggregate characteristics of the entire pool of Eligible Loans expected to be pledged on the Date of Issuance, including the composition of the Eligible Loans and the related borrowers, the distribution by student loan type, the distribution by interest rate, the distribution by Special Allowance Payment ("SAP" or "Special Allowance Payment") index, the distribution by principal balance and the distribution by remaining term to scheduled maturity, may vary from the information presented below since the information presented below is as of the Statistical Cut-Off Date, and the date that the Financed Eligible Loans will be pledged to the Trustee under the Indenture will occur after that date.

The Consolidated Appropriations Act of 2012 authorized eligible lenders under the FFEL Program to make an irrevocable election to permanently convert the index upon which Special Allowance Payment calculations would be based, effective April 1, 2012, for all FFELP Loans owned by an electing lender that were disbursed after January 1, 2000 (except for excluded FFELP Loans as to which a third party had a contractual right to approve such an election, if such approval had not been obtained). The Special Allowance Payment calculations for FFELP Loans to which such an election applies are based on the one-month London Interbank Offered Rate for United States dollars in effect for each day of the applicable calendar quarter, as compiled and released by the British Bankers Association ("SAP One-Month LIBOR"), rather than on the three-month commercial paper (financial) rate, which remains applicable with respect to other FFELP Loans that were disbursed after January 1, 2000. The Issuer elected to permanently convert its FFELP Loans that were disbursed after January 1, 2000 to a SAP One-Month LIBOR basis.

An Eligible Loan originated under the FFELP that has previously defaulted, but satisfies the conditions described below, is known as a "rehabilitation loan." Approximately 4.73% of the Financed Eligible Loans will be rehabilitation loans. To rehabilitate an Eligible Loan originated under the FFELP, a borrower must pay the applicable Guaranty Agency at least nine full payments of an amount that is reasonable and affordable, as agreed to by the borrower and the Guaranty Agency, within twenty days of their monthly due dates over a 10-month period. Once the borrower has made the required payments, the loan may be purchased by an eligible lending institution. After a rehabilitation loan is purchased, it is eligible for all benefits under the Higher Education Act for which it would have been eligible if no default had occurred. See "APPENDIX A—DESCRIPTION OF THE FEDERAL FAMILY EDUCATION LOAN PROGRAM—Insurance and Guarantees—*Rehabilitation of Defaulted Loans*" hereto.

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Composition of the Financed Eligible Loan Portfolio
(as of the Statistical Cut-Off Date)

Aggregate Outstanding Principal Balance*	$201,530,098
Accrued Interest to be Capitalized	$9,664,923
Accrued Interest to be Capitalized Upon Commencement of Repayment	$3,219,625
Accrued Interest to be Capitalized for Loans in Income Based Repayment	$6,445,298
Accrued Interest not to be Capitalized	$618,190
Aggregate Outstanding Principal Balance—Treasury Bill SAP	$3,831,917
Percentage of Aggregate Outstanding Principal Balance—Treasury Bill SAP	1.90%
Aggregate Outstanding Principal Balance—One-Month LIBOR SAP	$197,698,181
Percentage of Aggregate Outstanding Principal Balance—One-Month LIBOR SAP	98.10%
Total Number of Borrowers	15,387
Average Principal Balance per Borrower	$13,097
Total Number of Loans	29,132
Weighted Average Borrower Age	48
Weighted Average Remaining Term (months)	169
Weighted Average Annual Interest Rate	5.14%
Weighted Average Annual Interest Rate after Borrower Benefits	5.05%
Aggregate Outstanding Principal Balance of Rehabilitated Loans	$9,496,737
Percentage of Aggregate Outstanding Principal Balance of Rehabilitated Loans	4.71%

*Includes accrued interest to be capitalized.

Distribution of the Financed Eligible Loans by
Loan Type
(as of the Statistical Cut-Off Date)

Loan Type	Number of Loans	Aggregate Outstanding Principal Balance	Percent of Aggregate Outstanding Principal Balance
Consolidation Loans - Unsubsidized	5,000	$ 71,733,005	35.6%
Stafford Loans - Unsubsidized	8,985	47,281,282	23.5
Stafford Loans - Subsidized	11,194	39,826,026	19.8
Consolidation Loans - Subsidized	3,449	36,378,428	18.1
PLUS Loans	504	6,311,357	3.1
Totals	29,132	$201,530,098	100.0%

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Distribution of the Financed Eligible Loans by School Type (as of the Statistical Cut-Off Date)

School Type	Number of Loans	Aggregate Outstanding Principal Balance	Percent by Aggregate Outstanding Principal Balance
4-Year +	19,879	$148,934,398	73.9%
2-Year	5,676	22,785,634	11.3
Proprietary	3,118	21,155,582	10.5
Consolidation Loan (Unknown)	408	8,520,891	4.2
Other	51	133,592	0.1
Totals	29,132	$201,530,098	100.0%

Distribution of the Financed Eligible Loans by Range of Annual Borrower Interest Rate (as of the Statistical Cut-Off Date)

Range of Annual Borrower Interest Rate	Number of Loans	Aggregate Outstanding Principal Balance	Percent by Aggregate Outstanding Principal Balance
Less than 1.00%	7	$ 48,717	0.0*%
1.01% to 2.00%	687	3,210,105	1.6
2.01% to 3.00%	12,489	55,464,145	27.5
3.01% to 4.00%	968	8,435,032	4.2
4.01% to 5.00%	2,338	24,076,340	11.9
5.01% to 6.00%	1,748	19,817,268	9.8
6.01% to 7.00%	8,771	56,610,259	28.1
7.01% to 8.00%	1,427	23,377,759	11.6
8.01% to 9.00%	675	10,412,605	5.2
9.01% or more	22	77,866	0.0*
Totals	29,132	$201,530,098	100.0%

*Less than 0.05%, but greater than 0.00%.

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Distribution of the Financed Eligible Loans by Payment Rate Reduction (as of the Statistical Cut-Off Date)

Payment Rate Reduction	Number of Loans	Aggregate Outstanding Principal Balance	Percent by Aggregate Outstanding Principal Balance
None	22,518	$160,487,805	79.6%
Currently Receiving 0.25%	5,592	37,957,075	18.8
Currently Receiving 2.00%	115	261,789	0.1
Currently Receiving 2.50%	18	93,087	0.0*
Currently Receiving 3.00%	887	2,726,665	1.4
Interest Rate set at 3.25%	1	1,859	0.0*
Currently Receiving 4.00%	1	1,817	0.0*
Totals	29,132	$201,530,098	100.0%

*Less than 0.05%, but greater than 0.00%.

Distribution of the Financed Eligible Loans by Range of Outstanding Principal Balance (as of the Statistical Cut-Off Date)

Range of Outstanding Principal Balance	Number of Loans	Aggregate Outstanding Principal Balance	Percent by Aggregate Outstanding Principal Balance
$2,000.00 or less	7,688	$ 7,588,880	3.8%
$2,000.01 to $4,000.00	6,664	19,699,148	9.8
$4,000.01 to $6,000.00	4,397	21,571,159	10.7
$6,000.01 to $8,000.00	3,584	24,737,301	12.3
$8,000.01 to $10,000.00	2,045	18,160,188	9.0
$10,000.01 to $15,000.00	2,077	25,047,708	12.4
$15,000.01 to $20,000.00	937	16,063,393	8.0
$20,000.01 to $25,000.00	508	11,365,282	5.6
$25,000.01 to $30,000.00	319	8,723,779	4.3
$30,000.01 to $40,000.00	385	13,237,771	6.6
$40,000.01 to $50,000.00	192	8,539,265	4.2
$50,000.01 to $60,000.00	113	6,161,966	3.1
$60,000.01 or more	223	20,634,259	10.2
Totals	29,132	$201,530,098	100.0%

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Distribution of the Financed Eligible Loans by
Date of Disbursement (dates correspond to changes in guarantee percentage)
(as of the Statistical Cut-Off Date)*

Date of Disbursement (and corresponding guarantee percentage)	Number of Loans	Aggregate Outstanding Principal Balance	Percent by Aggregate Outstanding Principal Balance
On or after July 1, 2006 (97%)	12,476	$109,311,170	54.2%
October 1, 1993 – June 30, 2006 (98%)	16,572	91,903,173	45.6
Before October 1, 1993 (100%)	84	315,755	0.2
Totals	29,132	$201,530,098	100.0%

*Student loans disbursed prior to October 1, 1993 are 100% guaranteed by the Guaranty Agency. Student loans disbursed on or after October 1, 1993 and before July 1, 2006 are 98% guaranteed by the applicable Guaranty Agency. Student loans for which the first disbursement is made on or after July 1, 2006 and before July 1, 2010 are 97% guaranteed by the applicable Guaranty Agency.

Distribution of the Financed Eligible Loans by
Number of Days Delinquent
(as of the Statistical Cut-Off Date)

Number of Days Delinquent	Number of Loans	Aggregate Outstanding Principal Balance	Percent by Aggregate Outstanding Principal Balance
30 days or less	29,127	$201,521,422	100.0%
31-60 days	4	8,479	0.0*
91-120 days	1	196	0.0*
Totals	29,132	$201,530,098	100.0%

*Less than 0.05%, but greater than 0.00%.

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Distribution of the Financed Eligible Loans by Remaining Term to Scheduled Maturity (in months) (as of the Statistical Cut-Off Date)

Range of Remaining Term to Scheduled Maturity (in months)	Number of Loans	Aggregate Outstanding Principal Balance	Percent by Aggregate Outstanding Principal Balance
12 or less	1,120	$ 614,837	0.3%
13 to 24	1,406	1,490,642	0.7
25 to 36	1,185	2,045,896	1.0
37 to 48	1,109	2,811,538	1.4
49 to 60	1,302	4,840,957	2.4
61 to 72	1,460	6,505,528	3.2
73 to 84	1,221	6,031,206	3.0
85 to 96	1,122	5,985,178	3.0
97 to 108	1,366	7,572,312	3.8
109 to 120	2,034	12,919,449	6.4
121 to 132	1,760	12,877,460	6.4
133 to 144	2,303	17,393,800	8.6
145 to 156	2,806	18,457,770	9.2
157 to 168	2,278	17,425,754	8.6
169 to 180	1,282	13,188,118	6.5
181 to 192	826	10,839,331	5.4
193 to 204	873	9,965,236	4.9
205 to 216	673	7,841,951	3.9
217 to 228	521	6,194,071	3.1
229 to 240	398	5,280,277	2.6
241 to 252	393	5,167,815	2.6
253 to 264	297	4,050,439	2.0
265 to 276	221	3,533,350	1.8
277 to 288	220	3,605,560	1.8
289 to 300	162	2,311,598	1.1
301 to 312	166	1,939,546	1.0
313 to 324	108	1,858,942	0.9
325 to 336	65	972,605	0.5
337 to 348	48	765,684	0.4
349 to 360	53	1,111,234	0.6
361 or greater	354	5,932,016	2.9
Totals	29,132	$201,530,098	100.0%

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Distribution of the Financed Eligible Loans by
Borrower Payment Status
(as of the Statistical Cut-Off Date)

Borrower Payment Status	Number of Loans	Aggregate Outstanding Principal Balance	Percent by Aggregate Outstanding Principal Balance
Deferment	1,559	$ 9,490,558	4.7%
Forbearance	1,360	11,510,515	5.7
Disaster Forbearance (including COVID-19)	6,003	44,571,557	22.1
Grace	12	113,047	0.1
In-School	52	267,825	0.1
Repayment (First Year)	8	47,101	0.0*
Repayment (Second Year)	9	52,122	0.0*
Repayment (Third Year)	11	42,149	0.0*
Repayment (More than 3 Years)	20,118	135,435,224	67.2
Totals	29,132	$201,530,098	100.0%

*Less than 0.05%, but greater than 0.00%.

Distribution of the Financed Eligible Loans by
Geographic Location
(as of the Statistical Cut-Off Date)

Geographic Location	Number of Loans	Aggregate Outstanding Principal Balance	Percent by Aggregate Outstanding Principal Balance
Missouri	13,733	$ 90,411,934	44.9%
Mississippi	3,121	19,467,282	9.7
Arkansas	1,712	10,760,777	5.3
California	1,351	9,380,274	4.7
Texas	1,184	8,489,347	4.2
Illinois	1,110	8,361,005	4.1
Georgia	627	4,954,273	2.5
Kansas	649	4,503,883	2.2
Florida	566	4,155,813	2.1
New York	396	3,474,257	1.7
Tennessee	419	2,857,366	1.4
North Carolina	339	2,170,062	1.1
Massachusetts	150	2,014,674	1.0
New Jersey	133	1,932,177	1.0
Arizona	250	1,872,579	0.9
South Carolina	122	1,745,642	0.9

Geographic Location	Number of Loans	Aggregate Outstanding Principal Balance	Percent by Aggregate Outstanding Principal Balance
Virginia	240	1,652,380	0.8
Colorado	261	1,593,022	0.8
Washington	226	1,536,495	0.8
Pennsylvania	133	1,402,844	0.7
Oklahoma	210	1,359,746	0.7
Alabama	245	1,323,297	0.7
Maryland	141	1,253,474	0.6
Michigan	97	1,227,892	0.6
Minnesota	132	1,175,867	0.6
Indiana	119	1,170,261	0.6
Ohio	159	1,087,382	0.5
Nevada	98	1,048,829	0.5
Kentucky	98	957,001	0.5
Iowa	118	925,728	0.5
Oregon	191	881,628	0.4
Connecticut	59	620,759	0.3
Louisiana	116	618,041	0.3
Nebraska	100	613,468	0.3
Wisconsin	80	578,601	0.3
Hawaii	56	526,423	0.3
Foreign Country	48	438,457	0.2
District of Columbia	34	339,854	0.2
Maine	15	328,874	0.2
New Hampshire	33	325,759	0.2
New Mexico	25	322,119	0.2
North Dakota	25	246,658	0.1
Idaho	31	219,215	0.1
Utah	35	215,652	0.1
Rhode Island	25	190,781	0.1
West Virginia	13	151,180	0.1
Delaware	13	145,587	0.1
Wyoming	11	144,579	0.1
Montana	25	85,202	0.0*
South Dakota	16	79,720	0.0*
Alaska	15	59,765	0.0*
Vermont	6	56,361	0.0*
Armed Forces Europe	14	39,586	0.0*
Armed Forces Pacific	3	25,982	0.0*
Puerto Rico	3	9,310	0.0*
Virgin Islands	1	974	0.0*
Totals	29,132	$201,530,098	100.0%

*Less than 0.05%, but greater than 0.00%.

Distribution of the Financed Eligible Loans by Current Repayment Schedule (as of the Statistical Cut-Off Date)

Current Repayment Schedule	Number of Loans	Aggregate Outstanding Principal Balance	Percent by Aggregate Outstanding Principal Balance
Non-Income-Based Repayment	12,430	$ 84,065,423	41.7%
Income-Based Repayment (Partial Financial Hardship) (1)	8,774	71,772,757	35.6
Income-Based Repayment (Permanent Standard) (2)	7,928	45,691,917	22.7
Totals	29,132	$201,530,098	100.0%

(1)A borrower has a partial financial hardship if the annual payment amount on all eligible FFELP and Direct Loans exceeds 15% of the difference between the borrower's adjusted gross income and 150% of the U.S. Department of Health and Human Services poverty guideline applicable to the borrower's family size and state of residence. Eligible FFELP and Direct loans include the outstanding balances on all loans except a defaulted loan, a FFELP or Direct parent PLUS loan and a FFELP or Direct Consolidation loan that repaid a FFELP or Direct parent PLUS loan.

(2) For repayment schedules available to a borrower under the income-based repayment plan. The payment amount is calculated on the basis of both of the following: the borrower's outstanding loan balance when the borrower begins repayment under an income-based repayment plan and a 10-year repayment period.

Distribution of the Financed Eligible Loans by Date of Disbursement (Dates Correspond to Changes in Special Allowance Payment) (as of the Statistical Cut-Off Date)

Date of Disbursement	Number of Loans	Aggregate Outstanding Principal Balance	Percent by Aggregate Outstanding Principal Balance
Pre-April 1, 2006*	14,869	$ 77,199,885	38.3%
April 1, 2006 through September 30, 2007	11,820	103,512,592	51.4
October 1, 2007 and after**	2,443	20,817,620	10.3
Totals	29,132	$201,530,098	100.0%

*The Higher Education Act provides that for certain FFELP Loans first disbursed prior to April 1, 2006 lenders are entitled to retain student loan interest income in excess of the special allowance support level for such loans, in instances when the loan rate exceeds the Special Allowance Payments. However, lenders are not allowed to retain such excess interest income on other loans, including FFELP Loans disbursed on or after April 1, 2006, and are required to rebate any such "excess interest" to the Secretary on a quarterly basis. For FFELP Loans disbursed on or after April 1, 2006 and before July 1, 2010, if the stated interest rate is higher than the rate applicable to such FFELP Loan including Special Allowance Payments ("SAP"), the holder of the FFELP Loan must credit the difference to the Department of Education. See the caption "APPENDIX A—DESCRIPTION OF THE FEDERAL FAMILY EDUCATION LOAN PROGRAM—Special Allowance Payments" hereto.

**FFELP Loans disbursed on or after October 1, 2007 have a higher SAP margin for eligible not-for-profit lenders such as the Issuer than for profit lenders, but have a 40 bps to 70 bps lower Special Allowance Payment margin than loans originated on or after January 1, 2000 and before October 1, 2007.

Distribution of the Financed Loans by Date of Disbursement and Loan Type[1]
(Dates Correspond to Changes in Special Allowance Payment)
(As of the Statistical Cut-Off Date)

Date of Disbursement and Loan Type[1]	Number of Loans	Aggregate Outstanding Principal Balance	Percent by Aggregate Outstanding Principal Balance
Consolidation Loans:			
Before April 1, 2006[2]	2,356	$ 25,241,509	12.5%
April 1, 2006 – September 30, 2007	5,476	70,134,608	34.8
On or After October 1, 2007	617	12,735,316	6.3
Sub-Total	8,449	$108,111,433	53.6%
Non-Consolidation Loans:			
Before April 1, 2006[3]	12,513	$51,958,376	25.8%
April 1, 2006 – September 30, 2007	6,344	33,377,984	16.6
On or After October 1, 2007	1,826	8,082,304	4.0
Sub-Total	20,683	$93,418,665	46.4%

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[1] The Higher Education Act provides that for certain FFELP Loans first disbursed prior to April 1, 2006 lenders are entitled to retain student loan interest income in excess of the special allowance support level for such loans, in instances when the loan rate exceeds the Special Allowance Payments. However, lenders are not allowed to retain such excess interest income on other loans, including FFELP Loans disbursed on or after April 1, 2006, and are required to rebate any such "excess interest" to the Secretary on a quarterly basis. For FFELP Loans disbursed on or after April 1, 2006 and before July 1, 2010, if the stated interest rate is higher than the rate applicable to such FFELP Loan including Special Allowance Payments ("SAP"), the holder of the FFELP Loan must credit the difference to the Department of Education. FFELP Loans disbursed on or after October 1, 2007 have a higher SAP margin for eligible not-for-profit lenders such as the Corporation than for-profit lenders, but have a 40 bps to 70 bps lower SAP margin for such eligible not-for-profit lenders than loans originated on or after January 1, 2000 and before October 1, 2007.

[2] The weighted average annual interest rate of loans in this category is 4.31%.

[3] The weighted average annual interest rate of loans in this category is 2.45%.

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Distribution of the Financed Eligible Loans by Guaranty Agency (as of the Statistical Cut-Off Date)

Guaranty Agency	Number of Loans	Aggregate Outstanding Principal Balance	Percent by Aggregate Outstanding Principal Balance
Missouri Department of Higher Education	17,015	$109,385,309	54.3%
Pennsylvania Higher Education Assistance Agency	2,377	38,079,751	18.9
Ascendium Education Solutions, Inc.	4,064	21,341,252	10.6
Education Credit Management Corporation	2,862	17,873,035	8.9
National Student Loan Program	1,890	10,842,238	5.4
Texas Guaranteed Student Loan Corporation	329	1,927,564	1.0
Kentucky Higher Education Assistance Authority	134	698,355	0.3
New York State Higher Education Services Corporation	225	565,303	0.3
American Student Assistance	143	482,883	0.2
Illinois Student Assistance Commission	92	330,816	0.2
Other	1	3,592	0.0*
Totals	29,132	$201,530,098	100.0%

*Less than 0.05%, but greater than 0.00%.

Distribution of the Financed Eligible Loans by Borrower Age (as of the Statistical Cut-Off Date)

Borrower Age	Number of Loans	Aggregate Outstanding Principal Balance	Percent by Aggregate Outstanding Principal Balance
Unknown	25	$ 126,522	0.1%
31 - 40	11,241	51,287,834	25.4
41 - 50	10,850	78,908,287	39.2
51 - 60	4,056	34,300,633	17.0
61 - 70	2,329	27,457,101	13.6
71 - 80	603	8,803,745	4.4
81 - 90	28	645,976	0.3
Totals	29,132	$201,530,098	100.0%

Borrower Benefits

With respect to the Financed Eligible Loans that are expected to be pledged to the Trustee under the Indenture, the Issuer offers certain borrower benefits in the form of interest rate and principal reductions for prompt and regular payments or payments made by automatic bank draft, as well as loan forgiveness for certain borrowers. All percentages of the Financed Eligible Loans described below are based on the outstanding principal balance of the Financed Eligible Loans as of the statistical cut-off date.

Rate Relief Programs. As of the Statistical Cut-off Date, all of the Financed Eligible Loans are eligible (of which approximately 18.8% of the Financed Eligible Loans are receiving), an interest rate reduction of 0.25% for borrowers using auto-debit to make loan payments. In addition, approximately 1.5% of the Financed Eligible Loans are receiving an interest rate reduction that ranges from 2.0% to 4.0%. Except for the 0.25% interest rate reduction for borrowers using auto-debit to make loan payments, the rate relief programs closed to new enrollments on January 1, 2010. Any borrower on a Financed Eligible Loan who is not currently participating in a rate relief program or is hereafter disqualified from a rate relief program for any reason will only be eligible for the 0.25% interest rate reduction for borrowers using auto-debit to make loan payments in the future.

Missouri Public Service Reward Program. Less than 0.001% of the Financed Eligible Loans are receiving an interest rate reduction from an original borrower rate to a fixed rate of 3.25%. The remaining Financed Eligible Loans are not eligible for such interest rate reduction.

Repayment Balance Reduction. All of the Financed Eligible Loans which are eligible for this program have already received a principal balance reduction of 2.0% in principal after making a prompt first month payment. No Financed Eligible Loans are eligible for any further principal balance reduction.

The Issuer may discontinue, increase or modify the benefits offered by these programs at any time, but only subject to the provisions of the Indenture. The Issuer cannot accurately predict the number of borrowers that will utilize the borrower benefits provided under these programs. The greater the number of borrowers that utilize such benefits with respect to Financed Eligible Loans, the lower the total loan receipts on such Financed Eligible Loans. See the captions "RISK FACTORS—Incentive or borrower benefit programs may affect your Notes" and "THE ISSUER'S FFEL PROGRAM" herein.

DESCRIPTION OF THE NOTES

General

The Notes will be issued pursuant to the terms of the Indenture between the Issuer and U.S. Bank National Association, as Trustee. The Indenture and the Notes will each be governed by the laws of the State of Missouri. The following summary describes the material terms of the Notes and related provisions of the Indenture. However, it is not complete and is qualified in its entirety by the actual provisions of the Indenture and the Notes. Certain other provisions of the Indenture are described under the captions "SECURITY AND SOURCES OF PAYMENT FOR THE NOTES" and "SUMMARY OF THE INDENTURE PROVISIONS" herein.

Interest Payments

Interest will accrue on the Notes at the interest rate described below during each Interest Accrual Period. The initial Interest Accrual Period for the Class A-1A Notes begins on the Date of Issuance and ends on November 24, 2021 and the initial Interest Accrual Period for the Class A-1B Notes and the Class B Notes begins on the Date of Issuance and ends on November 25, 2021. For all other Monthly Distribution

Dates, (a) the Interest Accrual Period for the Class A-1A Notes, will begin on (and include) the twenty-fifth day of a month, whether or not a Business Day, and end on (and include) the twenty-fourth day of the following month (notwithstanding that the actual Monthly Distribution Date may occur after the twenty-fifth day of either such month); and (b) the Interest Accrual Period for the Class A-1B Notes and Class B Notes will begin on the prior Monthly Distribution Date and end on the day before such Monthly Distribution Date.

Interest on the Notes will be payable to the Noteholders on each Monthly Distribution Date commencing November 26, 2021. Monthly Distribution Dates for the Notes will be on the twenty-fifth day of each calendar month, or if any such day is not a Business Day, the next Business Day. Interest accrued but not paid on any Monthly Distribution Date will be due on the next Monthly Distribution Date together with an amount equal to interest on the unpaid amount at the applicable rate per annum described below.

The Class A-1A Notes will bear interest at a fixed rate equal to 1.58% per annum.

The Class A-1B Notes will bear interest at an annual rate equal to the applicable Benchmark (initially One-Month LIBOR), except for the initial Interest Accrual Period, plus 0.57%.

The Class B Notes will bear interest at an annual rate equal to the applicable Benchmark (initially One-Month LIBOR), except for the initial Interest Accrual Period, plus 1.15%.

If One-Month LIBOR or the then current Benchmark is less than 0.00% for any Interest Accrual Period, the Benchmark shall be deemed to be 0.00% and the interest rate for the Class A-1B Notes and the Class B Notes for such Interest Accrual Period shall be deemed to be the interest rate margin set forth above for such class of Notes.

The Trustee will obtain One-Month LIBOR and the Issuer will calculate the applicable interest rate on the Class A-1B Notes and Class B Notes on the second Business Day prior to the start of the applicable Interest Accrual Period; provided that if One-Month LIBOR does not appear on a page of a financial reporting service in general use in the financial services industry, the Issuer will obtain One-Month LIBOR. Additionally, if One-Month LIBOR is no longer an available benchmark rate, the Issuer will cause an alternative rate to be calculated as described under the caption "Benchmark Transition Event" below.

The rate of interest on the Class A-1B Notes and the Class B Notes for the initial Interest Accrual Period will be determined by reference to the following formula:

$x + [(a / b) * (y - x)] + 0.57\%$ for the Class A-1B Notes and $+ 1.15\%$ for the Class B Notes

where:

x = two-month LIBOR;

y = three-month LIBOR;

a = the actual number of days from the maturity date of two-month LIBOR to the first Monthly Distribution Date; and

b = the actual number of days from the maturity date of two-month LIBOR to the maturity date of three-month LIBOR.

Interest accrued on the outstanding principal balance of each class of the Notes during each Interest Accrual Period will be paid on the following Monthly Distribution Date in the order and priority described under the caption "—Flow of Funds" below.

Failure to pay interest on the Class B Notes is not an Event of Default so long as any of the Class A Notes remain outstanding.

The Issuer will calculate the rate of interest on the Class A-1B Notes and the Class B Notes on the LIBOR determination date described below. The amount of interest distributable to holders of the Notes for each $1,000 in original principal amount will be calculated by applying the applicable interest rate for the Interest Accrual Period to the outstanding principal amount of each original principal amount of $1,000, multiplying that product by (a) 30 days for the Class A-1A Notes divided by 360; and (b) the actual number of days in the Interest Accrual Period for the Class A-1B Notes and the Class B Notes divided by 360, and rounding the resulting figure to the fifth decimal point.

Calculation of LIBOR

For each Interest Accrual Period, One-Month LIBOR will be determined by the Issuer by reference to the London Interbank Offered Rate (LIBOR) for deposits in U.S. Dollars having a maturity of one month which appears on Reuters LIBOR01 Page, or another page of this or any other financial reporting service in general use in the financial services industry, as of 11:00 a.m., London time, on the related LIBOR determination date. The LIBOR determination date will be the second Business Day before the beginning of each Interest Accrual Period. If this rate does not appear on Reuters LIBOR01 Page, or another page of this or any other financial reporting service in general use in the financial services industry, and the Issuer has not made a determination that a Benchmark Transition Event and its related Benchmark Replacement Date have occurred, One-Month LIBOR in effect for the applicable Interest Accrual Period will be One-Month LIBOR in effect for the previous Interest Accrual Period.

Benchmark Transition Event

Interest on the Class A-1B Notes and Class B Notes will accrue at a floating rate based on a "Benchmark," which will initially be One-Month LIBOR, but will be replaced by the Benchmark Replacement following the occurrence of a Benchmark Transition Event and its related Benchmark Replacement Date as described below. As described under the caption "RISK FACTORS—LIBOR is being discontinued as a floating rate benchmark, and various aspects of the discontinuation are uncertain and will affect the financial markets and may also affect the Financed Eligible Loans and the Class A-1B Notes and the Class B Notes" herein, in the Issuer's opinion, the FCA/IBA Announcements on future cessation and loss of representativeness of the LIBOR benchmarks constitute a "Benchmark Transition Event" under the Indenture; however, the related Benchmark Replacement Date has not yet occurred and so the Class A-1B Notes and the Class B Notes will accrue interest by reference to LIBOR until such related Benchmark Replacement Date or another Benchmark Transition Event and its related Benchmark Replacement Date occur. If the Issuer determines that a Benchmark Transition Event and its related Benchmark Replacement Date have occurred prior to the Reference Time in respect of any determination of the Benchmark on any date, the Benchmark Replacement will replace the then current Benchmark for all purposes relating to the Class A-1B Notes and Class B Notes in respect of such determination on such date and all determinations on all subsequent dates. If the Benchmark for the Class A-1B Notes and Class B Notes changes from One-Month LIBOR to another Benchmark, it is possible that the change may result in a deemed taxable exchange. Whether a particular investor recognizes gain will depend upon the investor's basis in the Class A-1B Notes and Class B Notes, the relationship between One-Month LIBOR and the other Benchmark at the time of the change, and other factors such as whether quotations on the Class A-1B Notes and Class B Notes are readily available.

The Internal Revenue Service (the "Service") has proposed regulations and issued additional guidance (the "LIBOR Proposed Regulations") concerning certain U.S. federal income tax consequences resulting from the transition from interbank offered rates (such as LIBOR) to other reference rates in debt instruments. The LIBOR Proposed Regulations, among other things, establish a safe harbor under which certain changes to the terms of a debt instrument in connection with the elimination of LIBOR will not be treated as a significant modification of the debt instrument resulting in a deemed exchange of the debt instrument under Section 1001 of the Code, including an alteration of the terms of a debt instrument to include a qualified rate as a fallback to a LIBOR reference rate and any associated alteration that is reasonably necessary to adopt or to implement the inclusion of a qualified fallback rate. A "qualified rate" is any one of the rates specified in the LIBOR Proposed Regulations; provided that the fair market value of the debt instrument after the alteration is substantially equivalent to the fair market value of the debt instrument before the alteration. Specified qualified rates include the Secured Overnight Financing Rate published by the Federal Reserve Bank of New York (SOFR), any rate that is determined by reference to another qualified rate (including a rate determined by adding or subtracting a specified number of basis points to or from the rate or by multiplying the rate by a specified number), certain qualified floating rates specified in the Treasury Regulations, and certain other rates that may be selected, endorsed or recommended by a central bank, reserve bank, monetary authority or similar institution (including any committee or working group thereof) or the Service in the future. See the caption "CERTAIN U.S. FEDERAL INCOME TAX CONSIDERATIONS—Sale or Exchange of Notes" herein.

In connection with the implementation of a Benchmark Replacement, the Issuer will have the right from time to time to make "Benchmark Replacement Conforming Changes," which are any technical, administrative or operational changes (including changes to the definition of "Interest Accrual Period," timing and frequency of determining rates and making payments of interest, and other administrative matters) that the Issuer decides may be appropriate to reflect the adoption of such Benchmark Replacement in a manner substantially consistent with market practice (or, if the Issuer decides that adoption of any portion of such market practice is not administratively feasible or if the Issuer determines that no market practice for use of the Benchmark Replacement exists, in such other manner as the Issuer determines is reasonably necessary).

Notice of the occurrence of a Benchmark Transition Event and its related Benchmark Replacement Date, the determination of a Benchmark Replacement and the making of any Benchmark Replacement Conforming Changes will be included in the monthly report to Noteholders and the Issuer shall also provide written notice to the Trustee of a Benchmark Transition Event and its Benchmark Replacement Date no later than one Business Day after the occurrence of such Benchmark Transition Event. Notwithstanding anything in the transaction documents to the contrary, upon the inclusion of such information in the monthly report to the Noteholders, the relevant transaction documents will be deemed to have been amended to reflect the new Unadjusted Benchmark Replacement, Benchmark Replacement Adjustment and/or Benchmark Replacement Conforming Changes without further compliance with the amendment provisions of the relevant transaction documents.

Any determination, decision or election that may be made by the Issuer in connection with a Benchmark Transition Event or Benchmark Replacement, including any determination with respect to a tenor, rate or adjustment or of the occurrence or non-occurrence of an event, circumstance or date and any decision to take or refrain from taking any action or any selection, will be conclusive and binding absent manifest error, may be made in the Issuer's sole discretion, and, notwithstanding anything to the contrary in the documentation relating to the Class A-1B Notes and Class B Notes, shall become effective without consent from any other party. None of the Issuer, the Trustee, the Servicer, or the Backup Servicer will have any liability for any determination made by or on behalf of the Issuer in connection with a Benchmark Transition Event or a Benchmark Replacement as described above, and each Noteholder, by its acceptance of a Class A-1B Note or a Class B Note or a beneficial interest in a Class A-1B Note or Class B Note, will

be deemed to waive and release any and all claims against the Issuer, the Trustee, the Servicer, or the Backup Servicer relating to any such determinations.

The Trustee shall not be under any obligation to (a) monitor, determine or verify the unavailability or cessation of LIBOR (or other applicable Benchmark), or whether or when there has occurred, or to give notice to any other transaction party of the occurrence of, any Benchmark Transition Event or Benchmark Replacement Date; (b) select, determine or designate any Benchmark Replacement, or other successor or replacement benchmark index, or whether any conditions to the designation of such a rate have been satisfied; (c) select, determine or designate any Benchmark Replacement Adjustment, or other modifier to any replacement or successor index; or (d) determine whether or what Benchmark Replacement Conforming Changes are necessary or advisable, if any, in connection with any of the foregoing. The Trustee shall not be liable for any inability, failure or delay on its part to perform any of its duties set forth in the Indenture as a result of the unavailability of LIBOR (or other applicable Benchmark) and absence of a designated replacement Benchmark, including as a result of any inability, delay, error or inaccuracy on the part of any other transaction party, including without limitation the Issuer, in providing any direction, instruction, notice or information required or contemplated by the terms of the Indenture and reasonably required for the performance of such duties. The Trustee shall not be liable to any Noteholder for any losses, claims, damages, liabilities, forfeitures, fines, penalties, costs, fees or expenses (including attorneys' fees) sustained by any Noteholder resulting from the adoption of, a Benchmark Replacement or any related actions taken pursuant to the Indenture. The Trustee shall not be obligated to obtain LIBOR or determine the interest rate on any Notes after a Benchmark Replacement has taken effect in accordance with the Indenture.

"*Asset Replacement Percentage*" means, on any date of calculation, a fraction (expressed as a percentage) where the numerator is the aggregate outstanding principal balance of the Financed Eligible Loans, the Special Allowance Payments on which were indexed to the Benchmark Replacement, as of such calculation date and the denominator is the aggregate outstanding principal balance of the Financed Eligible Loans as of such calculation date.

"*Benchmark*" means, initially, One-Month LIBOR; provided that if the Issuer determines that a Benchmark Transition Event and its related Benchmark Replacement Date have occurred with respect to One-Month LIBOR or the then-current Benchmark, then "Benchmark" means the applicable Benchmark Replacement.

"*Benchmark Replacement*" means the first alternative set forth in the order below that can be determined by the Issuer as of the Benchmark Replacement Date:

(a) the sum of: (i) Term SOFR; and (ii) the Benchmark Replacement Adjustment;

(b) in the sole discretion of the Issuer, either (i) the sum of: (A) Compounded SOFR; and (B) the Benchmark Replacement Adjustment; or (ii) the sum of: (A) Simple Average SOFR; and (B) the Benchmark Replacement Adjustment;

(c) the sum of: (i) the alternate rate of interest that has been selected or recommended by the Relevant Governmental Body as the replacement for the then-current Benchmark for the applicable Corresponding Tenor; and (ii) the Benchmark Replacement Adjustment; or

(d) the sum of: (i) the alternate rate of interest that has been selected by the Issuer as the replacement for the then-current Benchmark for the applicable Corresponding Tenor giving due consideration to any industry-accepted rate of interest as a replacement for the then-current

Benchmark for U.S. dollar denominated securitization transactions at such time; and (ii) the Benchmark Replacement Adjustment.

If a Benchmark Replacement is selected pursuant to clause (b) above, then on the first day of each month following such selection, if a redetermination of the Benchmark Replacement on such date would result in the selection of a Benchmark Replacement under clause (a) above, then (A) the Benchmark Replacement Adjustment shall be redetermined on such date utilizing the Unadjusted Benchmark Replacement corresponding to the Benchmark Replacement under clause (a) above; and (B) such redetermined Benchmark Replacement shall become the Benchmark on each determination date on or after such date. If redetermination of the Benchmark Replacement on such date as described in the preceding sentence would not result in the selection of a Benchmark Replacement under clause (a) above, then the Benchmark shall remain the Benchmark Replacement as previously determined pursuant to clause (b) above.

"*Benchmark Replacement Adjustment*" means the first alternative set forth in the order below that can be determined by the Issuer as of the Benchmark Replacement Date:

(a) the spread adjustment, or method for calculating or determining such spread adjustment, (which may be a positive or negative value or zero) that has been selected or recommended by the Relevant Governmental Body for the applicable Unadjusted Benchmark Replacement; or

(b) the spread adjustment (which may be a positive or negative value or zero) that has been selected by the Issuer giving due consideration to any industry-accepted spread adjustment, or method for calculating or determining such spread adjustment, for the replacement of the then-current Benchmark with the applicable Unadjusted Benchmark Replacement for U.S. dollar denominated securitization transactions at such time.

"*Benchmark Replacement Date*" means:

(a) in the case of clause (a) or (b) of the definition of "Benchmark Transition Event," the later of (i) the date of the public statement or publication of information referenced therein, and (ii) the date on which the administrator of the Benchmark permanently or indefinitely ceases to provide the Benchmark;

(b) in the case of clause (c) of the definition of "Benchmark Transition Event," the date of the public statement or publication of information referenced therein; or

(c) in the case of clause (d) of the definition of "Benchmark Transition Event," the Business Day following the date of such monthly report to the Noteholders.

provided, however, that on or after the sixtieth day preceding the date on which such Benchmark Replacement Date would otherwise occur (if applicable), the Issuer may give written notice to security holders in which the Issuer designates an earlier date (but not earlier than the thirtieth day following such notice) and represents that such earlier date will facilitate an orderly transition of the transaction to the Benchmark Replacement, in which case such earlier date shall be the Benchmark Replacement Date.

For the avoidance of doubt, if the event giving rise to the Benchmark Replacement Date occurs on the same day as, but earlier than, the Reference Time in respect of any determination, the Benchmark Replacement Date will be deemed to have occurred prior to the Reference Time for such determination.

"*Benchmark Transition Event*" means the occurrence of one or more of the following events with respect to the then-current Benchmark:

(a) a public statement or publication of information by or on behalf of the administrator of the Benchmark announcing that such administrator has ceased or will cease to provide the Benchmark, permanently or indefinitely; provided that, at the time of such statement or publication, there is no successor administrator that will continue to provide the Benchmark;

(b) a public statement or publication of information by the regulatory supervisor for the administrator of the Benchmark, the central bank for the currency of the Benchmark, an insolvency official with jurisdiction over the administrator for the Benchmark, a resolution authority with jurisdiction over the administrator for the Benchmark or a court or an entity with similar insolvency or resolution authority over the administrator for the Benchmark, which states that the administrator of the Benchmark has ceased or will cease to provide the Benchmark permanently or indefinitely; provided that, at the time of such statement or publication, there is no successor administrator that will continue to provide the Benchmark;

(c) a public statement or publication of information by the regulatory supervisor for the administrator of the Benchmark announcing that the Benchmark is no longer representative; or

(d) the Asset Replacement Percentage is greater than 50%, as reported in the most recent monthly report to the Noteholders.

On March 5, 2021, the ICE Benchmark Administration (the "IBA"), the administrator of LIBOR, and the Financial Conduct Authority, the regulatory supervisor of the IBA, declared in public statements (the "Public Statements") that the final publication or representativeness date for USD LIBOR for (i) one week and two month LIBOR settings will be December 31, 2021 and (ii) overnight, one month, three month, six month and 12 month LIBOR settings will be June 30, 2023. At the time of the Public Statements no successor administrator was named to continue to provide the Benchmark. The Public Statements resulted in the occurrence of a Benchmark Transition Event with respect to LIBOR and any obligation to notify of this Benchmark Transition Event shall be deemed satisfied.

As described above and under the caption "RISK FACTORS—LIBOR is being discontinued as a floating rate benchmark, and various aspects of the discontinuation are uncertain and will affect the financial markets and may also affect the Financed Eligible Loans and the Class A-1B Notes and the Class B Notes" herein, the FCA/IBA Announcements on future cessation and loss of representativeness of the LIBOR benchmarks constitute a "Benchmark Transition Event" under the Indenture; however, the related Benchmark Replacement Date has not yet occurred and so the Class A-1B Notes and the Class B Notes will accrue interest by reference to LIBOR until such related Benchmark Replacement Date or another Benchmark Transition Event and its related Benchmark Replacement Date occur.

"*Business Day*" means (a) for purposes of calculating LIBOR, any day on which banks in New York, New York, United States of America and London, England are open for the transaction of international business; and (b) for all other purposes, any day other than (i) a Saturday; (ii) a Sunday; or (iii) a day on which the Federal Reserve Bank or banks located in St. Louis, Missouri or the city in which the office of the Trustee from which the Indenture is being administered is located (initially Cincinnati, Ohio), are not authorized or required by law, regulation or executive order to remain closed.

"*Carryover Servicing Fees*" shall mean any fee for servicing the Financed Eligible Loans not permitted to be paid from funds available under clause THIRD described under the caption "SECURITY AND SOURCES OF PAYMENT FOR THE NOTES—Collection Fund; Flow of Funds" herein; the

Carryover Servicing Fees shall initially be equal to $0.00 and may only be increased upon satisfaction of the Rating Agency Condition.

"*Compounded SOFR*" means the compounded average of SOFRs for the applicable Corresponding Tenor, with the rate, or methodology for this rate, and conventions for this rate (which, for example, may be compounded in arrears with a lookback and/or suspension period as a mechanism to determine the interest amount payable prior to the end of each Interest Accrual Period or compounded in advance) being established by the Issuer in accordance with:

(a) the rate, or methodology for this rate, and conventions for this rate selected or recommended by the Relevant Governmental Body for determining compounded SOFR; provided that

(b) if, and to the extent that, the Issuer determines that Compounded SOFR cannot be determined in accordance with clause (a) above, then the rate, or methodology for this rate, and conventions for this rate that have been selected by the Issuer giving due consideration to any industry-accepted market practice for U.S. dollar denominated securitization transactions at such time.

"*Corresponding Tenor*" means, with respect to a Benchmark Replacement, a tenor (including overnight) having approximately the same length (disregarding Business Day adjustment) as the applicable tenor for the then-current Benchmark.

"*Federal Reserve Bank of New York's Website*" means the website of the Federal Reserve Bank of New York at http://www.newyorkfed.org, or any successor source.

"*Reference Time*" means, with respect to any determination of the Benchmark, (a) if the Benchmark is LIBOR, 11:00 a.m., London time, on the day that is two Business Days preceding the date of such determination; and (b) if the Benchmark is not LIBOR, the time determined by the Issuer in accordance with the Benchmark Replacement Conforming Changes or LIBOR Related Amendment, as applicable.

"*Relevant Governmental Body*" means the Federal Reserve Board and/or the Federal Reserve Bank of New York, or a committee officially endorsed or convened by the Federal Reserve Board and/or the Federal Reserve Bank of New York or any successor thereto.

"*Simple Average SOFR*" means the simple average of SOFRs for the applicable Corresponding Tenor, with the conventions for this rate (which, for example, may be in arrears with a lookback and/or suspension period as a mechanism to determine the interest amount payable prior to the end of each Interest Period or in advance) being established by the Issuer in accordance with:

(a) the conventions for this rate selected or recommended by the Relevant Governmental Body for determining simple average SOFR; provided that

(b) if, and to the extent that, the Issuer determines that Simple Average SOFR cannot be determined in accordance with clause (a) above, then the conventions for this rate that have been selected by the Issuer giving due consideration to any industry-accepted market practice for U.S. dollar denominated securitization transactions at such time.

"*SOFR*" means, with respect to any day, the secured overnight financing rate published for such day by the Federal Reserve Bank of New York, as the administrator of the benchmark, (or a successor administrator) on the Federal Reserve Bank of New York's Website.

"*Term SOFR*" means the forward-looking term rate for the applicable Corresponding Tenor based on SOFR that has been selected or recommended by the Relevant Governmental Body.

"*Unadjusted Benchmark Replacement*" means the Benchmark Replacement excluding the Benchmark Replacement Adjustment.

Principal Distributions

The final Maturity Date for each class of the Notes will be August 25, 2061.

The actual date on which the final distribution on each class of the Notes will be made is expected to be earlier than the final Maturity Date set forth above as a result of a variety of factors. Principal payments will be made to the Noteholders on each Monthly Distribution Date in an amount equal to the lesser of:

(a) the Principal Distribution Amount for that Monthly Distribution Date; and

(b) funds available for the payment of principal as described under the caption "SECURITY AND SOURCES OF PAYMENT FOR THE NOTES—Collection Fund; Flow of Funds" herein.

There may not be sufficient funds available to pay the full Principal Distribution Amount on each Monthly Distribution Date. Amounts on deposit in the Reserve Fund in excess of the Specified Reserve Fund Balance will be transferred to the Collection Fund and will be applied as described under the caption "SECURITY AND SOURCES OF PAYMENT FOR THE NOTES—Collection Fund; Flow of Funds" herein. Principal payments due on the Notes will be made from the Reserve Fund only (a) on the final Maturity Date for the Notes; or (b) on any Monthly Distribution Date when the market value of securities and cash in the Reserve Fund and the Collection Fund is sufficient to pay the remaining principal amount of and interest accrued on the Notes; or (c) upon the exercise of the option to prepay the Notes as described in the subsequent caption.

Principal will be paid, first, on the Class A Notes ratably until paid in full and, second, on the Class B Notes until paid in full.

"*Principal Distribution Amount*" means, as determined by the Issuer for each Monthly Distribution Date other than a Note Final Maturity Date, the amount, not less than zero, by which (a) the Outstanding Amount of the Notes immediately prior to such Monthly Distribution Date exceeds (b) the Adjusted Pool Balance for that Monthly Distribution Date less the Specified Overcollateralization Amount. Notwithstanding the foregoing; (i) on or after the Maturity Date for a class of Notes, the Principal Distribution Amount shall not be less than the amount that is necessary to reduce the outstanding principal balance of such class of Notes to zero; and (ii) the Principal Distribution Amount shall not exceed the Outstanding Amount of the Notes as of any Monthly Distribution Date (before giving effect to any distributions on such Monthly Distribution Date).

"*Specified Overcollateralization Amount*" means for any Monthly Distribution Date, the greater of:

(a) 6.5% of the Adjusted Pool Balance for that Monthly Distribution Date; and (b) $4,000,000.

"*Adjusted Pool Balance*" means, for any Monthly Distribution Date, the sum of the Pool Balance as of the end of the immediately preceding Collection Period and the amounts on deposit in the Capitalized

Interest Fund and the Reserve Fund on such Monthly Distribution Date after giving effect to any payments to or releases from the Capitalized Interest Fund and the Reserve Fund.

The Principal Distribution Amount is intended to provide credit support so that, if sufficient funds are available on each Monthly Distribution Date, the Adjusted Pool Balance will continue to exceed the Outstanding Amount of the Notes by the greater of (a) 6.5% of the Adjusted Pool Balance for that Monthly Distribution Date; and (b) $4,000,000.

"*Pool Balance*" means, for any date, the aggregate principal balance of the Financed Eligible Loans on that date, including accrued interest that is expected to be capitalized, after giving effect to the following, without duplication:

(a) all payments received by the Issuer through that date from borrowers;

(b) all amounts received by the Issuer through that date from required purchases or repurchases of Financed Eligible Loans by Servicers or sellers;

(c) all Liquidation Proceeds and Realized Losses on the Financed Eligible Loans through that date;

(d) the amount of any adjustment to balances of the Financed Eligible Loans that the Servicer makes under its related servicing agreement, if any, recorded through that date; and

(e) the amount by which Guaranty Agency reimbursements of principal on defaulted Financed Eligible Loans through that date are reduced from 100% to 97%, or other applicable percentage, as required by the risk sharing provisions of the Higher Education Act.

In addition to the principal payments described above, (i) if a Principal Acceleration Trigger is in effect for any Monthly Distribution Date occurring on and after the October 2026 Monthly Distribution Date through and including the September 2031 Monthly Distribution Date, (ii) on and after the October 2031 Monthly Distribution Date or (iii) if the Financed Eligible Loans are not released from the lien of the Indenture when permitted pursuant to the optional prepayment described below, the Notes may receive supplemental payments of principal from certain money remaining in the Collection Fund as described under the caption "SECURITY AND SOURCES OF PAYMENT FOR THE NOTES—Collection Fund; Flow of Funds" herein. Such supplemental payments of principal could result in the Notes being paid in full prior to their final maturity.

Each principal payment on a class of Notes will be allocated to all Noteholders of such class of Notes on a pro rata basis, based upon the principal amounts of such class of Notes held by each such Noteholder.

Optional Prepayment of Notes When the Then Outstanding Pool Balance is 10% or Less of Initial Pool Balance

The Issuer shall have the option to direct the release of all of the Financed Eligible Loans in whole on the Monthly Distribution Date next succeeding the last day of the Collection Period on which the then outstanding Pool Balance is 10% or less of the initial Pool Balance and on any Monthly Distribution Date thereafter. If this release option is exercised, the Financed Eligible Loans and other remaining trust assets will be released to the Issuer free from the lien of the Indenture.

For the Issuer to exercise this release option, the Issuer must deposit in the Collection Fund an amount that, when combined with amounts on deposit in the other funds and accounts held under the Indenture, would be sufficient to:

(a) reduce the Outstanding Amount of the Notes then outstanding on the related Monthly Distribution Date to zero;

(b) pay to the Noteholders the interest payable on the related Monthly Distribution Date; and

(c) pay any Monthly Consolidation Rebate Fees and other amounts payable to the Department of Education, pay amounts payable under any Joint Sharing Agreements or otherwise remove amounts deposited in the Trust Estate which represent amounts that are allocable to Eligible Loans that are not Financed Eligible Loans, and pay unpaid Administration Fees, Servicing Fees, Trustee Fees and Program Fees.

Prepayment, Yield and Maturity Considerations

Generally, all of the Financed Eligible Loans are pre-payable in whole or in part, without penalty, by the borrowers at any time, or as a result of a borrower's default, death, disability or bankruptcy and subsequent liquidation or collection of guarantee payments with respect to such loans. The rates of payment of principal on the Notes and the yield on the Notes may be affected by prepayments of the Financed Eligible Loans. Because prepayments generally will be paid through to Noteholders as distributions of principal, it is likely that the actual final payments on the Notes will occur prior to the final Maturity Date of the Notes. Accordingly, in the event that the Financed Eligible Loans experience significant prepayments, the actual final payments on the Notes may occur substantially before the final Maturity Date, causing a shortening of the weighted average life of the Notes. Weighted average life refers to the average amount of time that will elapse from the Date of Issuance of a Note until each dollar of principal of such Note will be repaid to the investor.

The rate of prepayments on the Financed Eligible Loans cannot be predicted and may be influenced by a variety of economic, social and other factors. See the caption "Social and economic factors may adversely affect repayment of the Financed Eligible Loans" above.

Generally, the rate of prepayments may tend to increase to the extent that alternative financing becomes available on more favorable terms or at interest rates significantly below the interest rates payable on the Financed Eligible Loans. In addition, the Issuer is obligated to purchase from the Trust Estate created under the Indenture (or substitute a similar Eligible Loan) any Financed Eligible Loan that is determined to be encumbered by a lien other than the lien of the Indenture and if the same is not cured within the applicable cure period. If any Financed Eligible Loan ceases to be Guaranteed or Insured, and as a result thereof, a Guarantee or Insurance claim with respect to such Financed Eligible Loan is rejected by the applicable Guaranty Agency or an Insurance claim is not paid by the Secretary and the same is not cured within 180 days after such rejection, or if any Financed Eligible Loan is determined to be encumbered by any lien other than the lien of this Indenture, then the Issuer shall, if it is the Servicer, or shall cause the Servicer to, either: (i) purchase such Financed Eligible Loan from the Trust Estate for a purchase price equal to its principal amount plus unamortized premium, if any, and interest accrued thereon; or (ii) replace such Financed Eligible Loan with another Financed Eligible Loan of substantially identical characteristics; and provided, however, that, with respect to a third-party Servicer, this provision shall be applicable only to the extent that such repurchase or replacement is provided by the applicable Servicing Agreement. As of the Statistical Cut-Off Date, $9,496,737 of the principal amount of the Financed Eligible Loans (representing

approximately 4.71% of the Financed Eligible Loans by principal amount) are "rehabilitation loans," which are Eligible Loans that have previously defaulted, but for which the borrower thereunder has made a specified number of on-time payments as described in "APPENDIX A—DESCRIPTION OF THE FEDERAL FAMILY EDUCATION LOAN PROGRAM—Insurance and Guarantees—*Rehabilitation of Defaulted Loans*" hereto. Although rehabilitation loans benefit from the same guarantees as other FFELP student loans, rehabilitation loans have generally experienced re-default rates that are higher than default rates for FFELP student loans that have not previously defaulted.

Scheduled payments with respect to the Financed Eligible Loans may be reduced and the maturities of Financed Eligible Loans may be extended, including pursuant to grace periods, deferral periods and forbearance periods. The rate of payment of principal on the Notes and the yield on the Notes may also be affected by the rate of defaults resulting in losses on the Financed Eligible Loans that may have been liquidated, by the severity of those losses and by the timing of those losses, which may affect the ability of the Guaranty Agencies (including the State Guaranty Agency) to make guarantee payments on such Financed Eligible Loans. In addition, the maturity of certain of the Financed Eligible Loans may extend beyond the final Maturity Date for the Notes.

More information on weighted average lives, expected maturities and percentages of original principal remaining at certain Monthly Distribution Dates for the Notes is set forth in "APPENDIX B—WEIGHTED AVERAGE LIVES, EXPECTED MATURITIES AND PERCENTAGES OF ORIGINAL PRINCIPAL REMAINING AT CERTAIN MONTHLY DISTRIBUTION DATES FOR THE NOTES" hereto.

SECURITY AND SOURCES OF PAYMENT FOR THE NOTES

General

The Notes will be limited obligations of the Issuer secured by and payable solely from the discrete Trust Estate pledged by the Issuer to the Trustee under the Indenture. The following assets will serve as security for the Notes (collectively, the "Trust Estate"):

(a) the Available Funds (other than moneys deposited in the Department SAP Rebate Fund and moneys released from the lien of the Trust Estate as provided in the Indenture);

(b) all moneys and investments held in the funds created under the Indenture (other than the Department SAP Rebate Fund), and other than moneys and investments released from the lien of the Trust Estate as provided in the Indenture), including all proceeds thereof and all income thereon;

(c) the Financed Eligible Loans held by the Issuer and pledged under the Indenture and all obligations of the obligors thereunder including all moneys received thereunder on or after the Cut-Off Date (but in no event including any Financed Eligible Loans released from the lien of the Trust Estate as provided in the Indenture);

(d) the rights of the Issuer in and to any Servicing Agreement, any Backup Servicing Agreement, any Joint Sharing Agreement, any Student Loan Purchase Agreement, any Custodian Agreement, any Origination Agreement and the Guarantee Agreements as the same relate to the Financed Eligible Loans;

(e) to the extent constituting or directly related to the components of the Trust Estate described in clauses (a) through (f), inclusive, property of the Issuer in the nature of Accounts,

General Intangibles (including Payment Intangibles), Promissory Notes, and Instruments (each as defined in the Uniform Commercial Code of the State of Missouri), but it shall not be necessary that an item be an Account, General Intangible, Payment Intangible, Promissory Note or Instrument for such item to be part of the Trust Estate if it is otherwise described, referenced, or included in clauses (a) through (d), or in this clause (e), but in no event shall this interest attach to any properties, cash or other trust estates of the Issuer which are unrelated to the properties described in clauses (a) through (d) above or this clause (e); and

(f) all proceeds from any property described in clause (a) through (e) above and any and all other property, rights and interests of every kind or description that from time to time is specifically granted, conveyed, pledged, transferred, assigned or delivered to the Trustee as additional security under the Indenture.

Funds

The following funds will be created by the Trustee under the Indenture for the benefit of the Noteholders:

(a) Student Loan Fund;

(b) Capitalized Interest Fund;

(c) Collection Fund;

(d) Department SAP Rebate Fund;

(e) Reserve Fund; and

(f) Costs of Issuance Fund.

Money transferred from the Issuer or any other Servicer to the Trustee on account of the Financed Eligible Loans will be deposited into the Collection Fund for distribution in accordance with the terms of the Indenture. The Trustee will invest money held in funds created under the Indenture in Investment Securities at the written direction of the Issuer. Investment Securities may be purchased by the Trustee, through an affiliate of the Trustee or through a broker agent. Money in any fund created under the Indenture may be pooled for purposes of investment.

Fund Deposits

As described under the caption “USE OF PROCEEDS” herein, certain of the proceeds from the sale of the Notes will be used to make the initial deposits to the Capitalized Interest Fund, the Cost of Issuance Fund and the Reserve Fund described below. Certain of the remaining proceeds will be credited to the Student Loan Fund and immediately used to refinance certain of the Eligible Loans presently pledged by the Issuer under the Warehouse Agreement and certain Eligible Loans held unencumbered by the Issuer. Such refinanced Eligible Loans will be pledged to the Trustee under the Indenture and credited to the Trust Estate in the books and records of the Servicer.

Student Loan Fund; Deposit of Financed Eligible Loans

Certain proceeds of the Notes will be transferred to the lender under the Warehouse Agreement and to the Issuer in order to refinance the Financed Eligible Loans. On the Date of Issuance, such Eligible

Loans will be deposited into the Student Loan Fund created under the Indenture. Such Eligible Loans expected to be pledged on or about the Date of Issuance have been identified and are described under the caption "CHARACTERISTICS OF THE FINANCED ELIGIBLE LOANS" herein. Eligible Loans that are pledged to the Trust Estate created under the Indenture will be held by the Issuer and accounted for as a part of the Student Loan Fund.

Reserve Fund

On the Date of Issuance, a deposit will be made to the Reserve Fund in an amount equal to $1,307,534, which is 0.65% of the initial Pool Balance. On each Monthly Distribution Date, to the extent that money in the Collection Fund is not sufficient to pay amounts owed to the Department of Education and the Guaranty Agencies (other than to recall claims with respect to or for repurchases of Eligible Loans), to pay amounts payable under any applicable Joint Sharing Agreement or to otherwise remove amounts deposited in the Trust Estate which represent amounts that are allocable to Eligible Loans that are not Financed Eligible Loans, or to pay certain of the Issuer's operating expenses, including Administration Fees (including the amounts allocated for the payment of Program Fees), Servicing Fees, Trustee Fees and the interest then due on the Notes, the amount of the deficiency will be transferred from the Reserve Fund to the Collection Fund to the extent moneys are not available to be transferred to the Collection Fund from the Capitalized Interest Fund. Money withdrawn from the Reserve Fund will be restored through transfers from the Collection Fund as available. The Reserve Fund may also be used in connection with the optional release of Financed Eligible Loans and related prepayment of the Notes.

The Reserve Fund is subject to a Specified Reserve Fund Balance equal to the greater of (a) 0.65% of the Pool Balance as of the close of business on the last day of the immediately preceding Collection Period; and (b) $201,159; provided that in no event will such balance exceed the sum of the Outstanding Amount of the Notes; and provided further, that such Specified Reserve Fund Balance may be reduced upon satisfaction of the Rating Agency Condition.

The Reserve Fund is intended to enhance the likelihood of timely distributions of interest to the Noteholders and to decrease the likelihood that the Noteholders will experience losses. In some circumstances, however, the Reserve Fund could be reduced to zero. Amounts on deposit in the Reserve Fund in excess of the Specified Reserve Fund Balance will be transferred to the Collection Fund and will be applied as described under the caption "—Collection Fund; Flow of Funds" below. Other than such excess amounts, principal payments due on the Notes will be made from the Reserve Fund only (a) on the final Maturity Date for a class of Notes, or (b) on any Monthly Distribution Date when the market value of securities and cash in the Reserve Fund and the Collection Fund is sufficient to pay the remaining principal amount of and interest accrued on the Notes. The Reserve Fund may also be used in connection with the optional release of Financed Eligible Loans and prepayment of the Notes described under the caption "DESCRIPTION OF THE NOTES—Optional Prepayment of Notes When the Then Outstanding Pool Balance is 10% or Less of Initial Pool Balance" herein.

Capitalized Interest Fund

On the Date of Issuance, $6,000,000 will be deposited into the Capitalized Interest Fund. If on any Monthly Distribution Date, money on deposit in the Collection Fund is insufficient to pay amounts owed to the Department of Education and to the Guaranty Agencies (other than to recall claims with respect to or for repurchases of Eligible Loans), to pay amounts payable under any applicable Joint Sharing Agreement or to otherwise remove amounts deposited in the Trust Estate which represent amounts that are allocable to Eligible Loans that are not Financed Eligible Loans, or to pay Administration Fees (including the amounts allocated for the payment of Program Fees), Servicing Fees, Trustee Fees and interest on the Notes, then money on deposit in the Capitalized Interest Fund will be transferred to the Collection Fund to

cover the deficiency, prior to any amounts being transferred from the Reserve Fund. Amounts released from the Capitalized Interest Fund will not be replenished. On the September 2023 Monthly Distribution Date, any amounts remaining in the Capitalized Interest Fund in excess of $4,400,000 shall be transferred by the Trustee to the Collection Fund. On the September 2025 Monthly Distribution Date, any amounts remaining in the Capitalized Interest Fund in excess of $2,400,000 shall be transferred by the Trustee to the Collection Fund. On the September 2027 Monthly Distribution Date, any amounts remaining in the Capitalized Interest Fund shall be transferred by the Trustee to the Collection Fund.

Department SAP Rebate Fund

The Trustee will establish the Department SAP Rebate Fund as part of the Trust Estate created under the Indenture. The Higher Education Act requires holders of Eligible Loans first disbursed on or after April 1, 2006 to rebate to the Department of Education interest received from borrowers on such loans that exceeds the applicable special allowance support levels. The Issuer expects that the Department of Education will reduce the special allowance and interest benefit payments payable to the Issuer by the amount of any such rebates owed by the Issuer. However, in certain circumstances the Issuer may owe a payment to the Department of Education or to another trust if amounts were deposited into the Trust Estate that represent amounts that are allocable to Eligible Loans that are not Financed Eligible Loans. If the Issuer believes that it is required to make any such payment, the Issuer will direct the Trustee to deposit into the Department SAP Rebate Fund from the Collection Fund the estimated amounts of any such payments. Money in the Department SAP Rebate Fund will be transferred to the Collection Fund to the extent amounts have been deducted by the Department of Education from payments otherwise due to the Issuer or will be paid to the Department of Education or another trust if necessary to discharge the Issuer's rebate obligation or to the Issuer to reimburse it for the amount so deducted. See "APPENDIX A—DESCRIPTION OF THE FEDERAL FAMILY EDUCATION LOAN PROGRAM" hereto.

Costs of Issuance Fund

On the Date of Issuance, $670,750 will be deposited into the Costs of Issuance Fund. Amounts deposited to the Costs of Issuance Fund shall be used to pay the costs of issuing the Notes as set forth in closing settlement instructions or an Issuer Order. On the November 2021 Monthly Distribution Date, the Trustee upon written instructions of the Issuer will transfer any amounts remaining in the Costs of Issuance Fund to the Collection Fund, unless the Issuer instructs the Trustee to retain an amount therein through a later date.

Collection Fund; Flow of Funds

The Trustee will credit to the Collection Fund all revenues derived from Financed Eligible Loans; all proceeds of any sale of Financed Eligible Loans; all amounts received under any Joint Sharing Agreement; any amounts transferred from the Student Loan Fund, Capitalized Interest Fund, the Reserve Fund, and the Department SAP Rebate Fund; and any earnings on investment of funds and accounts established under the Indenture as they are earned.

Administration Fees, Servicing Fees and Trustee Fees will be paid to the Issuer, the Servicer (initially the Issuer) and the Trustee on each Monthly Distribution Date from money available in the Collection Fund. The amounts of the initial Servicing Fee, Administration Fee (including the amounts allocated for the payment of Program Fees) and Trustee Fee are specified under the caption "FEES AND EXPENSES" herein and each such fee is subject to increase upon satisfaction of a Rating Agency Condition. In addition, each month money available in the Collection Fund will be used to pay amounts due to the Department of Education with respect to Financed Eligible Loans, to deposit amounts required to be deposited into the Department SAP Rebate Fund and to recall claims with respect to or repurchase

Financed Eligible Loans in the limited circumstances described under the caption "Insurance and Guarantee—Loans Subject to Repurchase" in "APPENDIX A—DESCRIPTION OF THE FEDERAL FAMILY EDUCATION LOAN PROGRAM" hereto.

Upon written direction from the Issuer to the Trustee, moneys in the Collection Fund shall be used on any Business Day to pay to the Backup Servicer, when due, the one-time fees and expenses, in an amount not to exceed $300,000, associated with the conversion of the Financed Eligible Loans from the Servicer to the Backup Servicer.

On each Monthly Distribution Date, prior to an Event of Default, money available in the Collection Fund will be used to make the following deposits and distributions, to the extent funds are available, solely in accordance with the related Monthly Distribution Date Statement:

FIRST, to make any payments required under any applicable Joint Sharing Agreement or to otherwise pay to the appropriate Person, trust or other entity amounts deposited in the Collection Fund which represent amounts that are allocable to Eligible Loans which are not financed under the Indenture;

SECOND, to the Trustee, the Trustee Fee due and any prior unpaid Trustee Fees;

THIRD, to the Servicer (initially the Issuer), any Servicing Fee due and any prior unpaid Servicing Fees;

FOURTH, to the Issuer, the Administration Fee due and any prior unpaid Administration Fees;

FIFTH, to the Class A Noteholders of each class, interest payable on such Class A Notes on such Monthly Distribution Date, pro rata, based on amounts owed to each such party, without preference or priority of any kind;

SIXTH, to the Class B Noteholders, interest payable on the Class B Notes payable on such Monthly Distribution Date;

SEVENTH, to the Reserve Fund the amount, if any, necessary to reinstate the balance of the Reserve Fund up to the Specified Reserve Fund Balance;

EIGHTH, to the applicable Noteholders, the Principal Distribution Amount in the following order:

(a) to pay, on a pro rata basis, based on the principal amount of Class A Notes Outstanding, principal to the Class A-1A Noteholders and Class A-1B Noteholders until the Class A-1A Notes and Class A-1B Notes have been paid in full; and

(b) to pay principal to the Class B Noteholders until the Class B Notes have been paid in full;

NINTH, (A) if a Principal Acceleration Trigger is in effect for any Monthly Distribution Date occurring on and after the October 2026 Monthly Distribution Date through and including the September 2031 Monthly Distribution Date or (B) on and after the October 2031 Monthly Distribution Date, to pay as supplemental payments of principal on the Notes then Outstanding, to the Noteholders in the same order and priority as is set forth in EIGHTH above until the principal amount of the Notes is paid in full; and

TENTH, to the Trustee, any unpaid expenses or indemnities owed to the Trustee;

ELEVENTH, to the Issuer, the aggregate unpaid amount of any Carryover Servicing Fees;

TWELFTH, if the Financed Eligible Loans are not released when permitted by the Indenture for the optional redemption of the Notes, to pay as supplemental payments of principal on the Notes then Outstanding, to the Noteholders in the same order and priority as is set forth in EIGHTH above until the principal amount of the Notes is paid in full; and

THIRTEENTH, the Issuer all remaining funds.

Notwithstanding the foregoing, on and after the Maturity Date of the Class A-1A Notes and the Class A-1B Notes, the Class A-1A Noteholders and the Class A-1B Noteholders will receive amounts representing payment of the principal balance of the Class A-1A Notes and the Class A-1B Notes after clause FIFTH above until the Class A-1A Notes and the Class A-1B Notes have been paid in full and prior to the Class B Notes receiving payments of any payments of interest pursuant to clause SIXTH above.

The "Principal Acceleration Trigger" will be in effect for any Monthly Distribution Date occurring during the following periods (each, a "Principal Acceleration Measurement Period"):

- on and after the October 2026 Monthly Distribution Date and through and including the September 2027 Monthly Distribution Date, if the outstanding principal amount of the notes as of the September 2026 Monthly Distribution Date (after giving effect to all payments of principal made on the notes on such Monthly Distribution Date) exceeds $121,000,000;

- on and after the October 2027 Monthly Distribution Date and through and including the September 2028 Monthly Distribution Date, if the outstanding principal amount of the notes as of the September 2027 Monthly Distribution Date (after giving effect to all payments of principal made on the notes on such Monthly Distribution Date) exceeds $106,000,000;

- on and after the October 2028 Monthly Distribution Date and through and including the September 2029 Monthly Distribution Date, if the outstanding principal amount of the notes as of the September 2028 Monthly Distribution Date (after giving effect to all payments of principal made on the notes on such Monthly Distribution Date) exceeds $92,000,000;

- on and after the October 2029 Monthly Distribution Date and through and including the September 2030 Monthly Distribution Date, if the outstanding principal amount of the notes as of the September 2029 Monthly Distribution Date (after giving effect to all payments of principal made on the notes on such Monthly Distribution Date) exceeds $78,000,000; and

- on and after the October 2030 Monthly Distribution Date and through and including the September 2031 Monthly Distribution Date, if the outstanding principal amount of the notes as of the September 2030 Monthly Distribution Date (after giving effect to all payments of principal made on the notes on such Monthly Distribution Date) exceeds $64,000,000;

provided, however, if the Principal Acceleration Trigger is in effect for two Principal Acceleration Measurement Periods (regardless of whether they are consecutive), the Principal Acceleration Trigger will be deemed to be in effect for each remaining Principal Acceleration Measurement Period.

Flow of Funds After Events of Default and Acceleration

Following the occurrence of an Event of Default that results in an acceleration of the maturity of the Notes, and after the payment of certain fees and expenses, payments of principal and interest on the Class A Notes will be made, ratably, without preference or priority of any kind, until the Class A Notes are paid in full. Payments of principal and interest on the Class B Notes will only be made after all principal and interest on the Class A Notes has been made in full. See the caption "SUMMARY OF THE INDENTURE PROVISIONS—Remedies on Default" herein.

Investment of Funds Held by Trustee

The Trustee will invest amounts credited to any fund established under the Indenture in Investment Securities as directed in writing (or orally, confirmed in writing) by an authorized representative of the Issuer. In the absence of such direction, such amounts will be held un-invested by the Trustee. Unless an Event of Default shall have occurred under the Indenture, the Issuer acting by and through an authorized representative is entitled to, and will, provide written direction, or oral direction confirmed in writing to the Trustee with respect to any discretionary acts required or permitted of the Trustee under any Investment Securities and the Trustee will not take such discretionary acts without such written direction.

The Trustee will not in any way be held liable for the selection of Investment Securities purchased in accordance with the written investment directions of the Issuer or by reason of any insufficiency in any fund or account resulting from any market loss on any Investment Security so purchased or sold, including without limitation from any loss incurred as a result of the liquidation of any investment prior to its stated maturity in accordance with the written investment directions of the Issuer or the failure of the Issuer to provide timely written investment directions, in each case, in the absence of a breach of the Trustee's standard of care in the implementation of such investment directions.

BOOK-ENTRY REGISTRATION

The following information concerning DTC and DTC's book-entry system has been obtained from information made publicly available by DTC and contains statements that are believed to describe accurately DTC, the method of effecting book-entry transfers of securities distributed through DTC and certain related matters, but the Issuer and the Underwriter take no responsibility for the accuracy of such statements.

Investors acquiring beneficial ownership interests in the Notes issued in book-entry form may hold their Notes in the United States through DTC (as defined under the caption "—DTC" below).

Principal and interest payments on the Notes are to be made to Cede & Co. DTC's practice is to credit direct participant's accounts upon receipt of funds and corresponding detail information from the Issuer on the payable date in accordance with their respective holdings shown on DTC's records. Payments by participants to beneficial owners are governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and shall be the responsibility of the participant and not of DTC, the Trustee or the Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest is the responsibility of the Issuer, which the Trustee (acting at the direction of the Issuer) shall forward to Cede & Co. Disbursement of such payments to direct participants shall be the responsibility of DTC, and disbursement of such payments to the beneficial owners shall be the responsibility of direct and indirect participants. Under a book-entry format, Noteholders may experience a delay in their receipt of payments, since payments will be forwarded by the Trustee to Cede & Co., which will forward the payments to its

participants who will then forward them to indirect participants or Noteholders. Under a book-entry format, Noteholders may experience a delay in their receipt of payments, since payments will be forwarded by the Trustee to Cede & Co., which will forward the payments to its participants who will then forward them to indirect participants or Noteholders.

Redemption notices shall be sent to DTC. If less than all of the Notes are being redeemed, DTC's practice is to determine by lot the amount of the interest of each direct participant in the Notes to be redeemed.

DTC has advised that it will take any action permitted to be taken by a Noteholder under the Indenture only at the direction of one or more participants to whose accounts with DTC the Notes are credited.

Neither DTC nor Cede & Co. will consent or vote with respect to the Notes. Under its usual procedures, DTC mails an omnibus proxy to the trust, or the Trustee, as appropriate, as soon as possible after the record date. The omnibus proxy assigns Cede & Co.'s consenting or voting rights to those direct participants to whose accounts the Notes are credited on the record date.

None of the Issuer, the Trustee or the Underwriter will have any responsibility or obligation to any DTC participants or the persons for whom they act as nominees with respect to the accuracy of any records maintained by DTC or any participant, the payment by DTC or any participant of any amount due to any beneficial owner in respect of the principal amount or interest on the Notes, the delivery by any DTC participant of any notice to any beneficial owner which is required or permitted under the terms of the Indenture to be given to Noteholders or any other action taken by DTC.

In certain circumstances, the Issuer may discontinue use of the system of book-entry transfers through DTC or a successor securities depository. In that event, Note certificates are to be printed and delivered. DTC may discontinue providing its services as securities depository with respect to the Notes at any time by giving reasonable notice to the Issuer or the Trustee. In the event that a successor securities depository is not obtained, Note certificates are required to be printed and delivered in accordance with the Indenture.

The Notes will be issued in minimum denominations of $100,000 and in integral multiples of $1,000 in excess thereof, and may be held and transferred, and will be offered and sold, in principal balances of not less than these minimum denominations.

The Issuer will apply to DTC for acceptance in its book-entry settlement systems of the Notes. The Notes will have the CUSIP numbers and ISINs, as applicable, set forth in under the caption "SUMMARY OF TERMS" herein. Payments of principal, interest and any other amounts payable on the Notes will be made to or to the order of the relevant clearing system's nominee as the Noteholder of the Notes.

DTC. The Depository Trust Company, or DTC, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants, known as direct participants, deposit with DTC. DTC also facilitates the post-trade settlement among direct participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between direct participants' accounts. This eliminates the need for physical movement of securities

certificates. Direct participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is a wholly owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a direct participant, either directly or indirectly as an indirect participant. DTC has an S&P rating of "AA+." The DTC Rules applicable to its participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com. This website is not incorporated into and shall not be deemed to be a part of this Offering Memorandum.

Purchases of the Notes under the DTC system must be made by or through direct participants, which will receive a credit for the Notes on DTC records. The ownership interest of each actual purchaser of Notes, or beneficial owner, is in turn to be recorded on the direct and indirect participants' records. Beneficial owners shall not receive written confirmation from DTC of their purchase. Beneficial owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the direct or indirect participant through which the beneficial owner entered into the transaction. Transfers of ownership interests in the Notes are to be accomplished by entries made on the books of direct and indirect participants acting on behalf of beneficial owners. Beneficial owners will not receive certificates representing their ownership interests in the Notes, except in the event that use of the book-entry system for the class of any Notes is discontinued.

To facilitate subsequent transfers, all Notes deposited by participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of such Notes with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual beneficial owners of Notes; DTC's records reflect only the identity of the direct participants to whose accounts such Notes are credited, which may or may not be the beneficial owners. The direct and indirect participants remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to direct participants, by direct participants to indirect participants, and by direct participants and indirect participants to beneficial owners are governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Notes unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those direct participants to whose accounts the Notes are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the Notes are to be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit direct participants' accounts upon DTC's receipt of funds and corresponding detailed information from the Issuer or the Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by participants to beneficial owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such participant and not of DTC, the Issuer or the Trustee, subject to any statutory or regulatory requirements as may be in effect from time

to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other name as may be requested by an authorized representative of DTC) is the responsibility of the Issuer (through the Trustee), disbursement of such payments to direct participants will be the responsibility of DTC, and disbursement of such payments to the beneficial owners will be the responsibility of direct and indirect participants.

TRUSTEE

The Issuer will issue the Notes pursuant to the Indenture by and between the Issuer and U.S. Bank National Association, as Trustee. The Trustee's duties are limited to those duties specifically set forth in the Indenture.

The following information has been furnished by U.S. Bank National Association ("U.S. Bank") for use in this Offering Memorandum. Neither the Issuer nor the Underwriter guarantees or makes any representation as to the accuracy or completeness thereof or the absence of material adverse change in such information or in the condition of the Trustee subsequent to the date hereof.

U.S. Bank, a national banking association, will act as Trustee. U.S. Bancorp, with total assets exceeding $559 billion as of June 30, 2021, is the parent company of U.S. Bank, the fifth largest commercial bank in the United States. As of June 30, 2021, U.S. Bancorp operated over 2,200 branch offices in 26 states. A network of specialized U.S. Bancorp offices across the nation provides a comprehensive line of banking, brokerage, insurance, investment, mortgage, trust and payment services products to consumers, businesses, and institutions.

U.S. Bank has one of the largest corporate trust businesses in the country with office locations in 48 domestic and 2 international cities. U.S. Bank has provided corporate trust services since 1924.

As of June 30, 2021, U.S. Bank was acting as trustee with respect to over 111,000 issuances of securities with an aggregate outstanding principal balance of over $5 trillion. This portfolio includes corporate and municipal bonds, mortgage backed and asset backed securities and collateralized debt obligations.

U.S. Bank and other large financial institutions have been sued in their capacity as trustee or successor trustee for certain residential mortgage backed securities ("RMBS") trusts. The complaints, primarily filed by investors or investor groups against U.S. Bank and similar institutions, allege the trustees caused losses to investors as a result of alleged failures by the sponsors, mortgage loan sellers and servicers to comply with the governing agreements for these RMBS trusts. Plaintiffs generally assert causes of action based upon the trustees' purported failures to enforce repurchase obligations of mortgage loan sellers for alleged breaches of representations and warranties, notify securityholders of purported events of default allegedly caused by breaches of servicing standards by mortgage loan servicers and abide by a heightened standard of care following alleged events of default.

U.S. Bank denies liability and believes that it has performed its obligations under the RMBS trusts in good faith, that its actions were not the cause of losses to investors, that it has meritorious defenses, and it has contested and intends to continue contesting the plaintiffs' claims vigorously. However, U.S. Bank cannot assure you as to the outcome of any of the litigation, or the possible impact of these litigations on the Trustee or the RMBS trusts.

On March 9, 2018, a law firm purporting to represent fifteen Delaware statutory trusts (the "DSTs") that issued securities backed by student loans (the "Student Loans") filed a lawsuit in the Delaware Court of Chancery against U.S. Bank in its capacities as indenture trustee and successor special servicer, and three

other institutions in their respective transaction capacities, with respect to the DSTs and the Student Loans. This lawsuit is captioned *The National Collegiate Student Loan Master Trust I, et al. v. U.S. Bank National Association*, et al., C.A. No. 2018 0167 JRS (Del. Ch.) (the "NCMSLT Action"). The complaint, as amended on June 15, 2018, alleged that the DSTs have been harmed as a result of purported misconduct or omissions by the defendants concerning administration of the trusts and special servicing of the Student Loans. Since the filing of the NCMSLT Action, certain Student Loan borrowers have made assertions against U.S. Bank concerning special servicing that appear to be based on certain allegations made on behalf of the DSTs in the NCMSLT Action.

U.S. Bank has filed a motion seeking dismissal of the operative complaint in its entirety with prejudice pursuant to Chancery Court Rules 12(b)(1) and 12(b)(6) or, in the alternative, a stay of the case while other prior filed disputes involving the DSTs and the Student Loans are litigated. On November 7, 2018, the Court ruled that the case should be stayed in its entirety pending resolution of the first filed cases. On January 21, 2020, the Court entered an order consolidating for pretrial purposes the NCMSLT Action and three other lawsuits pending in the Delaware Court of Chancery concerning the DSTs and the Student Loans, which remains pending.

U.S. Bank denies liability in the NCMSLT Action and believes it has performed its obligations as indenture trustee and special servicer in good faith and in compliance in all material respects with the terms of the agreements governing the DSTs and that it has meritorious defenses. It has contested and intends to continue contesting the plaintiffs' claims vigorously.

U.S. Bank has not furnished or verified any information or statements contained in this Offering Memorandum other than the information contained in the third through tenth paragraphs of this caption "TRUSTEE", and U.S. Bank is not responsible for the sufficiency, completeness or accuracy of any information or statement contained in this Offering Memorandum other than the information provided directly by U.S. Bank.

The Issuer may maintain customary banking relations on arm's-length terms with the Trustee.

Subject to the terms of the Indenture, the Trustee will act on behalf of the Noteholders and represent their interests in the exercise of its rights under the Indenture. See the caption "SUMMARY OF THE INDENTURE PROVISIONS—The Trustee" herein for additional information regarding the responsibilities of the Trustee. The Trustee will not have any obligation to administer, service or collect the Financed Eligible Loans or to maintain or monitor the administration, servicing or collection of those Financed Eligible Loans.

SUMMARY OF THE INDENTURE PROVISIONS

The following is a summary of some of the provisions in the Indenture. This summary does not cover every detail contained in the Indenture and reference should be made to the Indenture and is subject to all of the terms and conditions of the Indenture in its entirety for a full and complete statement of its provisions.

Parity and Priority of Lien

The provisions of the Indenture are generally for the equal benefit, protection and security of the Noteholders under the Indenture except as expressly provided in the Indenture with respect to certain payments and other priorities, including priority of payment of the Class A Notes before payment of the Class B Notes.

THE NOTES SHALL NOT BE DEEMED TO CONSTITUTE A DEBT OR LIABILITY OR OBLIGATION OF THE STATE OF MISSOURI OR OF ANY AGENCY OR POLITICAL SUBDIVISION OF THE STATE OF MISSOURI, NOR SHALL THE NOTES AND THE OBLIGATIONS OF THE ISSUER CONTAINED IN THE INDENTURE BE DEEMED TO CONSTITUTE A PLEDGE OF THE FULL FAITH AND CREDIT OF THE STATE OF MISSOURI OR OF ANY AGENCY OR POLITICAL SUBDIVISION OF THE STATE OF MISSOURI. THE NOTES SHALL NOT DIRECTLY, INDIRECTLY OR CONTINGENTLY, OBLIGATE THE STATE OF MISSOURI OR ANY AGENCY OR POLITICAL SUBDIVISION THEREOF TO LEVY ANY FORM OF TAXATION THEREFOR OR TO MAKE ANY APPROPRIATION FOR THEIR PAYMENT. THE NOTES ARE SPECIAL, LIMITED OBLIGATIONS OF THE ISSUER AND ARE SECURED BY AND PAYABLE SOLELY FROM THE TRUST ESTATE PLEDGED AS SECURITY THEREFOR AS PROVIDED IN THE INDENTURE. NO OTHER ASSETS OF THE ISSUER ARE PLEDGED TO THE PAYMENT OF THE NOTES. THE STATE OF MISSOURI SHALL NOT BE LIABLE IN ANY EVENT FOR THE PAYMENT OF THE PRINCIPAL OF OR INTEREST ON THE NOTES OR FOR THE PERFORMANCE OF ANY PLEDGE, MORTGAGE, OBLIGATION, OR AGREEMENT OF ANY KIND WHATSOEVER WHICH MAY BE UNDERTAKEN BY THE AUTHORITY. NO BREACH OF ANY SUCH PLEDGE, MORTGAGE, OBLIGATION, OR AGREEMENT MAY IMPOSE ANY PECUNIARY LIABILITY UPON THE STATE OF MISSOURI OR ANY CHARGE UPON THE GENERAL CREDIT OR TAXING POWER OF THE STATE OF MISSOURI.

The revenues and other money, Financed Eligible Loans and other assets the Issuer pledges under the Indenture will be free and clear of any pledge, lien, charge or encumbrance, other than that created by the Indenture. If any Financed Eligible Loan is found to have been subject to a lien at the time such Financed Eligible Loan was pledged to the Trust Estate created under the Indenture, the Issuer will cause such lien to be released, will purchase such Financed Eligible Loan from the Trust Estate for a purchase price equal to its principal amount plus unamortized premium, if any, and interest accrued thereon or will replace such Financed Eligible Loan with another Eligible Loan with substantially identical characteristics which replacement Eligible Loan will be free and clear of liens at the time of such replacement.

Except as otherwise provided in the Indenture, the Issuer:

(a) will not create or voluntarily permit to be created any debt, lien or charge on the Financed Eligible Loans which would be on a parity with, subordinate to, or prior to the lien of the Indenture;

(b) will not take any action or fail to take any action that would result in the lien of the Indenture or the priority of that lien for the Notes thereby secured being lost or impaired; and

(c) will pay or cause to be paid, or will make adequate provisions for the satisfaction and discharge of all lawful claims and demands which if unpaid might by law be given precedence to or any equality with the Indenture as a lien or charge upon the Financed Eligible Loans.

Representations and Warranties

The Issuer will represent and warrant in the Indenture, among other things, that:

(a) it is duly authorized to issue the Notes and to execute and deliver the Indenture;

(b) all necessary action for the issuance of the Notes and the execution and delivery of the Indenture has been duly and effectively taken; and

(c) the Notes in the hands of the Noteholders are and will be valid and enforceable obligations of the Issuer secured by and payable solely from the Trust Estate created under the Indenture.

Sale of Financed Eligible Loans

Except under limited circumstances described in the Indenture, Financed Eligible Loans may not be sold, transferred or otherwise disposed of by the Issuer free from the lien of the Indenture while any Notes are outstanding. However, the Issuer may sell Financed Eligible Loans free from the lien of the Indenture, so long as the sale price for any Financed Eligible Loan is not less than the amount required to prepay in full such Financed Eligible Loan under the terms thereof, including all accrued interest thereon and any unamortized premium, and the collective aggregate principal balance of all such sales does not exceed 5% of the initial Pool Balance and the collective aggregate principal balance of all such sales in any calendar year does not exceed 1% of the Pool Balance as of the first date of such calendar year (or as of the Date of Issuance with respect to the first calendar year).

Further Covenants

The Issuer will cause financing statements to be filed in any jurisdiction necessary to perfect the security interest it grants under the Indenture.

Upon written request of the Trustee, the Issuer will permit the Trustee or its agents, accountants and attorneys, to examine and inspect the property, books of account, records, reports and other data relating to the Financed Eligible Loans, and will furnish the Trustee such other information as it may reasonably request. The Trustee will be under no duty to make any examination unless requested in writing to do so by the Noteholders of at least 66-2/3% of the Outstanding Amount of the Notes at the time outstanding, and unless those Noteholders have offered the Trustee security and indemnity satisfactory to it against any costs, expenses and liabilities which might be incurred in making any examination.

The Issuer will keep and maintain proper books of account relating to its program of financing Eligible Loans under the Indenture (the "Program") including all dealings or transactions of or in relation to the business and affairs of the Issuer which relate to the Notes. Within 180 days of the close of each fiscal year, the Issuer will receive an audit of the Program and the Issuer by an independent certified public accountant. A copy of the audit report showing in reasonable detail the financial condition of the Program and the Issuer as at the close of each fiscal year will be filed with the Trustee within 60 days after it is received by the Issuer and will be available for inspection by any Noteholder.

The Issuer shall deliver to the Trustee, within 180 days after the end of each fiscal year, a brief certificate from an authorized representative of the Issuer including (a) a current list of the authorized representatives of the Issuer, and (b) a statement indicating whether or not, to the knowledge of the signers thereof, the Issuer is in compliance with all conditions and covenants under the Indenture and, in the event of any noncompliance, specifying such noncompliance and the nature and status thereof.

The Issuer makes a number of negative covenants in the Indenture, including, without limitation, that it will not (a) sell, transfer, exchange or otherwise dispose of any portion of the Trust Estate except as expressly permitted by the Indenture; (b) claim any credit on, or make any deduction from, the principal amount of any of the Notes by reason of the payment of any taxes levied or assessed upon any portion of the Trust Estate; (c) permit the validity or effectiveness of the Indenture, any supplemental indenture or any grant thereunder to be impaired, or permit the lien of the Indenture to be amended, hypothecated, subordinated, terminated or discharged, or permit any person to be released from any covenants or obligations under the Indenture, except as may be expressly permitted thereby; (d) except as otherwise

provided in the Indenture, permit any lien, charge, security interest, mortgage or other encumbrance (other than the lien of the Indenture) to be created on or extend to or otherwise arise upon or burden the Trust Estate or any part thereof or any interest therein or the proceeds thereof; or (e) permit the lien of the Indenture not to constitute a valid first priority, perfected security interest in the Trust Estate.

Statements to Noteholders

Two Business Days preceding each Monthly Distribution Date, the Issuer shall prepare and provide a report to the Trustee, including the following:

(a) descriptions of portfolio characteristics;

(b) identification of remaining applicable Note balances;

(c) descriptions of amounts of the distribution allocable to principal and interest of the Class A Notes and the Class B Notes;

(d) changes in Pool Balance over the distribution period;

(e) fees paid by the Trust Estate; and

(f) limited descriptions of activity in the Capitalized Interest Fund, Reserve Fund, Collection Fund and Student Loan Fund.

Such report shall also be posted on the Issuer's website. See the caption "ADDITIONAL INFORMATION; REPORTS TO NOTEHOLDERS" herein. The Trustee shall provide or make electronically available a copy of any Monthly Distribution Date Certificate of the Issuer to any Noteholder who requests such in writing.

Servicing and Enforcement of the Servicing Agreements

The Issuer will at all times appoint, retain and employ competent personnel for the purpose of carrying out its respective programs under the Authorizing Act and the Program and will establish and enforce reasonable rules, regulations, tests and standards governing the employment of such personnel.

The Issuer will cause to be diligently enforced and taken all reasonable steps, actions and proceedings necessary for the enforcement of, all material terms, covenants and conditions of all servicing agreements, including, without limitation, the prompt payment of all principal and interest payments and all other amounts due the Issuer thereunder, including, all grants, subsidies, donations, insurance payments, Special Allowance Payments, Interest Benefit Payments and all Guarantee payments by a Guaranty Agency which relate to any Financed Eligible Loans. Collections received on the Financed Eligible Loans once identified by the Issuer or applicable Servicer as such shall be transferred to the Trustee for deposit into the Collection Fund on average within two Business Days of receipt as cleared funds. Except to the extent expressly permitted by the Indenture, the Issuer:

(a) will not permit the release of any material obligations of a Servicer under its servicing agreement, except in conjunction with amendments or modifications permitted by the Indenture and will defend, enforce, preserve and protect the material rights of the Issuer and the Trustee thereunder;

(b) will not consent or agree to or permit any amendment or modification of a servicing agreement which will materially adversely affect the rights or security of the Trustee or the Noteholders; and

(c) will duly and punctually perform and observe each of its obligations to each Servicer under its servicing agreement in accordance with the terms thereof.

Notwithstanding the foregoing, the Indenture does not prevent the Issuer from taking any action to replace a Servicer or from consenting or agreeing to, or permitting, any amendments, modifications to, or waivers with respect to, any servicing agreement, subject to the conditions set forth in the Indenture.

If at any time a Servicer fails in any material respect to perform its obligations under its Servicing Agreement or under the Higher Education Act or (in the case of the Issuer as Servicer) under the Indenture, or if any servicing audit shows any material deficiency in the servicing of Financed Eligible Loans by a Servicer, the Issuer will, or will cause the Servicer to, cure the failure to perform or the material deficiency or remove such Servicer and appoint another Servicer. From the date of the Indenture until all of the obligations of the Issuer under the Indenture shall be paid in full, each Servicer (including in the Issuer as Servicer under the Indenture) will service, administer and make collections with respect to the Financed Eligible Loans in all material respects with Accepted Servicing Procedures. The Issuer agrees to send notice to the Rating Agencies of any change in Servicer.

If any Financed Eligible Loan ceases to be Guaranteed or Insured, and as a result thereof, a Guarantee or Insurance claim with respect to such Financed Eligible Loan is rejected by the applicable Guaranty Agency or an insurance claim is not paid by the United States and the same is not cured within 180 days after such rejection or if any Financed Eligible Loan is determined to be encumbered by any lien other than the lien of the Indenture, then the Issuer will either: (a) purchase such Financed Eligible Loan from the Trust Estate created under the Indenture for a purchase price equal to its principal amount plus unamortized premium, if any, and interest accrued thereon; or (b) replace such Financed Eligible Loan with another Financed Eligible Loan of substantially identical characteristics; and provided, however, that, with respect to a third-party Servicer, this provision shall be applicable only to the extent that such repurchase or replacement is provided by the applicable Servicing Agreement.

The Issuer covenants to maintain a Backup Servicing Agreement with a third-party servicer and agrees to pay the fees and expenses associated therewith from moneys available as provided in the Indenture.

Additional Covenants With Respect to the Higher Education Act

The Issuer is responsible for the following actions, among others, with respect to the Higher Education Act:

(a) maintaining its status as an Eligible Lender and administering, operating and maintaining the Issuer's Program with respect to Eligible Loans in such manner as to ensure that the Program and the Financed Eligible Loans are in material compliance with and will benefit from the benefits available under the Higher Education Act and the federal program of reimbursement for Eligible Loans pursuant to the Higher Education Act and will comply with the material provisions of the Higher Education Act and all other United States and state statutes and regulations which apply to the Program and to the Financed Eligible Loans;

(b) entering into any Guarantee Agreement (or supplements thereto), maintaining such Guarantee Agreement and diligently enforcing its rights thereunder and not voluntarily consenting to or permitting any rescission of or consenting to any amendment to or otherwise taking any action under or in connection with any Guarantee Agreement or similar or supplemental agreement which in any manner would materially adversely affect the rights of the Noteholders under the Indenture;

(c) maintaining all Certificates of Insurance and diligently enforce its rights thereunder, enter into such other similar or supplemental agreements as shall be required to maintain benefits for all Financed Eligible Loans covered thereby, and not voluntarily consent to or permit any rescission of or consent to any amendment to or otherwise take any action under or in connection with any such Certificates of Insurance or any similar or supplemental agreement which in any manner will materially adversely affect the rights of the Noteholders under the Indenture;

(d) causing to be diligently enforced, and causing to be taken all reasonable steps necessary for the enforcement of all terms, covenants and conditions of all Financed Eligible Loans and agreements in connection with the Financed Eligible Loans, including the prompt payment of all principal and interest payments and all other amounts due to the Issuer thereby; not releasing the obligations of any borrower or agreeing to, permitting, allowing or causing any amendment or modification of any Financed Eligible Loan except to the extent permitted by the Indenture and making, or causing to be made by the applicable Servicer, every effort to perfect the Issuer's or such Servicer's claims for payment from the Secretary or such Guaranty Agency, of all payments related to such Financed Eligible Loans, no later than required by the Higher Education Act and the applicable Guarantee Agreement. Nothing in the Indenture shall be construed to prevent the Issuer from (i) granting a reasonable forbearance to a borrower pursuant to the terms of the Higher Education Act; (ii) settling a default or curing a delinquency on any Financed Eligible Loan on such terms as shall be permitted by law; (iii) charging interest at a lower rate than is required by the Higher Education Act to the extent provided in an exhibit to the Indenture; (iv) establishing a program of discounts, fee reduction or waiver, rate reduction or waiver or forgiveness of principal of or interest on Financed Eligible Loans to the extent as provided in an exhibit to the Indenture hereto; or (v) allowing a borrower to repay a Financed Eligible Loan pursuant to any repayment plan pursuant to the Higher Education Act;

(e) complying in all material respects with all United States and state statutes, rules, and regulations which apply to the Program and to the Financed Eligible Loans; and

(f) administering and collecting (or causing to be administered and collected) all Financed Eligible Loans in a competent, diligent, and orderly fashion and in accordance with all applicable requirements of the Higher Education Act, the Secretary, the regulations of the Secretary and each Guaranty Agency, and the Indenture.

For the avoidance of doubt, the Trustee will have no obligation to administer, service or collect the Financed Eligible Loans or to maintain or monitor the administration, servicing or collection of such loans.

Continued Existence; Successor

The Issuer will do or cause to be done all things necessary to preserve and keep in full force and effect its existence, rights and franchises as a body politic and corporate constituting a public instrumentality of the State of Missouri, except as set forth below. The Issuer will not (a) sell, transfer or otherwise dispose of all or substantially all, of its assets (except Financed Eligible Loans as permitted by the Indenture); (b) consolidate with or merge into another entity; or (c) permit one or more other entities to

consolidate with or merge into it. The preceding restrictions will not apply to a transaction if the transferee or the surviving or resulting entity, if other than the Issuer, by proper written instrument for the benefit of the Trustee, irrevocably and unconditionally assumes the obligation to perform and observe the agreements and obligations of the Issuer under the Indenture.

Events of Default

The Indenture will define the following events as events of default (each, an "Event of Default"):

(a) default in the due and punctual payment of any interest on any Note when the same becomes due and payable and such default will continue for a period of five days; provided, however, that a default in the due and punctual payment of any interest on any Class B Notes shall not be an Event of Default under the Indenture so long as the Class A Notes are outstanding;

(b) default in the due and punctual payment of the principal of any Note when the same becomes due and payable on the final Maturity Date of the Note;

(c) default in the performance or observance of any other of the Issuer's covenants, agreements or conditions contained in the Indenture or in the Notes, and continuation of such default for a period of 90 days after written notice thereof is given to the Issuer by the Trustee (to extent a Responsible Officer of the Trustee has actual knowledge or has received written notice thereof), or such later time if diligent care to cure such default is being pursued by the Issuer and a remedy cannot reasonably be effected within 90 days; and

(d) the occurrence of an Event of Bankruptcy in respect of the Issuer.

Notwithstanding anything to the contrary contained herein, in no event shall there be an Event of Default as a result of there being insufficient available funds in the Collection Fund to pay the principal on any Monthly Distribution Date other than a Note Final Maturity Date.

Remedies on Default

Possession of Trust Estate. Upon the happening and continuance of any Event of Default, the Trustee may (except with respect to an Event of Default described in the clause (c) (covenant default) under the caption "—Events of Default" above which has not resulted in an acceleration of the Notes) and upon its receipt of security or indemnity satisfactory to it, as described herein, at the written direction of the Noteholders representing not less than a majority of the Outstanding Amount of the Highest Priority Notes outstanding will, enter into and upon and take possession of any portion of the Trust Estate of the Issuer created under the Indenture that may be in the custody of others, and all property comprising the Trust Estate, may exclude the Issuer wholly therefrom and may have, hold, use, operate, manage and control those assets. The Trustee may also, in the name of the Issuer or otherwise, conduct such Issuer's business and collect and receive all charges, income and revenues of the Trust Estate. After deducting all fees, costs and expenses incurred and all other proper outlays authorized in the Indenture, and all payments which may be made as reasonable compensation for its own services, and for the services of its attorneys, agents, and assistants, and for indemnity payable to the Trustee, the Trustee will apply the rest and residue of the money received by the Trustee as follows:

FIRST, to the Department of Education, any department SAP rebate interest amount and Monthly Consolidation Rebate Fees due and owing thereto, to any Guaranty Agency amounts due and owing to such Guaranty Agency, and to any party to any Joint Sharing Agreement to which the Issuer may be a party or to any other person entitled to any amounts deposited in the Trust Estate

which represent amounts that are allocable to Eligible Loans that are not Financed Eligible Loans, any amounts due and owing thereto;

SECOND, to the Trustee for fees and any costs and out-of-pocket expenses of the Trustee due and owing, including, without limitation, the fees and expenses of its counsel;

THIRD, to (a) the Servicer (initially the Issuer), any Servicing Fee due and remaining unpaid; (b) the Issuer, any Administration Fee due and remaining unpaid; and (c) to the persons due any Program Fees, any remaining unpaid Program Fees;

FOURTH, to the Class A Noteholders for amounts due and unpaid on the Class A Notes for interest, ratably, without preference or priority of any kind, according to the amounts due and payable on the Class A Notes for such interest;

FIFTH, to Class A Noteholders for amounts due and unpaid on the Class A Notes for principal, ratably, without preference or priority of any kind, according to the amounts due and payable on the Class A Notes for principal until paid in full;

SIXTH, to the Class B Noteholders for amounts due and unpaid on the Class B Notes for interest, ratably, without preference or priority of any kind, according to the amounts due and payable on the Class B Notes for such interest;

SEVENTH, to Class B Noteholders for amounts due and unpaid on the Class B Notes for principal, ratably, without preference or priority of any kind, according to the amounts due and payable on the Class B Notes for principal until paid in full; and

EIGHTH, to the Issuer, but only after all amounts payable have been paid pursuant to the Indenture;

provided, however, that no amount that is deposited in the Department SAP Rebate Fund, or required hereby to be so deposited, shall be applied to any purpose, other than as expressly provided herein for amounts so deposited, prior to the full funding of such expressly provided purposes.

Remedies on Default; Advice of Counsel. Upon the happening of any Event of Default, the Trustee may, and, subject to the provisions of the Indenture described under the caption "—The Trustee" below, at the written direction of the Noteholders representing not less than a majority of the Outstanding Amount of the Highest Priority Notes outstanding, shall, proceed to protect and enforce the rights of the Trustee and the Noteholders in such manner, whether for the specific performance of any covenant, condition, agreement or undertaking contained in the Indenture or in aid of the execution of any power therein granted; or for the enforcement of such other appropriate legal or equitable remedies as the Trustee or such Noteholders may deem to protect and enforce the rights aforesaid. The Trustee will be entitled to rely upon the advice of counsel, which for this purpose may be note counsel, in exercising remedies under, or otherwise acting under or in enforcement of the Indenture.

Sale of Trust Estate. Upon the happening of any Event of Default and if the principal of all of the outstanding Notes will have been declared due and payable in accordance with the Indenture as described below under the caption "—Accelerated Maturity" below, then the Trustee may, and, subject to the provision of the Indenture described under the caption "—The Trustee" below, at the written direction of the Noteholders representing not less than a majority of the Outstanding Amount of the Highest Priority Notes outstanding, will, sell the Trust Estate created under the Indenture, to the highest bidder in accordance with the requirements of applicable law; provided, however, that, the Trustee may engage a third party with

nationally recognized experience in the sale of student loan assets, such as the Trust Estate, to undertake such sale; and further provided, that any sale shall be subject to prior compliance with the succeeding paragraph. In addition, the Trustee may proceed to protect and enforce the rights of the Trustee and the Noteholders in the manner as counsel for the Trustee may advise, whether for the specific performance of any covenant, condition, agreement or undertaking contained in the Indenture, or in aid of the execution of any power therein granted, or for the enforcement of such other appropriate legal or equitable remedies as may be more effectual to protect and enforce the rights aforesaid. The Trustee is required to take any of these actions if requested to do so in writing by the Noteholders of at least a majority of the Outstanding Amount of the Highest Priority Notes outstanding under the Indenture and indemnified to its satisfaction.

However, the Trustee is prohibited from selling the Financed Eligible Loans following an Event of Default (whether or not the principal of all outstanding Notes will have been declared due and payable), other than a default in the payment of any principal or any interest on any Note, unless:

(a) the Noteholders of all of the Highest Priority Notes at the time outstanding consent to such sale;

(b) the proceeds of such sale are sufficient to discharge all outstanding Notes at the date of such sale pursuant to terms of the Indenture describing discharge of the Indenture; or

(c) the Issuer determines that the collections on the Financed Eligible Loans would not be sufficient on an ongoing basis to make all payments on such Notes as such payments would have become due if such Notes had not been declared due and payable, and the Trustee obtains the consent of the Noteholders of at least 66-2/3% in Outstanding Amount of the Highest Priority Notes outstanding to such sale.

Such a sale following an Event of Default, other than a default in the payment of any principal or interest on any Note, will also require the consent of all the Noteholders of the Class B Notes (to the extent such Class B Notes are not the Highest Priority Notes outstanding at such time) unless the proceeds of such a sale would be sufficient to discharge the Class B Notes pursuant to the terms of the Indenture describing discharge of the Indenture at the date of such a sale.

Appointment of Receiver. If an Event of Default occurs, and all of the outstanding Notes under the Indenture have been declared due and payable in accordance with the Indenture as described below under the caption "—Accelerated Maturity," and if any judicial proceedings are commenced to enforce any right of the Trustee or of the Noteholders under the Indenture or otherwise, then as a matter of right, the Trustee will be entitled to the appointment of a receiver for the Trust Estate created under the Indenture.

Accelerated Maturity. If an Event of Default specified in clause (a), (b) or (d) above under the caption "—Events of Default" above) occurs and is continuing, the Trustee at the written direction of the Noteholders representing not less than a majority in Outstanding Amount of the Highest Priority Notes then outstanding under the Indenture will declare the principal of all Notes issued under the Indenture, and then outstanding, and the interest thereon, immediately due and payable. If an Event of Default specified in clause (c) under the caption "—Events of Default" above occurs and is continuing, the Trustee at the written direction of the Noteholders representing not less than a majority in Outstanding Amount of each class of Notes then outstanding under the Indenture will declare the principal of all Notes issued under the Indenture, and then outstanding, and the interest thereon, immediately due and payable. Such declaration of acceleration may be rescinded before a judgment or decree for the payment of the money due has been obtained by the Trustee if a majority of the Noteholders of the Highest Priority Notes then outstanding (with respect to the first sentence above) or a majority of the Noteholders of each class of Notes then outstanding under the Indenture (with respect to the second sentence above) provide written notice to the Issuer and the

Trustee and (a) if the Issuer has paid or deposited with the Trustee amounts sufficient, along with other amounts available in the Trust Estate for such purposes in accordance with the provisions of the Indenture, to pay all principal and interest due on all Notes and all other amounts that would then be due under the Indenture upon such Notes if such declaration of acceleration and the Event of Default giving rise to such acceleration had not occurred and all sums paid or advanced by the Trustee under the Indenture and the reasonable compensation, expenses, disbursements and advances of the Trustee, any Servicer, and their agents and counsel and, if applicable, any such other amounts due and owing to the Trustee; and (b) any other Event of Default has been cured or waived.

Direction of Trustee. If an Event of Default occurs, except as expressly provided in the Indenture, the Noteholders of a majority in Outstanding Amount of the Highest Priority Notes then outstanding under the Indenture, upon indemnifying the Trustee for its fees and expenses, will have the right to direct and control the Trustee as to the method of taking any and all proceedings for any investment or sale of any or all of the Trust Estate (in accordance with and subject to satisfaction of the provisions of the Indenture described under the caption "—Sale of Trust Estate"), or for the appointment of a receiver, if permitted by law, and may at any time cause any proceedings authorized by the terms of the Indenture to be discontinued or delayed.

Right To Enforce in Trustee. No Noteholder will have any right as a Noteholder to institute any suit, action or proceedings for the enforcement of the provisions of the Indenture or for the execution of any trust thereunder or for the appointment of a receiver or for any other remedy under the Indenture. All rights of action under the Indenture are vested exclusively in the Trustee, unless and until the Trustee fails for 30 days to institute an action, suit or proceeding after the Noteholders of the requisite Outstanding Amount of the Notes then outstanding (such amount as specified in the applicable section of the Indenture as described under this caption "—Remedies on Default"):

(a) will have given to the Trustee written notice of a default under the Indenture, and of the continuance thereof;

(b) will have made written request upon the Trustee and the Trustee will have been afforded reasonable opportunity to institute such action, suit or proceeding in its own name; and

(c) will have offered indemnity and security satisfactory to the Trustee against the costs, expenses, and liabilities to be incurred in or by an action, suit or proceeding in its own name.

Waivers of Events of Default. The Trustee will waive an Event of Default under the Indenture and its consequences and rescind any declaration of acceleration of the Notes due under the Indenture upon the written request of the Noteholders of at least a majority of the Outstanding Amount of the Highest Priority Notes then outstanding under the Indenture, or with respect to an Event of Default, or resulting declaration of acceleration, based solely upon an Event of Default specified in clause (c) above under "—Events of Default," a majority of the Outstanding Amount of each class of Notes then outstanding under the Indenture. However, any Event of Default in the payment of the principal of or interest due on any Note issued under the Indenture may not be waived unless prior to the waiver or rescission, provision will have been made for payment of all arrears of interest or all arrears of payments of principal and all expenses of the Trustee in connection with such default. A waiver or rescission of one default will not affect any subsequent or other default, or impair any rights or remedies consequent to any subsequent or other default.

The Trustee

Acceptance of Trust. The Trustee will accept the express duties and obligations imposed upon it by the Indenture and will perform those express duties and obligations, but only upon and subject to the following terms and conditions:

(a) except during the continuance of an Event of Default, the Trustee undertakes to perform only those duties as are specifically set forth in the Indenture and no implied duties (including fiduciary duties), covenants or obligations will be read into the Indenture against the Trustee;

(b) except during the continuance of an Event of Default and in the absence of bad faith or negligence on its part, the Trustee may conclusively rely, not only as to due execution, validity and effectiveness, but also as to the truth of the statements and the correctness of the opinions expressed therein, upon Issuer Orders, Noteholder directions, certificates or opinions furnished to the Trustee and conforming to the requirements of the Indenture; but in the case of any such Issuer Orders, Noteholder directions, certificates or opinions which by any provisions of the Indenture are specifically required to be furnished to the Trustee, the Trustee will be under a duty to examine the same to determine whether or not they conform as to form with the requirements of the Indenture (but need not confirm or investigate the accuracy of mathematical calculations or other facts stated therein);

(c) in case an Event of Default has occurred and is continuing of which a Responsible Officer of the Trustee shall have actual knowledge or shall have received written notice thereof, the Trustee, in exercising the rights and powers vested in it by the Indenture, will use the same degree of care and skill in their exercise as a prudent person would exercise or use under the circumstances in the conduct of his or her own affairs; and

(d) before taking any action under the Indenture requested by Noteholders, the Trustee may require that it be furnished an indemnity bond or other indemnity and security satisfactory to it by the applicable Noteholders, for the reimbursement of all fees and expenses to which it may be put and to protect it against liability arising from any action taken by the Trustee.

No provision of the Indenture shall be construed to relieve the Trustee from liability for its own negligent action, its own negligent failure to act, or its own willful misconduct (as determined by a court of competent jurisdiction), except that:

(a) this provision shall not be construed to limit the effect of clause (a) of the prior paragraph;

(b) the Trustee shall not be liable for any error of judgment made in good faith by a Responsible Officer, unless it shall be proved that the Trustee was negligent in ascertaining the pertinent facts;

(c) the Trustee shall not be liable with respect to any action taken or omitted to be taken in accordance with the written directions of (A) the Noteholders of not less than a majority of the Outstanding Amount of the Highest Priority Notes, or, with respect to a declaration of acceleration based solely upon an Event of Default specified in clause (c) under the caption "—Events of Default" above, or waiver of such declaration or of the underlying Event of Default, of a majority of the Outstanding Amount of each class of Notes, relating to the time, method and place of conducting any proceedings for any remedy available to the Trustee, or exercising any trust or

power conferred upon the Trustee pursuant to the provisions of the Indenture described under this caption "—The Trustee"; or (B) the Issuer, relating to any other actions that the Trustee may be required or permitted to take under the Indenture; subject, however, to satisfaction of any express requirements in the Indenture that may be applicable thereto; and

(d) no provision of the Indenture or any other basic document shall require the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder, or in the exercise of any of its rights or powers.

Trustee May Act Through Agents. The Trustee may execute any of the trusts or powers under the Indenture and perform any duty thereunder, either itself or by or through its attorneys or agents, and it shall not be answerable or accountable for any default, bad faith, negligence or willful misconduct of any such attorneys or agents, if reasonable care has been exercised in the appointment of such attorneys or agents and, unless the Issuer is contractually entitled to supervise and monitor the performance of any such attorneys or agents (other than during the continuance of an Event of Default), in such supervision and monitoring. All reasonable costs incurred by the Trustee and all reasonable compensation to all such persons as may be appointed by the Trustee in connection with the trusts under the Indenture shall be paid by the Issuer as part of the Trustee Fee (including after the occurrence and continuation of an Event of Default, as described under the caption "–Remedies on Default–Possession of Trust Estate" above).

Recitals of Others. The Trustee will not make any representations as to the title of the Issuer in the Trust Estate created under the Indenture or as to the security afforded thereby and by the Indenture, or as to the validity or sufficiency of the Indenture or the Notes issued thereunder or of any offering materials.

Trustee's Right to Reliance. The Trustee will be protected in acting upon any notice, resolution, request, consent, order, instruction, direction, certificate, report, appraisal, opinion, or document of the Issuer or a Servicer or other paper or document reasonably believed by it to be genuine and to have been signed or presented by the proper party or parties. The Trustee may consult with experts and with counsel (who may but need not be counsel for the Issuer, the Trustee or a Noteholder) and who may be note counsel, and the written advice or opinion of such counsel will be full and complete authorization and protection in respect of any action taken or suffered, and in respect of any determination made by it under the Indenture in good faith and in accordance with the written advice or opinion of such counsel.

The Trustee shall not be liable for any action taken, suffered or omitted by it in good faith in accordance with the Indenture or any other basic document or at the direction of the Noteholders evidencing the appropriate percentage of the Outstanding Amount of the Notes relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee, under the Indenture or any other basic document and believed by it to be authorized or within the discretion or rights or powers conferred upon it by the Indenture; provided, however, that the Trustee shall be liable for its bad faith, negligence or willful misconduct in taking such action (as determined by a court of competent jurisdiction).

Indemnification of Trustee. The Trustee is generally under no obligation or duty to perform any act at the request of Noteholders or to institute or defend any suit to protect the rights of the Noteholders under the Indenture unless properly indemnified and provided with security to its satisfaction. However, the Trustee may begin suit, or appear in and defend suit, execute any of the trusts created by the Indenture, enforce any of its rights or powers under the Indenture, or do anything else in its judgment proper to be done by it as Trustee, without assurance of reimbursement or indemnity. In that case, the Trustee will be reimbursed or indemnified by the Noteholders requesting that action, if any, or, subject to the limitations set forth in the Indenture, by the Issuer in all other cases, for all reasonable and documented fees, costs and expenses (including reasonable attorneys' fees and expenses and court costs and any losses incurred in

connection with a successful defense, in whole or in part, of any claim that the Trustee breached its standard of care) reasonably incurred unless such fees, costs and expenses reasonably incurred in connection therewith are adjudicated to have resulted from the negligence or willful misconduct of the Trustee. In furtherance and not in limitation of this paragraph, the Trustee will not be liable for, and will be held harmless by the Issuer from, any liability arising from following any Issuer Orders, instructions or other directions, and the Trustee is authorized to conclusively rely under the Indenture or any other agreement to which it is a party on such Issuer Orders, instructions or other directions. If the Issuer or the Noteholders, as appropriate, shall fail to make such reimbursement or indemnification promptly, the Trustee may reimburse itself from any money in its possession as described under the captions "SECURITY AND SOURCES OF PAYMENT FOR THE NOTES—Collection Fund; Flow of Funds" and "SUMMARY OF THE INDENTURE PROVISIONS—Remedies and Default–Possession of Trust Estate" herein.

The Trustee and its officers, directors, employees and agents (each a "Trustee Indemnified Person") shall further be indemnified for and held harmless by the Issuer from and against any loss, liability or expense incurred without bad faith, negligence or willful misconduct on the part of the Trustee or any other Trustee Indemnified Person arising out of or in connection with the Trustee's acceptance or administration of the trust created under the Indenture or its duties thereunder, including the reasonable costs and expenses of the Trustee Indemnified Persons in defending themselves against any claim or liability in connection with the exercise or performance of any of the Trustee's duties thereunder (collectively, "Losses"). The obligations of the Issuer under the Indenture, including without limitation any payment obligations of the Issuer arising under the Indenture provisions summarized in this caption, are limited to amounts held under the Indenture and available therefor. If the Issuer or the Noteholders, as appropriate, shall fail to make such reimbursement or indemnification, the applicable Trustee Indemnified Person, subject to the provisions of the Indenture described under the caption "Remedies on Default—Possession of Trust Estate" above and the other provisions of the Indenture described under this caption (including without limitation that there has been no negligence or willful misconduct by such Trustee Indemnified Person), may reimburse itself from any money held under the provisions of the Indenture (other than the Department SAP Rebate Fund), subject only to the prior lien of the Notes for the payment of the principal thereof and interest thereon from the Collection Fund, including any required transfers thereto.

The provisions of the Indenture described under this caption to the contrary notwithstanding, and without limitation to the generality of the limitations in the Indenture described in the second paragraph (the legend) under the caption "Parity and Priority of Lien" above, all payment obligations of the Issuer under the Indenture provisions described in this caption, or otherwise resulting from or arising from the actions described under this caption, are expressly limited as to source of payment as provided in Indenture as described in the second paragraph (the legend) under the caption "Parity and Priority of Lien" above.

Compensation of Trustee. Except as otherwise expressly provided in the Indenture, all Trustee Fees shall be paid by the Issuer as provided in the Indenture, but will be payable from the Trust Estate solely as expressly provided therein. Subject to the limitations in the Indenture described in the second paragraph (the legend) under the caption "Parity and Priority of Lien" above, the compensation of the Trustee will not be limited to or by any provision of law in regard to the compensation of trustees of an express trust. The Trustee Fees will be applicable so long as the Notes are outstanding. In the event a successor Trustee is appointed under the Indenture, Trustee Fees will be agreed upon prior to the Trustee's succession and will be applicable so long as the Notes are outstanding; provided, however, the successor Trustee may not materially increase the Trustee Fees upon its appointment without an Issuer Order evidencing satisfaction of the Rating Agency Condition. If not paid by the Issuer, the Trustee shall have a lien against all money held pursuant to the Indenture (other than the Department SAP Rebate Fund), subject only to the prior lien of the Notes for the payment of the principal thereof and interest thereon, for the Trustee Fees and such other reasonable fees, costs and expenses incurred in and about the execution of the trusts hereby created and the exercise and performance of the powers and duties of the Trustee thereunder

and the fees, costs and expenses incurred in defending against any other liability payable from the Trust Estate (other than pursuant to the Indenture) of any character whatsoever (unless such liability is adjudicated by a court of competent jurisdiction to have resulted from the bad faith, negligence or willful misconduct of the Trustee or any other Trustee Indemnified Person) and any other amounts due and owing the Trustee or any other Trustee Indemnified Person as described under the caption "*—Indemnification of Trustee*" above.

Resignation of Trustee. The Trustee and any successor to the Trustee may resign and be discharged by giving the Issuer 30 days prior written notice specifying the date on which the resignation is to take effect; provided, however, that such resignation will only take effect on the day specified in such notice if a qualified successor Trustee will have been appointed pursuant to the Indenture. If no successor Trustee has been appointed by that date or within 90 days of the Issuer receiving the Trustee's notice, whichever period is longer, then the Trustee may petition a court of competent jurisdiction to (a) require the Issuer to appoint a temporary successor, within three days of the receipt of citation or notice by the court, or (b) appoint a successor Trustee meeting the eligibility requirements of the Indenture. In no event may the resignation of the Trustee be effective until a qualified successor Trustee shall have been selected and appointed. In the event a temporary successor Trustee is appointed pursuant to clause (a) above, the Issuer may remove such temporary successor Trustee and appoint a successor thereto meeting the eligibility requirements of the Indenture pursuant to the terms thereof.

Removal of Trustee. The Trustee or any successor to the Trustee may be removed:

(a) at any time by the Noteholders acting on behalf of the Noteholders of a majority of the Outstanding Amount of the Notes then Outstanding, upon thirty (30) days' prior written notice to each of the Trustee and the Issuer;

(b) by the Issuer for cause or upon the sale or other disposition of the Trustee or its trust functions, upon thirty (30) days' prior written notice to each of the Trustee and the Noteholders; or

(c) by the Issuer without cause so long as no Event of Default exists or has existed within the last 30 days, upon payment to the Trustee so removed of all money then due to it under the Indenture and appointment of a successor thereto by the Issuer and acceptance thereof by said successor and upon thirty (30) days' prior written notice to each of the Trustee and the Noteholders.

In the event the Trustee (or any successor to the Trustee) is removed, such removal will not become effective until:

(a) in the case of removal by the Noteholders, such Noteholders by instrument or concurrent instruments in writing (signed and acknowledged by such Noteholders or their attorneys in fact) filed with the Trustee removed have appointed a successor Trustee or otherwise the Issuer shall have appointed a successor; and

(b) the successor Trustee has accepted that appointment.

Successor Trustee. In case at any time the Trustee or any successor to the Trustee resigns, is dissolved, is removed or otherwise is disqualified to act or is incapable of acting, or in case control of the Trustee or of any successor to the Trustee or of its officers is taken over by any public officer or officers, the Issuer may appoint a successor Trustee. The Issuer will cause notice of the appointment of a successor Trustee to be mailed to the Noteholders at the address of each Noteholder appearing on the Note registration books maintained by the Trustee, as registrar.

Every successor Trustee will be required to meet the following eligibility criteria (which also apply to the initial Trustee):

(a) will be a bank or trust company in good standing, organized and doing business under the laws of the United States or of a state therein;

(b) will have a reported capital and surplus of not less than $50,000,000;

(c) will be authorized under the law to exercise corporate trust powers in the State, be subject to supervision or examination by a federal or state authority; and

(d) will be an Eligible Lender so long as such designation is necessary to maintain guarantees and federal benefits under the Higher Education Act with respect to the Financed Eligible Loans.

Merger of the Trustee. Any entity into which the Trustee is converted or may be merged or with which it may be consolidated, or any entity resulting from any merger or consolidation to which the Trustee shall be a party, or any entity succeeding to all or substantially all of the corporate trust business of the Trustee, shall be the successor of the Trustee under the Indenture, provided such entity shall be otherwise qualified and eligible under the Indenture, without the execution or filing of any paper or any further act on the part of any other parties thereto. The Trustee shall promptly notify the Issuer after the effectiveness of any merger or consolidation as described in the Indenture provisions summarized under this caption.

Force Majeure

In no event will the Trustee or, except with respect to its obligation to fund the timely payment of principal and interest as due upon Notes, the Issuer be responsible or liable for any failure or delay in the performance of its obligations under the Indenture arising out of or caused by, directly or indirectly, forces beyond its control, including, without limitation to the generality of the foregoing, any provision of any present or future law or regulation thereunder, acts of God, flood, war (whether declared or undeclared), terrorism, fire, riot, strikes or work stoppages for any reason, embargo, accidents, national emergencies, natural disasters, epidemics, pandemics, the adoption or imposition of quarantine, shelter-in-place or similar requirements, directives, guidance, or government action, including policies and any other laws, ordinances, regulations or the like which restrict or prohibit the providing of the services contemplated by the Indenture, inability to obtain material, equipment or communications or computer facilities, or the failure of equipment or interruption of communications or computer facilities, and other causes beyond its control whether or not of the same type or kind as specifically named above it being understood that the Issuer will use reasonable efforts, and that the Trustee will use reasonable efforts which are consistent with accepted practices in the banking industry, respectively, to resume performance as soon as practicable under the circumstances.

Supplemental Indentures

Supplemental Indentures Not Requiring Consent of Noteholders. The Issuer can agree with the Trustee to enter into any indentures supplemental to the Indenture for any of the following purposes without notice to or the consent of Noteholders (except for clause (m) as described below):

(a) to cure any ambiguity, inconsistency or formal defect or omission in the Indenture or to conform to the offering memorandum related to the initial offering of the Notes;

(b) to grant to or confer upon the Trustee for the benefit of the Noteholders any additional benefits, rights, remedies, powers or authorities that may lawfully be granted to or conferred upon the Noteholders or the Trustee;

(c) to subject to the Indenture additional revenues, properties or collateral;

(d) to modify, amend or supplement the Indenture or any indenture supplemental thereto in such manner as to permit the qualification of the Indenture or any indenture supplemental thereto under the Trust Indenture Act of 1939 or any similar federal statute or to permit the qualification of the Notes for sale under the securities laws of the United States of America or of any of the states of the United States of America, and, if they so determine, to add to the Indenture or any indenture supplemental thereto such other terms, conditions and provisions as may be permitted by said Trust Indenture Act of 1939 or similar federal statute;

(e) to evidence the appointment of a separate or co-Trustee or a co-registrar or transfer agent or the succession of a new Trustee under the Indenture, or any additional or substitute Guaranty Agency or Servicer;

(f) to add such provisions to or to amend such provisions of the Indenture as may be necessary or desirable to assure implementation of the Program in conformance with the Higher Education Act if along with such supplemental indenture there is filed a note counsel's opinion addressed to the Issuer and the Trustee to the effect that the addition or amendment of such provisions will not materially impair the existing security of the Noteholders of any outstanding Notes;

(g) to make any change as may be necessary in order to obtain and maintain for any of the Notes an investment grade rating from a nationally recognized rating service, if along with such supplemental indenture there is filed a note counsel's opinion addressed to the Issuer and the Trustee to the effect that such changes will not materially adversely impact the existing security of the Noteholders of any outstanding Notes;

(h) to make any changes necessary to comply with or to obtain more favorable treatment under any current or future law, rule or regulation, including, but not limited to, the Higher Education Act or the regulations thereunder;

(i) to create any additional funds or accounts or subaccounts under the Indenture deemed by the Trustee to be necessary or desirable;

(j) to amend the Indenture to provide for use of a surety note or other financial guaranty instrument in lieu of cash and/or Investment Securities in all or any portion of the Reserve Fund, so long as such action shall not adversely affect the Ratings of any of the Notes;

(k) to make Benchmark Replacement Conforming Changes from time to time in connection with the implementation of a Benchmark Replacement (see the caption "DESCRIPTION OF THE NOTES—Benchmark Transition Event" herein);

(l) to make any other change (other than changes with respect to any matter requiring the satisfaction of a Rating Agency Condition unless such Rating Agency Condition has been satisfied) which based upon an opinion of counsel will not materially adversely impact the Noteholders of any Notes; or

(m) with the consent of all of the Class B Noteholders, to make any changes to the terms of the Class B Notes provided that such changes to the Class B Notes become effective only after the Class A Notes are no longer outstanding;

provided, however, that nothing in the Indenture provisions described under this caption shall permit, or be construed as permitting, any modification of the trusts, powers, rights, duties, remedies, immunities and privileges of the Trustee without the prior written approval of the Trustee, which approval shall be evidenced by execution of a supplemental indenture.

Supplemental Indentures Requiring Consent of Noteholders. Any amendment of the Indenture other than those listed above or pursuant to a LIBOR Related Amendment must be approved by the Noteholders representing not less than a majority of the Outstanding Amount of the Notes; provided that the changes described below, other than Benchmark Replacement Conforming Changes or a LIBOR Related Amendment, may be made in a supplemental indenture only with the consent of the Noteholders of each affected Note then outstanding:

(a) an extension of the Maturity Date of the principal of or the interest on any Note;

(b) a reduction in the principal amount of any Note or the rate of interest thereon;

(c) a privilege or priority of any Note under the Indenture over any other Note except as otherwise provided in the Indenture;

(d) a reduction in the principal amount of the Notes required for consent to such supplemental indenture; or

(e) the creation of any lien other than a lien ratably securing all of the Notes at any time outstanding under the Indenture except as otherwise provided in the Indenture.

Nothing in the Indenture provisions described under this caption shall permit, or be construed as permitting, any modification of the trusts, powers, rights, duties, remedies, immunities and privileges of the Trustee without the prior written approval of the Trustee, which approval shall be evidenced by execution of a supplemental indenture.

Additional Limitation on Modification of Indenture. None of the provisions of the Indenture permit amending the Indenture to provide for the transfer of all or part of the Financed Eligible Loans or the granting of an interest therein to any person other than an eligible lender under the Higher Education Act or a Servicer, unless the Higher Education Act or regulations promulgated thereunder are modified so as to permit the same.

Trusts Irrevocable

The trust created by the Indenture is irrevocable until the Notes and interest thereon and all other payment obligations of the Issuer under the Indenture are fully paid or provision is made for their payment as provided in the Indenture.

Satisfaction of Indenture

If the Noteholders are paid all the principal of and interest due on their Notes at the times and in the manner stipulated in the Indenture and if all other persons are paid any other amounts payable and secured under the Indenture, then the pledge of the Trust Estate, except the Department SAP Rebate Fund,

will thereupon terminate and be discharged. The Trustee will execute and deliver to the Issuer instruments to evidence the discharge and satisfaction, and the Trustee will pay all money held by it under the Indenture to the Issuer.

Notes will be considered to have been paid if money for their payment or redemption has been set aside and is being held in trust by the Trustee. Any outstanding Note will be considered to have been paid if the Note is to be redeemed on any date prior to its stated maturity and notice of redemption has been provided for as provided in the Indenture and on said date there will have been deposited with the Trustee either money or certain non-callable governmental obligations which are unconditionally and fully guaranteed by the United States of America or any agency or instrumentality thereof, the principal of and the interest on which when due will provide money which, together with any money deposited with the Trustee at the time, will be sufficient to pay when due the principal of and interest to become due on the Notes on and prior to the redemption date or stated maturity, as the case may be.

Optional Release of All Financed Eligible Loans

The Issuer shall certify to and notify the Trustee in writing, within 15 days after the last Business Day of each Collection Period in which the then outstanding Pool Balance is 12% or less of the initial Pool Balance, of the percentage that the then outstanding Pool Balance bears to the initial Pool Balance. The Issuer shall have the option to direct the release of all of the Financed Eligible Loans from the lien of the Indenture on the Monthly Distribution Date next succeeding the last day of the Collection Period on which the then outstanding Pool Balance is 10% or less of the initial Pool Balance and on each Monthly Distribution Date thereafter (each, an "Optional Release Date"). To exercise the option described in this paragraph, the Issuer shall deposit in the Collection Fund on or before the Optional Release Date, an amount that is sufficient to redeem all of the Notes, and pay any due and owing Administration Fees (including the amounts allocated for the payment of Program Fees), Servicing Fees, Program Fees, and Trustee Fees attributable to the Notes, as well as any other expenses that may be due at the time or following the payment of the Notes, less any amounts on deposit in the Funds and Accounts (other than the Department SAP Rebate Fund). Upon exercise of the option to direct the release of all of the Financed Eligible Loans pursuant to this paragraph, the same shall be released from the lien of the Indenture.

CREDIT ENHANCEMENT

Credit enhancement for the Notes will consist of overcollateralization, excess spread, cash on deposit in the Capitalized Interest Fund and the Reserve Fund and, for the Class A Notes, the subordination of the Class B Notes. "Excess spread" is created when interest collections received on the Eligible Loans held in the Trust Estate during a Collection Period and related investment earnings exceed the interest on the Notes at the related Note interest rates and certain fees and expenses of the Issuer. There can be no assurance as to the rate, timing or amount, if any, of excess spread.

As described under the caption "USE OF PROCEEDS" herein, on the Date of Issuance, certain of the proceeds from the sale of the Notes will be deposited by the Issuer to the credit of the Reserve Fund and the Capitalized Interest Fund. Certain of the remaining proceeds will be used to refinance FFELP Loans presently pledged by the Issuer under the Warehouse Agreement and certain FFELP Loans held unencumbered by the Issuer. Such refinanced FFELP Loans will be pledged to the Trustee under the Indenture upon such refinancing. After giving effect to the issuance of the Notes, deposits to the Capitalized Interest Fund and Reserve Fund and the pledge of the Financed Eligible Loans to the Trustee on the Date of Issuance, the parity ratio will be not less than 108.0% of the principal amount of the Class A Notes and not less than 105.5% of the principal amount of all Notes. The FFELP Loans expected to be refinanced and pledged under the Indenture on the Date of Issuance have been identified and are described herein (as

of the Statistical Cut-Off Date) under the caption "CHARACTERISTICS OF THE FINANCED ELIGIBLE LOANS" herein.

On the Date of Issuance, deposits in the amounts of $6,000,000 and $1,307,534 will be made to the Capitalized Interest Fund and the Reserve Fund, respectively. See the caption "SECURITY AND SOURCES OF PAYMENT FOR THE NOTES" herein. The Reserve Fund and Capitalized Interest Fund are intended to enhance the likelihood of timely distributions of interest to the Noteholders and to decrease the likelihood that the Noteholders will experience losses. To the extent of available funds, the Reserve Fund will be replenished so that amounts on deposit therein do not fall below the Specified Reserve Fund Balance. Amounts withdrawn from the Capitalized Interest Fund will not be replenished.

The amount of the Financed Eligible Loans to be deposited into the Student Loan Fund on the Date of Issuance, together with the cash to be deposited on the Date of Issuance into the Capitalized Interest Fund and the Reserve Fund will exceed the original principal balance of the Notes to be issued by the Issuer, which excess will represent the initial overcollateralization for the Trust Estate created under the Indenture and a portion of the credit enhancement.

Credit enhancement will not provide protection against all risks of loss and may not guarantee payment to Noteholders of all amounts to which they are entitled. If losses or shortfalls occur that exceed the amount of the credit enhancement, Noteholders, and particularly the Noteholders of the Class B Notes, will bear their allocable share of deficiencies. To the extent that the credit enhancement described above is exhausted, the Notes, and particularly the Class B Notes, will bear any risk of loss.

The Class B Notes are subordinate Notes. The rights of the Noteholders of the Class B Notes to receive payments of interest are subordinated to the rights of the Noteholders of the Class A Notes to receive payments of interest. Similarly, the rights of the Noteholders of the Class B Notes to receive payments of principal are subordinated to the rights of the Noteholders of the Class A Notes to receive payments of interest and principal. This subordination is intended to enhance the likelihood of regular receipt by the Noteholders of the Class A Notes of the full amount of the payments of interest and principal due to them and to protect the Noteholders of the Class A Notes against losses. See the caption "RISK FACTORS—Subordination of the Class B Notes may result in a greater risk of loss for holders of Class B Notes" herein.

CERTAIN U.S. FEDERAL INCOME TAX CONSIDERATIONS

The following is a summary of all material U.S. federal income tax consequences of the purchase, ownership and disposition of the Notes for the investors described below. This summary is based upon laws, regulations, rulings and decisions currently in effect, all of which are subject to change, which change may be retroactive. Except where noted, this summary is addressed to Noteholders who are U.S. persons that acquire Notes at original issuance and beneficially own their Notes as "capital assets" (generally, property held for investment) within the meaning of Section 1221 of the Code. This summary does not purport to be a comprehensive description of all the tax considerations that may be relevant to a particular investor's decision to purchase Notes. For example, this summary does not deal with individual circumstances of particular investors or all federal tax consequences applicable to all categories of investors, some of which may be subject to special rules, including, but not limited to, partnerships or entities treated as partnerships, dealers in securities or currencies, financial institutions, life insurance companies, persons holding Notes as a part of a hedging, integrated constructive sale or conversion transaction or a straddle, Noteholders whose "functional currency" is not the U.S. dollar, pension plans, foreign investors or subsequent purchasers of the Notes, except as otherwise indicated. Prospective investors should note that no rulings have been or will be sought from the Service with respect to any aspect of the U.S. federal income tax treatment of the Issuer, the Notes or the Noteholders, including the U.S. federal income tax consequences discussed below, and no assurance can be given that the Service will not take contrary

positions to those discussed below. In addition, this summary does not address tax and withholding considerations that may be applicable to any hedge, constructive sale, straddle or conversion transaction, debt securities that are "contingent payment" debt instruments, alternative minimum taxes, the holding of Notes through entities treated as partnerships for U.S. federal income tax purposes, the Medicare tax on net investment income or the laws of any state, locality or taxing jurisdiction other than the U.S. federal income tax laws. Any discussion of U.S. federal tax issues in this Offering Memorandum (including any attachments or enclosures) is not intended or written by us to be relied upon or used by taxpayers for the purpose of avoiding penalties that may be imposed on taxpayers under the Code. Investors should consult their own tax advisors to determine the federal, state, local and other tax consequences of the purchase, ownership and disposition of Notes.

Characterization of the Notes

Based, in part, on the facts set forth herein, additional information and assuming the accuracy of and compliance with certain assumptions, representations and covenants, Kutak Rock LLP will render on the Date of Issuance its opinion to the effect that, for U.S. federal income tax purposes, when issued, the Notes will be characterized as debt if and to the extent beneficially acquired on the Date of Issuance by persons or entities unaffiliated with the Issuer. Unlike a ruling from the Service, such opinion is not binding on the courts or the Service. Therefore, it is possible that the Service could assert that, for purposes of the Code, the transaction contemplated by this Offering Memorandum constitutes a sale of the Financed Eligible Loans (or an interest therein) to the Noteholders or that one or more of the Classes of Notes is an equity interest in the Financed Eligible Loans or that the relationship which will result from this transaction is that of a partnership or an association taxable as a corporation.

If, instead of treating the transaction as creating secured debt, the transaction were treated as creating equity interests in a partnership held by the Noteholders, the resulting partnership would not be subject to U.S. federal income tax. Rather, each Noteholder would be taxed individually on its respective distributive shares of the partnership's income, gain, loss, deductions and credits which could have adverse tax consequences to certain Noteholders. For example, the amount, character and timing of items of income and deduction of the Noteholder could differ if the Notes were determined to constitute partnership interests, rather than indebtedness.

If, alternatively, it were determined that the relationship that will result from this transaction caused the trust arrangement to be classified as an association or characterized as a publicly traded partnership taxable as a corporation, the resulting entity would be subject to U.S. federal income tax at corporate income tax rates on its taxable income, including taxable income derived from the Eligible Loans, which would reduce the amounts available for payment to the Noteholders. Moreover, if the Noteholders were treated as equity holders in such an entity, payments to the Noteholders generally would be treated as dividends for tax purposes to the extent of such entity's accumulated and current earnings and profits.

The Issuer will express in the Indenture its intent that, for U.S. federal income tax purposes, the Notes will be indebtedness. The Issuer, and each Noteholder by accepting its Notes, agrees to treat the Notes as indebtedness for U.S. federal income tax and all applicable state and local income and franchise tax purposes in all tax filings, reports and returns and otherwise, and will not take, or participate in the taking of or permit to be taken, any action that is inconsistent with such tax treatment and tax reporting of the Notes, unless required by applicable law.

In general, the characterization of a transaction as a sale of property or a secured loan, for U.S. federal income tax purposes, is a question of fact, the resolution of which is based upon the economic substance of the transaction, rather than its form or the manner in which it is characterized for state law or other purposes. While the Service and the courts have set forth several factors to be taken into account in

determining whether the substance of a transaction is a sale of property or a secured indebtedness, the primary factor in making this determination is whether the transferee has assumed the risk of loss or other economic burdens relating to the property and has obtained the benefits of ownership thereof. Notwithstanding the foregoing, in some instances, courts have held that a transaction may be characterized as the form chosen by the taxpayer, even if the substance of the transaction does not accord with its form.

The Issuer believes that it has retained the preponderance of the primary benefits and burdens associated with ownership of the Financed Eligible Loans and that as a result, the Noteholders should not be treated as the owners of the Financed Eligible Loans for U.S. federal income tax purposes. If, however, the Service were successfully to assert that this transaction should be treated as a sale of the Financed Eligible Loans, the Service could further assert that the entity created pursuant to the Indenture, as the owner of the Financed Eligible Loans for U.S. federal income tax purposes, should be deemed engaged in a financial business and, therefore, characterized as a publicly traded partnership taxable as a corporation.

The remainder of the discussion below assumes that the Notes are characterized as debt for U.S. federal income tax purposes. The opinion of Kutak Rock LLP is not binding on the courts or the Service. Noteholders are strongly encouraged to consult with their own tax advisors regarding the possibility that the Notes could be treated as other than debt of the Issuer and any resulting consequences to the Noteholder.

The Secretary of Treasury has published final regulations under Section 385 of the Code that address the federal tax treatment of instruments held by parties related to the Issuer as debt or equity. Pursuant to these regulations, Notes purchased by an investor that is a member of the "expanded group" of the Issuer within the meaning of these regulations or by an investor after this initial offering from an affiliate of the Issuer may be treated as equity under certain circumstances. Prospective investors are urged to consult their tax advisors regarding the possible effects of these regulations. Each investor, by its purchase of a Note, whether upon original issuance or subsequent transfer, is deemed to have represented and agreed that it is not part of the "expanded group" of the Issuer within the meaning of Treasury Regulation Section 1.385-1(c)(4) and is not acquiring the Notes with a principal purpose of avoiding the purposes of Treasury Regulation Section 1.385-3.

Taxation of Interest Income and Original Issue Discount

If a Note is deemed to be issued with OID, the Code generally requires the current inclusion in gross income of OID on a constant yield basis. OID is the excess of the "stated redemption price at maturity" of a Note over its "issue price." Generally, the issue price of a Note should be the initial offering price to the public (other than to bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers) at which a substantial amount of the Notes of the same maturity are sold pursuant to the initial offering. The "stated redemption price at maturity" of a Note includes all payments with respect to the Notes other than "qualified stated interest." For purposes of computing OID, "qualified stated interest" is stated interest that is unconditionally payable (or that will be constructively received under Section 451 of the Code) at least annually at a single fixed rate, a "qualified floating rate" or an "objective rate" at fixed intervals of one year or less ("qualified stated interest"). Interest is unconditionally payable if reasonable legal remedies exist to compel timely payment or the debt instrument otherwise provides terms and conditions that make late payment or nonpayment sufficiently remote. With respect to a floating rate debt security, "qualified stated interest" will be determined solely for purposes of calculating the accrual of OID as though the debt security will bear interest in all periods at a fixed rate generally equal to the rate that would be applicable to interest payments on the debt security on its date of issue or, in the case of certain floating rate debt securities, the rate that reflects the yield to maturity that is reasonably expected for the debt security. Stated interest that is "qualified stated interest"

will be ordinary income when received or accrued by the Noteholders in accordance with their respective methods of tax accounting and the applicable provisions of the Code.

Due to the subordination of the Class B Notes to the Class A Notes and the possibility of interest deferral under the terms of the Class B Notes, it is uncertain whether the stated interest on the Class B Notes will qualify as "qualified stated interest" for purposes of determining whether the Class B Notes are issued with OID. Absent official guidance on this point, the Issuer does not intend to treat the stated interest on the Class B Notes as other than qualified stated interest solely because of the possibility that interest thereon may be deferred under the terms of the Class B Notes, although it may revise such treatment in the future if it should determine a change to be appropriate. If the Service were to treat the stated interest payments on the Class B Notes as includible in their "stated redemption price at maturity" because they are not "qualified stated interest," the Class B Notes would be treated as issued with OID (which would include the stated interest payments and the de minimis discount from par at issuance based on their initial offering price to the public).

Discount on a Note at issuance will be treated as de minimis (and therefore OID will be treated as zero) if the excess of the Note's "stated redemption price at maturity" over its issue price is less than 0.25% of the Note's "stated redemption price at maturity" multiplied by the number of years to its maturity, based on the anticipated weighted average life of the Note, calculated using the "prepayment assumption," if any, used in pricing the Note and weighing each payment by reference to the number of full years elapsed from the Date of Issuance prior to the anticipated date of such payment. For purposes of computing whether any such discount is de minimis, the Issuer will assume a constant prepayment rate of 4% for consolidation loans, 6% for non-consolidation loans and 8% for rehabilitation loans. No representation is made as to the actual rate at which the Financed Eligible Loans in the Trust Estate will prepay or that the Notes will prepay in accordance with this or any other prepayment assumption. Absent an election or a requirement to accrue all income from a Note under the OID rules, any de minimis discount on a Note at issuance would be includible in gross income in any taxable year as principal payments are received on the Notes in the proportion that each such principal payment in the taxable year bears to the original principal balance of the Note.

The annual statement regularly furnished to Noteholders for U.S. federal income tax purposes will include information regarding the accrual of payments of principal and interest with respect to the Notes. Although the Class A-1A Notes will be issued with a de minimis discount from par, the Class A Notes will not be issued with OID based on their initial offering price to the public. All of the stated interest payable with respect to the Class A Notes will constitute "qualified stated interest" for purposes of the OID provisions of the Code. Stated interest on the Class A Notes will be includible in gross income when received or accrued by the Class A Noteholders in accordance with their respective methods of tax accounting and the applicable provisions of the Code. Although the Class B Notes will be issued with a de minimis discount from par, the Class B Notes will not be issued with OID based on their initial offering price to the public. Stated interest on the Class B Notes will be includible in gross income when received or accrued by the Class B Noteholders in accordance with their respective methods of tax accounting and the applicable provisions of the Code, unless, as described above, the Class B Notes are treated as issued with OID due to the possibility of interest deferral under the terms of the Class B Notes. If so treated, the stated interest and the de minimis discount from par at issuance on the Class B Notes would be includible in gross income in accordance with the method under the Code that applies to OID. The Issuer will supply to the Trustee, at the time and in the manner required by the Code, for further distribution to the Noteholders, and to the extent required by the Code, information with respect to any OID accruing on the Notes, and the Trustee shall have no duty or obligation to determine, verify or confirm any original issue discount information. References below to "Discount Notes" are to the Class B Notes, if any, that are treated as having been issued with OID.

The Issuer expects that a Noteholder of any Discount Notes will be required to include a daily portion of its OID in gross income for U.S. federal income tax purposes under a constant yield to maturity method before the receipt of cash attributable to such income. The amount of OID generally includible in gross income is the sum of the "daily portions" of OID with respect to a Discount Note accrued for each day during the taxable year or portion of the taxable year in which the Noteholder holds the Discount Note. Special provisions apply to debt instruments on which payments may be accelerated due to prepayments of other obligations securing those debt instruments. Under these provisions, the accrual of OID on such debt instruments is based on the present value of the remaining payments on the debt instrument and adjusted by taking into account both the prepayment assumption, if any, used in pricing the debt instrument and the actual prepayment experience. As a result, the amount of OID on the Discount Notes that would accrue in any given accrual period (a) may increase to take into account (i) principal payments on the Discount Notes in the accrual period that exceed the expected principal payments based on the prepayment assumption and (ii) any increase in the "stated redemption price at maturity" due to any additional principal payments expected as a result of the compounding of deferred interest, if any, on the Discount Notes, and (b) generally may decrease (but not below zero for any period) if (i) the principal payments in the accrual period are slower than the expected principal payments based on the prepayment assumption; and (ii) total OID remaining to be accrued is reduced due to prior principal prepayments. For these purposes, the Issuer will assume a constant prepayment rate of 4% for consolidation loans, 6% for non-consolidation loans and 8% for rehabilitation loans. No representation is made as to the actual rate at which the Financed Eligible Loans in the Trust Estate will prepay or that the Discount Notes will prepay in accordance with this or any other prepayment assumption.

In addition, OID that accrues in each year to a Noteholder of a Discount Note is included in the calculation of the distribution requirements of certain regulated investment companies and real estate investment trusts. Moreover, the accrual of OID in each year may result in an alternative minimum tax liability, additional distribution requirements or other collateral U.S. federal income tax consequences although the Noteholder of such Discount Note has not received cash attributable to such OID in such year.

Noteholders of Discount Notes should consult their own tax advisors as to the amount, if any, calculation and treatment of any OID on, and the tax consequences of the purchase, holding and sale of, Discount Notes and as to the treatment of any OID for state tax purposes.

A purchaser (other than a person who purchases a Note upon issuance at the issue price) who buys a Note for an amount that is less than its "stated redemption price at maturity" will be treated as having purchased such Note at a "market discount," unless the amount of such market discount is less than a de minimis amount specified in the Code. In general, the market discount rules of the Code treat principal payments and gain on disposition of a debt instrument as ordinary income to the extent of the lesser of (a) the amount of such payment or realized gain; or (b) the market discount which has not previously been included in gross income and is treated as having accrued on the debt instrument at the time of such payment or disposition. Market discount will be considered to accrue in each accrual period, at the option of the Noteholder of such Note: (i) on the basis of a constant yield method; or (ii) in an amount that bears the same ratio to the total remaining market discount as the stated interest paid in the accrual period bears to the total amount of stated interest remaining to be paid on the Note as of the beginning of the accrual period, in each case, subject to a prepayment assumption. Although the accrued market discount on debt instruments such as the Notes which are subject to prepayment based on the prepayment of other debt instruments is to be determined under regulations yet to be issued, the legislative history of the market discount provisions of the Code indicates that the same prepayment assumption used to calculate OID should be utilized. Potential Noteholders should consult their own tax advisors concerning the application of the market discount rules to the Notes and the advisability of making any of the elections allowed under Sections 1276 through 1278 of the Code.

In the event that the Notes are considered to be purchased by a Noteholder at a price greater than their remaining "stated redemption price at maturity", they will be considered to have been purchased at a premium. The Noteholder may elect to amortize such premium (as an offset to interest income), using a constant yield method, over the remaining term of the Notes. Special rules apply to determine the amount of premium on a "variable rate debt instrument" and certain other debt instruments. Potential Noteholders should consult their tax advisors regarding the amortization of bond premium.

The OID regulations permit a Noteholder to elect to accrue all interest, discount (including de minimis market discount or de minimis discount at issuance) and premium in gross income as interest, based on a constant yield method. If such an election were to be made with respect to a Note acquired with market discount, the Noteholder would be deemed to have made an election to include in gross income currently market discount with respect to all other debt instruments having market discount that such Noteholder acquires during the year of the election or thereafter. Similarly, a Noteholder that makes this election for a Note acquired at a premium will be deemed to have made an election to amortize bond premium with respect to all debt instruments having amortizable bond premium that such Noteholder owns or acquires. The election to accrue interest, discount and premium on a constant yield method may only be revoked with the consent of the Service.

Under Public Law 115-97 (sometimes referred to as the Tax Cuts and Jobs Act), the Code was amended to require a Noteholder that uses the accrual method of accounting for tax purposes and reports its net income for financial accounting purposes on certain applicable financial statements to include in taxable income its items of gross income not later than when such items are taken into account as revenue in the financial statement. This amendment generally does not apply to timing rules for accrued market discount on bonds and the general OID timing rules, as well as the timing rules for OID determined with respect to special debt instruments (contingent payment and variable rate debt instruments, certain hedged debt instruments, and inflation-indexed debt instruments). Noteholders are urged to consult their tax advisors regarding the application of this amendment and its effect, if any, on the timing of the recognition of income related to the Notes under the Code.

Sale or Exchange of Notes

A Noteholder generally will recognize gain or loss on the sale, exchange or retirement of its Notes equal to the difference between the amount realized on the sale, exchange or retirement and the Noteholder's adjusted tax basis in the Notes. The adjusted tax basis of a Note to a particular Noteholder generally will equal the Noteholder's cost for the Note, increased by any market discount and any OID and gain previously included by such Noteholder in gross income with respect to the Note, and decreased by the amount of bond premium, if any, previously amortized and by the amount of principal payments previously received by such Noteholder with respect to such Note. Any such gain or loss will be capital gain or loss if the Note was held as a capital asset, except for gain representing accrued interest, accrued market discount not previously included in gross income and in the event of a prepayment or redemption, any not yet accrued OID. Capital gains or losses will be long-term capital gains or losses if the Note was held for more than one year. The deductibility of capital losses is subject to certain limitations.

The Indenture permits Noteholders to waive an Event of Default or rescind an acceleration of the Notes in certain circumstances upon a vote of the requisite percentage of the Noteholders. Any such waiver or rescission, or any amendment of the terms of the Notes, could be treated for U.S. federal income tax purposes as a constructive exchange by a Noteholder for a new Note. In addition, if the terms of a Note were significantly modified, in certain circumstances, a new debt obligation would be deemed created and exchanged for the prior obligation in a taxable transaction. Among the modifications which may be treated as significant are those which relate to redemption provisions and, in the case of a nonrecourse obligation, those which involve the substitution of collateral.

The occurrence of a Benchmark Transition Event and the replacement of the current Benchmark for the Notes (One-Month LIBOR) with a Benchmark Replacement, and any associated alteration (such as a Benchmark Replacement Conforming Change), may also be treated as a significant modification of the Notes resulting in a deemed taxable exchange. The Service has proposed the LIBOR Proposed Regulations concerning certain U.S. federal income tax consequences related to the transition from interbank offered rates (such as LIBOR) to other reference rates in debt instruments. The LIBOR Proposed Regulations establish a safe harbor under which certain changes to the terms of a debt instrument and associated alterations in connection with the elimination of LIBOR will not be treated as a significant modification of the debt instrument resulting in a deemed exchange of the debt instrument under Section 1001 of the Code. See the caption "DESCRIPTION OF THE NOTES—Benchmark Transition Event" herein. The Indenture provisions relating to a Benchmark Transition Event are substantially similar to those recommended by the Alternative Reference Rates Committee of the Federal Reserve Bank of New York. Although the matter is not free from doubt, the Issuer expects that the modifications of the Indenture and any associated alterations (such as the Benchmark Replacement Conforming Changes) in connection with a Benchmark Transition Event and the implementation of the modifications and alterations should comply with the safe harbor in the LIBOR Proposed Regulations. However, there can be no assurance that each such modification, associated alteration or implementation thereof will comply with the safe harbor. See the caption "RISK FACTORS—LIBOR is being discontinued as a floating rate benchmark, and various aspects of the discontinuation are uncertain and will affect the financial markets and may also affect the Financed Eligible Loans and the Class A-1B Notes and the Class B Notes" herein.

For U.S. federal income tax purposes, if a deemed exchange occurs as a result of a significant modification of the Notes, a Noteholder could recognize gain or loss, and some or all of the resulting new Notes could be treated as (a) issued with original issue discount or with amortizable bond premium or (b) constituting equity interests in a partnership or a corporation. Potential Noteholders should consult their tax advisors concerning the circumstances in which the Notes could be deemed significantly modified and reissued and the possible U.S. federal income tax consequences to the Noteholder, including the application of the rules under Section 1001 of the Code.

Backup Withholding

Certain Noteholders may be subject to U.S. federal backup withholding at the applicable rate determined by statute with respect to interest (including any OID) paid with respect to the Notes if the Noteholders, upon issuance, fail to supply the Trustee or their brokers (or other applicable intermediary) with their taxpayer identification numbers, furnish incorrect taxpayer identification numbers, fail to report interest, dividends or other "reportable payments" (as defined in the Code) properly, or, under certain circumstances, fail to provide the Trustee with a certified statement or certain other applicable documentation, under penalty of perjury, that they are not subject to U.S. federal backup withholding. Information returns will be sent annually to the Service and to each such Noteholder (except certain exempt Noteholders) setting forth the amount of interest paid with respect to the Notes and the amount of tax withheld thereon.

State, Local or Foreign Taxation

Except as specifically set forth in this Offering Memorandum, the Issuer makes no representations regarding the tax consequences of purchase, ownership or disposition of the Notes under the tax laws of any state, locality or foreign jurisdiction. Investors considering an investment in the Notes should consult their own tax advisors regarding such tax consequences.

Tax-Exempt Investors

In general, an entity which is exempt from U.S. federal income tax under the provisions of Section 501 of the Code is subject to tax on its unrelated business taxable income. An unrelated trade or business is any trade or business which is not substantially related to the purpose which forms the basis for such entity's exemption. However, under the provisions of Section 512 of the Code, interest may be excluded from the calculation of unrelated business taxable income unless the obligation which gave rise to such interest is subject to acquisition indebtedness. Except to the extent any Noteholder incurs acquisition indebtedness with respect to a Note, interest paid or accrued with respect to such Note may be excluded by such tax-exempt Noteholder from the calculation of unrelated business taxable income. Each potential tax-exempt Noteholder is urged to consult its own tax advisor regarding the application of these provisions.

Foreign Investors

A Noteholder which is not a U.S. person ("foreign holder") will not be subject to U.S. federal income tax or withholding tax in respect of interest income (including any OID paid) or gain on the Notes if certain conditions are satisfied, including: (a) the foreign holder provides an appropriate statement, signed under penalties of perjury, identifying the foreign holder as the beneficial owner and stating, among other things, that the foreign holder is not a U.S. person; (b) the foreign holder is not a "10% shareholder" or "related controlled foreign corporation" with respect to the Issuer; and (c) the interest income is not effectively connected with a U.S. trade or business of the Noteholder. The foregoing exemption does not apply to certain contingent interest. To the extent these conditions are not met, a 30% withholding tax will apply to interest income on the Notes, unless an income tax treaty reduces or eliminates such tax or the interest is effectively connected with the conduct of a trade or business within the U.S. by such foreign holder. In the latter case, such foreign holder will be subject to U.S. federal income tax with respect to all income from the Notes at regular rates applicable to U.S. taxpayers, and may be subject to the branch profits tax if it is a corporation. A "U.S. person" is: (i) a citizen or resident of the U.S.; (ii) a partnership (or other entity treated as a partnership for U.S. federal tax purposes) or corporation (or other entity treated as a corporation for U.S. federal tax purposes) that is created or organized in or under the laws of the U.S. or any State thereof (including the District of Columbia); (iii) an estate the income of which is subject to U.S. federal income taxation regardless of its source; or (iv) a trust, if a court within the U.S. is able to exercise primary supervision over its administration and one or more U.S. persons have the authority to control all of its substantial decisions. As noted earlier, in addition to certain other entities, this tax section does not deal with the treatment of partnerships (or entities treated as partnerships for U.S. federal tax purposes) or their members.

Generally, a foreign holder will not be subject to U.S. federal income tax on any amount which constitutes capital gain upon the sale, exchange, retirement or other disposition of a Note unless such foreign holder is an individual present in the U.S. for 183 days or more in the taxable year of the sale, exchange, retirement or other disposition and certain other conditions are met, or unless the gain is effectively connected with the conduct of a trade or business in the U.S. by such foreign holder. If the gain is effectively connected with the conduct of a trade or business in the U.S. by such foreign holder, such holder will generally be subject to U.S. federal income tax with respect to such gain in the same manner as U.S. holders, as described above, and a foreign holder that is a corporation could be subject to a branch profits tax on such income as well.

Foreign Account Tax Compliance Act

In addition to the U.S. income tax, withholding tax and backup withholding tax described above, under the Foreign Account Tax Compliance Act ("FATCA") and related administrative guidance, U.S.

withholding at a rate of 30% generally will be required in certain circumstances on interest payments (including OID) in respect of the Notes held by or through certain foreign financial institutions (including investment funds), unless such institution (a) enters into, and complies with, an agreement with the Service to report, on an annual basis, information with respect to interests in, and accounts maintained by, the institution that are owned by certain U.S. persons and by certain non-U.S. entities that are wholly or partially owned by U.S. persons and to withhold on certain payments or (b) if required under an intergovernmental agreement between the U.S. and an applicable foreign country, reports such information to its local tax authority, which will exchange such information with the U.S. authorities. An intergovernmental agreement between the U.S. and an applicable foreign country, or other guidance, may modify these requirements. Accordingly, the entity through which the Notes are held will affect the determination of whether such withholding is required. Similarly, under FATCA, in certain circumstances interest payments (including OID) on the Notes held by an investor that is a non-financial non-U.S. entity that does not qualify under certain exemptions generally will be subject to withholding at a rate of 30%, unless such entity either (a) certifies that such entity does not have any "substantial United States owners"; or (b) provides certain information regarding the entity's "substantial United States owners," which the Trustee will in turn provide to the Service. Noteholders will not receive additional amounts from the Trust Estate in respect of any amounts withheld. This withholding will apply regardless of whether the payment would otherwise be exempt from U.S. nonresident withholding tax (e.g., under the portfolio interest exemption or as capital gain). Foreign financial institutions located in jurisdictions that have an intergovernmental agreement with the U.S. governing FATCA may be subject to different rules. A foreign entity will generally claim an exemption from FATCA withholding, if the exemption is available, by properly filling out and giving to the person making payments to it IRS Form W-8BEN-E, though other W-8 forms or a W-9 form may in certain cases need to be supplied. While existing regulations would also require FATCA withholding on payments of gross proceeds, including the return of principal, from the sale or other disposition, including redemptions, of the Notes, the U.S. Treasury Department and the Service have indicated in proposed regulations their intent to eliminate the FATCA withholding requirement on gross proceeds. The proposed regulations generally (i) provide that "withholdable payments" will not include gross proceeds from the disposition of property that can produce U.S. source dividends or interest, and (ii) state in the preamble that taxpayers may rely on these provisions of the proposed regulations until final regulations are issued.

Noteholders should consult their own tax advisors regarding the application and impact of FATCA, and should consult their bank or broker about the likelihood that payments to it (for credit to the Noteholder) could become subject to FATCA withholding.

MISSOURI INCOME TAX

Interest on the Notes is exempt from income taxation by the State of Missouri.

ERISA CONSIDERATIONS

The following summarizes certain aspects of The Employee Retirement Income Security Act of 1974, as amended ("ERISA"), and the Code that may affect a decision by employee benefit plans, tax favored retirement and savings arrangements and other entities in which such plans or arrangements are invested (collectively, the "Plans") to invest in Notes. The following discussion is general in nature and not intended to be a complete discussion of the applicable law pertaining to a Plan's decision to invest and is not intended to be legal advice. In addition, the following discussion is based on the law in effect as of the date of this Offering Memorandum, and neither the Issuer nor the Underwriter have undertaken any obligation to update this summary as a result of any changes in the applicable law or regulations.

ERISA imposes certain fiduciary obligations and prohibited transaction restrictions on employee pension and welfare benefit plans subject to ERISA ("ERISA Plans"). Section 4975 of the Code imposes

substantially similar prohibited transaction restrictions on certain Plans, including tax-qualified retirement plans described in Section 401(a) of the Code and on individual retirement accounts and annuities described in Sections 408(a) and (b) of the Code. Certain employee benefit plans, such as governmental plans (as defined in Section 3(32) of ERISA), and, if no election has been made under Section 410(d) of the Code, church plans (as defined in Section 3(33) of ERISA) ("Non-ERISA Plans"), are not subject to the requirements set forth in ERISA or the prohibited transaction restrictions under Section 4975 of the Code. However, investment by Non-ERISA Plans may be subject to the provisions of other applicable federal and state law ("Similar Laws"). Any Non-ERISA Plan that is qualified under Section 401(a) and exempt from taxation under Section 501(a) of the Code is, nevertheless, subject to the prohibited transaction rules set forth in Section 503 of the Code. Further, some Plans, including certain ERISA Plans, may only be permitted to invest in certain types of investments (e.g., the Notes are not a permitted investment for Code Section 403(b) plans).

A Plan fiduciary should consider whether an investment in the Notes satisfies the requirements set forth in Part 4 of Title I of ERISA, including the requirements that (a) the investment satisfy the prudence and diversification standards of ERISA, (b) the investment be in the best interests of the participants and beneficiaries of the Plan and (c) the investment be permissible under the terms of the Plan's investment policies and governing instruments. In determining whether an investment in the Notes is prudent for ERISA purposes, a Plan fiduciary should consider all relevant facts and circumstances, including, without limitation, the limitations imposed on transferability, whether the investment provides sufficient liquidity in light of the foreseeable needs of the Plan, and whether the investment is reasonably designed, as part of the Plan's portfolio, to further the Plan's purposes, taking into consideration the risk of loss and the opportunity for gain (or other return) associated with the investment. A fiduciary of a Non-ERISA Plan should consider whether an investment in the Notes satisfies its fiduciary obligations under Similar Laws.

Section 406 of ERISA and Section 4975 of the Code prohibit a broad range of transactions involving assets of Plans with persons ("Parties in Interest" or "Disqualified Persons" as such terms are defined in ERISA and the Code, respectively) who have certain specified relationships to the Plans, unless a statutory, class or administrative exemption is available. Parties in Interest or Disqualified Persons that participate in a prohibited transaction may be subject to a penalty (or an excise tax) imposed pursuant to Section 502(i) of ERISA or Section 4975 of the Code unless a statutory, class or administrative exemption is available. Section 502(l) of ERISA requires the Secretary of the U.S. Department of Labor (the "DOL") to assess a civil penalty against a fiduciary who violates any fiduciary responsibility or commits any other violation of part 4 of Title I of ERISA or any other person who knowingly participates in such breach or violation. If the investment constitutes a prohibited transaction under Section 4975(c) of the Code, an IRA may lose its tax-exempt status. If the investment constitutes a prohibited transaction under Section 503 of the Code, a Non-ERISA Plan may lose its tax exemption.

The investment by a Plan may, in certain circumstances, cause the Plan's assets to be deemed to include an interest in each of the underlying assets of the entity issuing a security in which the Plan has an investment, such as the Issuer. Certain transactions may be deemed to constitute prohibited transactions if assets of the Issuer are deemed to be assets of a Plan. These concepts are discussed in greater detail below.

Plan Assets Regulation

The DOL has promulgated a regulation set forth at 29 C.F.R. § 2510.3-101, which has been amended by Congress in Section 3(42) of ERISA (the "Plan Assets Regulation"), concerning whether or not the assets of an ERISA Plan would be deemed to include an interest in the underlying assets of an entity (such as the Issuer) for purposes of the general fiduciary responsibility provisions of ERISA and for the prohibited transaction provisions of ERISA and Section 4975 of the Code, when a Plan acquires an "equity

interest" in such entity. For purposes of this section, the terms "plan assets" ("Plan Assets") and the "assets of a Plan" have the meaning specified in the Plan Assets Regulation as modified by Section 3(42) of ERISA.

Under the Plan Assets Regulation, the assets of the Issuer would be treated as Plan Assets if a Plan acquires an equity interest in the Issuer and none of the exceptions contained in the Plan Assets Regulation are applicable. An equity interest is defined under the Plan Assets Regulation as an interest in an entity other than an instrument which is treated as indebtedness under applicable local law and which has no substantial equity features. If the Notes are treated as having substantial equity features, a Plan (including an entity in which a Plan is invested) that purchases Notes could be treated as having acquired an interest in the assets of the Issuer. In that event, the purchase, holding, transfer or resale of the Notes could result in a transaction that is prohibited under ERISA or the Code. While not free from doubt, on the basis of the Notes as described herein, it appears that the Notes at issuance should be treated as debt without substantial equity features for purposes of the Plan Assets Regulation.

In the event that the Notes cannot be treated as indebtedness for purposes of ERISA, under an exception to the Plan Assets Regulation, the assets of a Plan will not include an interest in the assets of an entity, the equity interests of which are acquired by the Plan, if at no time Plans in the aggregate own 25% or more of the value of any class of equity interests in such entity, as calculated under the Plan Assets Regulation and Section 3(42) of ERISA. Because the availability of this exception depends upon the identity of the Noteholders at any time, there can be no assurance that the Notes will qualify for this exception and that the Issuer's assets will not constitute a Plan Asset subject to ERISA's fiduciary obligations and responsibilities. Therefore, a Plan should not acquire or hold Notes in reliance upon the availability of this exception under the Plan Assets Regulation.

Prohibited Transactions

The acquisition or holding of Notes by or on behalf of a Plan, whether or not the underlying assets are treated as Plan Assets, could give rise to a prohibited transaction if the Issuer or any of its respective affiliates is or becomes a Party in Interest or Disqualified Person with respect to such Plan, or in the event that a Note is purchased in the secondary market by a Plan from a Party in Interest or Disqualified Person with respect to such Plan. There can be no assurance that the Issuer or any of its respective affiliates will not be or become a Party in Interest or a Disqualified Person with respect to a Plan that acquires Notes. Any such prohibited transaction could be treated as exempt under ERISA and the Code if the Notes were acquired pursuant to and in accordance with one or more statutory exemptions, individual exemptions or "class exemptions" issued by the DOL. Such class exemptions include, for example, Prohibited Transaction Class Exemption ("PTCE") 75-1 (an exemption for certain transactions involving employee benefit plans and broker-dealers, reporting dealers and banks), PTCE 84-14 (an exemption for certain transactions determined by an independent qualified professional asset manager), PTCE 90-1 (an exemption for certain transactions involving insurance company pooled separate accounts), PTCE 91-38 (an exemption for certain transactions involving bank collective investment funds), PTCE 95-60 (an exemption for certain transactions involving an insurance company's general account) and PTCE 96-23 (an exemption for certain transactions determined by a qualifying in-house asset manager).

The Underwriter, the Trustee or their affiliates may be the sponsor of, or investment advisor with respect to, one or more Plans. Because these parties may receive certain benefits in connection with the sale or holding of Notes, the purchase of Notes using plan assets over which any of these parties or their affiliates has investment authority might be deemed to be a violation of a provision of Title I of ERISA or Section 4975 of the Code. Accordingly, Notes may not be purchased using the assets of any Plan if any of the Underwriter, the Trustee or their affiliates has investment authority for those assets, or is an employer maintaining or contributing to the plan, unless an applicable prohibited transaction exemption is available and such prohibited transaction exemption covers such purchase.

Purchaser's/Transferee's Representations and Warranties

Each purchaser and each transferee of a Note (including the person causing such purchaser or transferee to acquire an interest in the Note, including a Plan's fiduciary, as applicable, in its individual capacity) is deemed to represent and warrant that on each date on which such purchaser or transferee, as applicable, purchases or holds any interest in the Note that (a) it is not a Plan and is not acquiring the Note directly or indirectly for, or on behalf of, a Plan or with Plan Assets or any entity whose underlying assets are deemed to be Plan Assets or otherwise subject to Similar Law; or (b) the acquisition and holding of the Notes by or on behalf of, or with Plan Assets of, any Plan or any entity whose underlying assets are deemed to be Plan Assets is permissible under applicable law, and will not result in any non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 or 503 of the Code by reason of the application of one or more of the following: PTCE 84-14, PTCE 90-1, PTCE 91-38, PTCE 95-60 or PTCE 96-23, all of the conditions of which shall be met, or, in the case of a purchaser or transferee that is subject to Similar Law, such purchase and holding will not result in a violation of Similar Law or otherwise result in any tax, rescission right or other penalty on the Issuer or the Underwriter, and, in any case, neither the purchase nor holding of such Note will subject the Issuer or the Underwriter to any obligation not affirmatively undertaken in writing.

Consultation with Counsel

Any Plan fiduciary or other investor of Plan Assets (including any entity whose underlying assets are deemed to be Plan Assets) considering whether to acquire or hold Notes on behalf of or with Plan Assets of any Plan or that proposes to acquire or hold Notes, should consult with its counsel with respect to the potential applicability of the fiduciary responsibility provisions of ERISA and the prohibited transaction provisions of Section 406 of ERISA and Section 4975 of the Code with respect to the proposed investment and the availability of any prohibited transaction exemption and the accuracy of the representations and warranties above. A fiduciary or other investor with respect to a Non-ERISA Plan that proposes to acquire or hold Notes should consult with counsel with respect to Similar Laws.

CERTAIN INVESTMENT COMPANY ACT CONSIDERATIONS

The Issuer is not registered or required to be registered as an "investment company" under the Investment Company Act of 1940, as amended (the "Investment Company Act") pursuant to Section 2(b) of the Investment Company Act. The Issuer does not rely upon the exclusions from the definition of "investment company" set forth in Section 3(c)(1) or Section 3(c)(7) of the Investment Company Act. The Issuer does not constitute a "covered fund" for purposes of Section 619 of the Dodd-Frank Wall Street Reform and Consumer Protection Act, Pub. L. No. 111-203, 124 Stat. 1376 (2010), also known as the Volcker Rule. See the caption "RISK FACTORS—New Rules Could Adversely Affect the Asset-Backed Securities Market and the Value of the Notes" herein. Since the Issuer has not registered, and does not intend to register, as an investment company under the Investment Company Act, Noteholders will not be afforded protections of the provisions of the Investment Company Act designed to protect investment company investors.

ADDITIONAL INFORMATION; REPORTS TO NOTEHOLDERS

Monthly financial information concerning the Issuer and the Notes will be made available by the Issuer. These monthly reports will contain information concerning the Financed Eligible Loans and certain activities of the Issuer during the period since the previous report. These reports may be found at https://www.mohela.com/DL/common/publicInfo/investorInformation.aspx. The website is not incorporated into and shall not be deemed to be a part of this Offering Memorandum.

UNDERWRITING

Subject to the terms and conditions set forth in a Note Purchase Agreement between the Issuer and BofA Securities, Inc. (the "Underwriter"), the Underwriter has agreed to purchase the Notes for a purchase price equal to $196,399,367.45, representing the aggregate principal amount of the Notes less an Underwriter's discount of $1,055,930.00, less net original discount of $44,702.55. After the initial offering, the prices of the Notes may change.

Until the initial distribution of Notes is completed, the rules of the SEC may limit the ability of the Underwriter to bid for and purchase the Notes. As an exception to these rules, the Underwriter is permitted to engage in transactions that stabilize the price of the Notes. These transactions consist of bids of purchase for the purpose of pegging, fixing or maintaining the price of the Notes. Purchases of a security for the purpose of stabilization or to reduce a short position could cause the price of the security to be higher than it might be in the absence of those purchases. Neither the Issuer nor the Underwriter makes any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the prices of the Notes. In addition, neither the Issuer nor the Underwriter makes any representation that the Underwriter will engage in these transactions or that these transactions, once commenced, will not be discontinued without notice.

In the ordinary course of their respective businesses, the Underwriter and its affiliates have engaged and may in the future engage in investment banking or commercial banking transactions with the Issuer and may trade in its securities. See the caption "RELATIONSHIPS AMONG FINANCING PARTICIPANTS" herein.

BofA Securities, Inc., as an underwriter of the Notes, has entered into a distribution agreement with its affiliate Merrill Lynch, Pierce, Fenner & Smith Incorporated ("MLPF&S"). As part of this arrangement, BofA Securities, Inc. may distribute securities to MLPF&S, which may in turn distribute such securities to investors through the financial advisor network of MLPF&S. As part of this arrangement, BofA Securities, Inc. may compensate MLPF&S as a dealer for their selling efforts with respect to the Notes.

During and after the offering, the Underwriter may engage in transactions, including open market purchases and sales, to stabilize the prices of the Notes. The Underwriter, for example, may over-allot the Notes for the account of the underwriting syndicate to create a syndicate short position by accepting orders for more Notes than are to be sold.

In general, over allotment transactions and open market purchases of the Notes for the purpose of stabilization or to reduce a short position could cause the price of a Note to be higher than it might be in the absence of those transactions.

The Underwriter or its affiliates may retain a material percentage of the Notes for their own accounts. The retained Notes may be resold by such Underwriter or such affiliates at any time in one or more negotiated transactions at varying prices to be determined at the time of sale.

The Issuer has agreed to indemnify the Underwriter and, under certain limited circumstances, the Underwriter will indemnify the Issuer, against certain civil liabilities, including liabilities under the Securities Act.

FINANCIAL ADVISOR

SL Capital Strategies LLC is serving as financial advisor to the Issuer in connection with the issuance of the Notes. Although SL Capital Strategies LLC reviewed and commented on certain legal

documentation, including this Offering Memorandum, SL Capital Strategies LLC is not obligated to undertake, and has not undertaken to make, an independent verification or to assume responsibility for the accuracy, completeness or adequacy of the information contained in this Offering Memorandum or any of the other legal documents, and further, SL Capital Strategies LLC does not assume any responsibility for the information, covenants and representations with respect to the possible impact of any present, pending or future actions taken by any legislative or judicial bodies or Rating Agencies.

LEGAL PROCEEDINGS

There is no controversy or litigation of any nature now pending or, to the knowledge of the Issuer, threatened to restrain or enjoin the issuance, sale, execution or delivery of the Notes, or in any way contesting or affecting the validity of the Notes, any proceedings of the Issuer taken with respect to the issuance or sale thereof, the pledge or application of any moneys or securities provided for the payment of the Notes or the due existence or powers of the Issuer.

The Issuer may be subject to various claims, lawsuits, and proceedings that arise from time to time.

LEGAL MATTERS

The Issuer has been represented in connection with certain aspects of the authorization, issuance, offer, sale and delivery of the Notes by its note counsel, Kutak Rock LLP. Kutak Rock LLP has represented the Issuer as its counsel in connection with the preparation of this Offering Memorandum. Certain legal matters will be passed upon for the Issuer by its special counsel, Thompson Coburn LLP. Certain legal matters will be passed on for the Underwriter by Dorsey & Whitney LLP.

CONTINUING DISCLOSURE

In order to assist the Underwriter in complying with Rule 15c2-12 promulgated by the SEC (the "Rule"), the Issuer will enter into a continuing disclosure agreement with respect to the Notes (a "Continuing Disclosure Agreement") setting forth the undertaking of the Issuer to provide certain annual financial information and operating data, and to provide notices of the occurrence of certain enumerated material events relating to the Notes. The proposed form of the Continuing Disclosure Agreement is set forth in Appendix C attached hereto. During the previous five years, the Issuer did not file one notice of rating change and did not timely file three notices of rating changes (all three rating changes occurring on the same date) and did not file notice of its failure to provide the aforementioned information on or before the date specified in its prior continuing disclosure undertakings.

RELATIONSHIPS AMONG FINANCING PARTICIPANTS

The Underwriter and its affiliates are full service financial institutions engaged in various activities, that may include securities trading, commercial and investment banking, municipal advisory, brokerage and asset management. In the ordinary course of their respective businesses, the Underwriter and its affiliates have, from time to time, engaged, and may in the future engage, in various financial advisory, investment banking and commercial banking transactions with the Issuer, for which they received or will receive customary fees and expenses. An affiliate of the Underwriter provides the Warehouse Agreement that allowed the Issuer to temporarily finance certain of the Eligible Loans prior to the transfer from the Warehouse Agreement to the Trustee under the Indenture.

In the ordinary course of their various business activities, the Underwriter and its affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of

their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments of the Issuer. The Underwriter and its affiliates may make a market in credit default swaps with respect to municipal securities in the future and may also communicate independent investment recommendations, market color or trading ideas and publish independent research views in respect of the Notes or other offerings of the Issuer.

Counsels to the Issuer with respect to the issuance of the Notes, Kutak Rock LLP and Thompson Coburn LLP, each represent the Trustee and the Underwriter (or their affiliates) in transactions unrelated to the issuance of the Notes.

RATINGS

It is a condition to the Underwriter's obligation to purchase the Notes that (a) the Class A Notes be assigned the rating of at least "AAA(sf)" by DBRS and at least "AA+(sf)" by S&P and (b) the Class B Notes be assigned the rating of at least "A(sf)" by DBRS and "AA(sf)" by S&P.

On August 5, 2011, S&P lowered the long-term sovereign debt rating of the United States to "AA+" from "AAA," citing its concern with the fiscal, economic, and political challenges the government of the United States was facing. The S&P expected rating is a result of this action. The Notes will be secured by the Trust Estate including the Financed Eligible Loans, which consist of a pool of student loans originated under the FFEL Program. As such, the Financed Eligible Loans are eligible to receive certain federal benefits, such as Special Allowance Payments and interest subsidies, and the Guaranty Agencies for the Financed Eligible Loans receive reinsurance benefits to certain levels for guarantee payments that they make, and other federal benefits.

A securities rating addresses the likelihood of the receipt by owners of the Notes of payments of principal and interest with respect to their Notes from assets in the Trust Estate created under the Indenture. The rating takes into consideration the characteristics of the Financed Eligible Loans, and the structural, legal and tax aspects associated with the rated Notes.

A securities rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the assigning rating organization. Neither the Issuer nor the Underwriter has undertaken any responsibility either to bring to the attention of the holders of the affected Notes any proposed change in or withdrawal of such ratings or to oppose any such proposed revision. Any such change in or withdrawal of the ratings could have an adverse effect on the market price of the affected Notes.

OTHER MATTERS

The information set forth herein has been obtained from Issuer records and other sources which are considered reliable. There is no guarantee that any of the assumptions or estimates contained herein will ever be realized. All of the summaries of the statutes, documents and resolutions contained in this Offering Memorandum are made subject to all of the provisions of such statutes, documents and resolutions. These summaries do not purport to be complete statements of such provisions, and reference is made to such documents for further information. Reference is made to official documents in all respects. Any statement in this Offering Memorandum involving any matter of opinion, whether or not expressly so stated, is intended as such and not as a representation of fact. No representation is made that any such opinion will actually be borne out. This Offering Memorandum is not to be construed as a contract or agreement between the Issuer or the Underwriter and the purchasers or Noteholders. Prospective purchasers of the Notes are also cautioned that the accuracy of any statistical, demographic or economic projection or analysis

contained herein is not guaranteed and therefore investors are urged to consult their own advisors concerning such projections or analysis.

The Trustee did not participate in the preparation of this Offering Memorandum and makes no representations concerning the Notes, the collateral or any other matter stated in this Offering Memorandum. The Trustee has no duty or obligation to pay the Notes from its own funds, assets or corporate capital or to make inquiry regarding, or investigate the use of, amounts disbursed from the accounts held under the Indenture.

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GLOSSARY OF TERMS

Some of the terms used in this Offering Memorandum are defined below. Other terms are defined elsewhere in this Offering Memorandum. The Indenture contains the definitions of other terms used in this Offering Memorandum and reference is made to the Indenture for those definitions.

"*Accepted Servicing Procedures*" means, with respect to any Financed Eligible Loan, servicing procedures (including collection procedures) that comply with applicable federal (including but not limited to the Higher Education Act), state and local law and that are in accordance with standards set by the Secretary and the accepted student loan servicing practices of prudent lending institutions that service student loans of the same type in the United States.

"*Administration Fee*" shall mean the monthly fee for administering the duties of the Issuer and/or an administrator under this Indenture, which fee, for each calendar month shall initially be equal to (i) one-twelfth of 0.05% multiplied by (ii) the Pool Balance as of the close of business on the last Business Day of the preceding calendar month and may only be increased upon satisfaction of the Rating Agency Condition. The Administration Fee shall be payable each Monthly Distribution Date beginning with the November 2021 Monthly Distribution Date. The Administration Fee shall also include annual reimbursement of any expenses incurred by the Issuer and/or an administrator under the Indenture, which amount shall be payable solely on the Monthly Distribution Date in September of each year beginning in 2022; provided, that the maximum amount of such expense reimbursement payable to the Issuer and/or an administrator under the Indenture during any calendar year shall be limited to $100,000, less the portion of the Expense Cap paid to the Trustee pursuant to clause (ii) of the definition of Trustee Fee during such year.

"*Authorizing Act*" shall mean the Missouri Higher Education Loan Authority Act, Title XI, Chapter 173, Sections 173.350 to 173.445 of the Missouri Revised Statutes, inclusive, as amended, and as the same may be in effect at any given time.

"*Available Funds*" means, with respect to a Monthly Distribution Date, the sum of the following amounts received to the extent not previously distributed: (a) all collections received by any Servicer on the Financed Eligible Loans (including late fees received by any Servicer with respect to the Financed Eligible Loans and payments from any Guaranty Agency received with respect to the Financed Eligible Loans) but net of (i) any collections in respect of principal on the Financed Eligible Loans applied by the Issuer to recall claims with respect to or repurchase Eligible Loans (which Eligible Loans were previously Financed Eligible Loans and, after purchase, will again become Financed Eligible Loans under the Indenture), from the Guaranty Agencies or any Servicer; provided, that such claim recall or repurchase is required by the terms of the Guarantee Agreement (including, for this purpose, any claim recall or repurchase which is "strongly encouraged" by the Department of Education's Common Manual), the related Servicing Agreement or Origination Agreement, as applicable, or such claim recall or repurchase is required by federal law or regulations, including, without limitation, the Higher Education Act and the related regulations; and (ii) amounts required by the Higher Education Act to be paid to the Department (including, but not limited to, any Monthly Consolidation Rebate Fees and any Department SAP Rebate Interest Amounts to be deposited into the Department SAP Rebate Fund or paid directly to the Department) or to be repaid to borrowers (whether or not in the form of a principal reduction of the applicable Financed Eligible Loan), with respect to the Financed Eligible Loans; (b) any Interest Benefit Payments and Special Allowance Payments received by the Trustee or the Issuer with respect to Financed Eligible Loans; (c) all Liquidation Proceeds from any Financed Eligible Loans which became Liquidated Financed Eligible Loans in accordance with the related Servicer's customary servicing procedures, and all other moneys collected with respect to any Liquidated Financed Eligible Loan which was written-off, net of the sum of any amounts expended by the related Servicer in connection with such liquidation and any amounts required by law to be remitted to the obligor on such Liquidated Financed Eligible Loan; (d) the aggregate Purchase Amounts

received for Financed Eligible Loans repurchased by a Seller, a Servicer, the Issuer or otherwise released from the lien of the Indenture; (e) the aggregate amounts, if any, received from a Seller or any Servicer as reimbursement of non-guaranteed interest amounts, or lost Interest Benefit Payments and Special Allowance Payments, with respect to the Financed Eligible Loans pursuant to a Student Loan Purchase Agreement or a Servicing Agreement, respectively; (f) other amounts received by a Servicer pursuant to its role as Servicer under the related Servicing Agreement and payable to the Issuer in connection therewith; (g) all interest earned or gain realized from the investment of amounts in any Fund or Account; and (h) any other amounts deposited to the Collection Fund. "Available Funds" shall be determined pursuant to the terms of this definition by the Issuer and reported to the Trustee. Amounts described in clauses (a)(i) and (a)(ii) hereof shall be paid by the Trustee upon receipt of a written direction from the Issuer. The Trustee may conclusively rely on such determinations without further duty to review or examine such information.

"*Backup Servicer*" means the Pennsylvania Higher Education Assistance Agency, and any successor thereto, or any other entity with which the Issuer maintains a Backup Servicing Agreement.

"*Backup Servicing Agreement*" means the Backup Servicing Agreement between the Issuer and the Backup Servicer, as may be amended, supplemented, restated or otherwise modified from time to time, and replacements thereto.

"*Certificate of Insurance*" means any certificate of insurance issued by the Secretary pursuant to Section 428C or Section 429 of the Higher Education Act, Insuring an Eligible Loan.

"*Code*" means the Internal Revenue Code of 1986, as amended from time to time. Each reference to a section of the Code in the Indenture shall be deemed to include the United States Treasury Regulations, including applicable temporary and proposed regulations, relating to such section which are applicable to the Notes or the use of the proceeds Notes. A reference to any specific section of the Code shall be deemed also to be a reference to the comparable provisions of any enactment which supersedes or replaces the Code thereunder from time to time.

"*Collection Period*" means, with respect to the first Monthly Distribution Date, the period beginning on the Date of Issuance and ending on October 31, 2021 and with respect to each subsequent Monthly Distribution Date, the Collection Period means the calendar month immediately preceding such Monthly Distribution Date. With respect to any Monthly Distribution Date, the "related" or the "preceding" Collection Period shall be the Collection Period ending on the last day of the month immediately preceding the month in which such Monthly Distribution Date occurs.

"*Custodian Agreement*" means any custodian agreement entered into by the Issuer and the Trustee with any other custodian or bailee related to the Financed Eligible Loans.

"*Cut-Off Date*" means, with respect to each Financed Eligible Loan, the date as of which receipts upon such Financed Eligible Loan are pledged as part of the Trust Estate, which shall be the date of acquisition by the Trust Estate.

"*DBRS*" means DBRS, Inc., its successors and their assigns.

"*Eligible Lender*" means the Issuer and all other entities which are "eligible lenders," as defined in the Higher Education Act (including, but not limited to, "eligible lender trustees") which have received an eligible lender number or other designation from the Secretary with respect to Eligible Loans made under the Higher Education Act.

"*Eligible Loan*" means any loan made to finance post-secondary education that is made under the Higher Education Act.

"*Event of Bankruptcy*" means (a) the Issuer shall have commenced a voluntary case or other proceeding seeking liquidation, reorganization or other relief with respect to itself or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of it or any substantial part of its property, or shall have made a general assignment for the benefit of creditors, or shall have declared a moratorium with respect to its debts or shall have failed generally to pay its debts as they become due, or shall have taken any action to authorize any of the foregoing; or (b) an involuntary case or other proceeding shall have been commenced against the Issuer seeking liquidation, reorganization or other relief with respect to it or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of it or any substantial part of its property provided such action or proceeding is not dismissed within 60 days.

"*Expense Cap*" means, for each year ending June 30, an annual amount equal to $50,000.

"*Financed*" or "*Financing*" refers, when used with respect to Eligible Loans, to Eligible Loans (a) financed or refinanced by the Issuer with balances in the Student Loan Fund or otherwise pledged by the Issuer under the Indenture and constituting a part of the Trust Estate, including, without limitation, the Eligible Loans described in the Indenture, and (b) Eligible Loans substituted or exchanged for Financed Eligible Loans, but does not include Eligible Loans released from the lien of the Indenture to the extent permitted by the Indenture (unless such released Eligible Loans are substituted or exchanged in the future).

"*Guarantee*" or "*Guaranteed*" means, with respect to an Eligible Loan, the insurance or guarantee by a Guaranty Agency pursuant to such Guaranty Agency's Guarantee Agreement of the maximum percentage of the principal of and accrued interest on such Eligible Loan allowed by the terms of the Higher Education Act with respect to such Eligible Loan at the time it was originated and the coverage of such Eligible Loan by the federal reimbursement contracts, providing, among other things, for reimbursement to such Guaranty Agency for payments made by it on defaulted Eligible Loans insured or guaranteed by such Guaranty Agency of at least the minimum reimbursement allowed by the Higher Education Act with respect to a particular Eligible Loan.

"*Guarantee Agreements*" means a guaranty or lender agreement with any Guaranty Agency, and any amendments thereto.

"*Guaranty Agency*" means any entity authorized to guarantee student loans under the Higher Education Act and with which the Issuer maintains a Guarantee Agreement.

"*Higher Education Act*" means the Higher Education Act of 1965, as amended or supplemented from time to time, or any successor federal act and all regulations, directives, bulletins and guidelines promulgated from time to time thereunder.

"*Highest Priority Notes*" means at any time when Class A Notes are Outstanding, the Class A Notes, and at any time when no Class A Notes are Outstanding, the Class B Notes.

"*Indenture*" means the Indenture of Trust, between the Issuer and the Trustee including all supplements and amendments hereto.

"*Insurance*" or "*Insured*" or "*Insuring*" means, with respect to an Eligible Loan, the insuring by the Secretary (as evidenced by a Certificate of Insurance or other document or certification issued under

the provisions of the Higher Education Act) under the Higher Education Act of all or a portion of the principal of and accrued interest on such Eligible Loan.

"*Interest Benefit Payment*" means an interest payment on Eligible Loans received pursuant to the Higher Education Act and an agreement with the federal government, or any similar payments.

"*Investment Securities*" means:

(a) direct obligations of, or obligations on which the timely payment of the principal of and interest on which are unconditionally and fully guaranteed by, the United States Treasury having maturities of not more than 365 days;

(b) interest bearing time or demand deposits, certificates of deposit or other similar banking arrangements with a maturity of 12 months or less with any bank, trust company, national banking association or other depository institution, including those of the Trustee, provided that such depository institution (i) has a rating of "AA-/A-1+" by S&P and (ii) has the required ratings from DBRS corresponding to the duration of such investment set forth in the second to last paragraph of this definition;

(c) bonds, debentures, notes or other evidences of indebtedness with a maturity of not more than 365 days issued or guaranteed by any of the following agencies: Federal Home Loan Mortgage Corporation; the Federal National Mortgage Association; Federal Home Loan Banks; provided, that such obligation: (i) is rated "AA+" or higher by S&P; and (ii) has the required ratings from DBRS corresponding to the duration of such investment set forth in the second to last paragraph of this definition;

(d) repurchase agreements and reverse repurchase agreements, other than overnight repurchase agreements and overnight reverse repurchase agreements, with banks, including the Trustee and any of its affiliates, which are members of the Federal Deposit Insurance Corporation or firms which are members of the Securities Investors Protection Corporation, in each case, that: (i) has the required ratings from DBRS corresponding to the duration of such investment set forth in the second to last paragraph of this definition; and (ii) satisfies the S&P rating requirements set forth in the last paragraph of this definition;

(e) overnight repurchase agreements and overnight reverse repurchase agreements at least 101% collateralized by securities described in subparagraph (a) of this definition and with a counterparty, including the Trustee and any of its affiliates, that: (i) has the required ratings from DBRS corresponding to the duration of such investment set forth in the second to last paragraph of this definition; and (ii) satisfies the S&P rating requirements set forth in the last paragraph of this definition;

(f) investment agreements or guaranteed investment contracts, which may be entered into by and among the Issuer and/or the Trustee and any bank, bank holding company, corporation or any other financial institution, including the Trustee and any of its affiliates, that: (i) has the required ratings from DBRS corresponding to the duration of such investment set forth in the second to last paragraph of this definition or, in each case. with an insurance company whose claims paying ability is so rated; and (ii) satisfies the S&P rating requirements set forth in the last paragraph of this definition;

(g) "tax exempt bonds" as defined in Section 150(a)(6) of the Code, other than "specified private activity bonds" as defined in Section 57(a)(5)(C) of the Code, that have a

maturity of not more than 365 days and are rated in the highest category by S&P and has the required ratings from DBRS corresponding to the duration of such investment set forth below and that do not constitute "investment property" within the meaning of Section 148(b)(2) of the Code, provided that the fund has all of its assets invested in obligations of such rating quality;

(h) commercial paper with a maturity of not more than 365 days, including that of the Trustee and any of its Affiliates, which is rated "A-1+" by S&P and has the required ratings from DBRS corresponding to the duration of such investment set forth in the second to last paragraph of this definition and which matures not more than 90 days after the date of purchase;

(i) investments in a money market fund that is payable upon demand, including funds for which the Trustee or an Affiliate thereof acts as investment advisor or provides other similar services for a fee; provided, that such investment is rated at least "AAAm" by S&P and has the required ratings from DBRS corresponding to the duration of such investment set forth in the second to last paragraph of this definition; and

(j) any other investment upon satisfaction of the Rating Agency Condition.

Each Investment Security or the provider of such Investment Security (other than those described in paragraphs (b), (d), (h) and (i) of this definition) shall have the following DBRS long term and or short term ratings corresponding to the duration of such investment:

Maximum Maturity	**Minimum Ratings**
30 days	"A"/"R-1 (middle)"
90 days	"AA"/"R-1 (middle)"
180 days	"AA"/"R-1 (high)"
365 days	"AAA"/"R-1 (high)"

"*Issuer Order*" means a written order signed in the name of the Issuer by an authorized representative of the Issuer.

"*Joint Sharing Agreement*" means mean any joint sharing agreement that may be entered into by the Issuer in the future with the Trustee and other trustees to properly pay to or from the correct trust estate or indenture amounts which should be reallocated to reflect payments (or liabilities) on the student loans securing each such trust estate or indenture.

"*LIBOR Related Amendment*" means a change to the related interest rates on the Class A-1B Notes and the Class B Notes to the applicable alternative index to LIBOR selected by the Department of Education plus or minus a comparable spread (if the Department of Education chooses to use an alternative index to LIBOR other than the Benchmark Replacement to calculate Special Allowance Payments) and any associated changes that are reasonably necessary to adopt or to implement such rate change, which changes shall become effective upon either (i) obtaining the consent of the Noteholders representing not less than a majority of the Outstanding Amount of the Class A-1B Notes and the Class B Notes and satisfaction of the Rating Agency Condition, or (ii) obtaining the consent of the Noteholders representing not less than a majority of the Outstanding Amount of each Class of the Notes. The Trustee is not obligated to enter into any LIBOR Related Amendment that adversely affects its duties or protections without its consent and shall have no liability for entering into a LIBOR Related Amendment.

"*Liquidated Financed Eligible Loan*" means any Financed Eligible Loan liquidated by a Servicer (which shall not include any Financed Eligible Loan on which payments are received from a Guaranty

Agency) or which such Servicer has, after using all reasonable efforts to realize upon such Financed Eligible Loan, determined to charge off.

"*Liquidation Proceeds*" means, with respect to any Liquidated Financed Eligible Loan which became a Liquidated Financed Eligible Loan during the current Collection Period in accordance with the Servicer's customary servicing procedures, the moneys collected in respect of the liquidation thereof from whatever source, other than moneys collected with respect to any Liquidated Financed Eligible Loan which was written off in prior Collection Periods, net of the sum of any amounts expended by such Servicer in connection with such liquidation and any amounts required by law to be remitted to the obligor on such Liquidated Financed Eligible Loan.

"*Monthly Consolidation Rebate Fee*" means the monthly consolidation rebate fee payable to the Department on the Financed Eligible Loans.

"*Note Final Maturity Date*" means, for a Class of Notes or for any Note of such Class, as the context may require, the Class A-1A Maturity Date, the Class A-1B Maturity Date or the Class B Maturity Date, as applicable.

"*Noteholder*" means the Person in whose name a Note is registered in the Note registration books of the Trustee and which initially shall be Cede & Co., as nominee of the initial Clearing Agency.

"*Outstanding*" means, when used in connection with any Note, a Note which has been executed and delivered pursuant to the Indenture which at such time remains unpaid as to principal or interest, excluding Notes which have been replaced and excluding Notes for which provision for payment has been made pursuant to the Indenture.

"*Outstanding Amount*" means, as of any date of determination, the aggregate principal amount of all Notes Outstanding or the applicable Class or Classes of Notes, as the case may be, Outstanding at such date of determination.

"*Person*" means an individual, corporation, partnership, joint venture, association, joint stock company, trust, limited liability company, unincorporated organization or government or agency, or political subdivision thereof, or any other entity recognized from time to time as a legally existing entity.

"*Program Fees*" means any fees and expenses (i) due to the Rating Agencies, (ii) due in connection with any financial or compliance audit of the Program or the Issuer, (iii) due to the Backup Servicer (while the Backup Servicer is acting in the backup servicing capacity) and (iv) any other fees related to the Program.

"*Purchase Amount*" means, with respect to any Financed Eligible Loan, the amount required to prepay in full such Financed Eligible Loan under the terms thereof including all accrued interest thereon and any unamortized premium, it being acknowledged that any accrued and unpaid Interest Benefit Payments or Special Allowance Payments will continue to be payable to the Trustee and constitute part of the Trust Estate.

"*Rating*" means one of the rating categories of each Rating Agency currently rating the Notes.

"*Rating Agency*" means DBRS and S&P or any other rating agency requested by the Issuer to maintain a Rating on any of the Notes.

"*Rating Agency Condition*" means a requirement, with respect to any proposed action, failure to act or other event expressly conditioned thereon in the Indenture that, prior to the effectuation thereof: (a) the Issuer shall have provided prior written notice to each Rating Agency at least 30 calendar days prior to such proposed action, failure to act, or other event specified therein; and (b) the Issuer shall have delivered an Issuer Order to the Trustee dated no less than 30 calendar days subsequent to the date of such written notice stating that, as of the date of such Issuer Order, the Issuer reasonably believes that completion of such proposed action, failure to act or other event will not result in a downgrade to any Rating then assigned to any of the Notes by any Rating Agency or cause such Rating Agency to suspend, withdraw or qualify any such Rating (other than a Rating that is then applicable only to Notes that will no longer be outstanding upon such completion).

"*Realized Loss*" means the excess of the principal balance (including any interest that has been capitalized or had been expected to be capitalized) of any Liquidated Financed Eligible Loan over Liquidation Proceeds with respect to such Financed Eligible Loan to the extent allocable to principal (including any interest that has been capitalized or had been expected to be capitalized).

"*Responsible Officer*" means, when used with respect to the Trustee, any officer within the principal office of the Trustee, including any vice president, assistant vice president, trust officer or any other officer of the Trustee who customarily performs functions similar to those performed by the Persons who at the time shall be such officers, respectively, or to whom any corporate trust matter is referred because of such person's knowledge of and familiarity with the particular subject and who shall have direct responsibility for the administration of the Indenture and the other Basic Documents to which it is a party.

"*S&P*" means S&P Global Ratings and its successors and assigns.

"*Secretary*" means the Secretary of the Department or any successor to the pertinent functions thereof under the Higher Education Act.

"*Servicer*" means the Issuer, PHEAA or an affiliate thereof, and any other additional Servicer or successor Servicer with which the Issuer has entered into a Servicing Agreement with respect to the Financed Eligible Loans and for which the Issuer has satisfied the Rating Agency Condition.

"*Servicer Compliance Report*" means (a) any report generated by the Department's Office of the Inspector General, specifically relating to a Servicer, and (b) a third party review of a Servicer in the form of a "System and Organization Control 1 Report" or any replacement of the same, in either case, performed annually by a firm of independent public accountants.

"*Servicing Agreement*" means, collectively, (a) with respect to the Issuer as Servicer, the provisions in the Indenture governing the servicing of the Financed Eligible Loans, and (b) any other servicing agreements with any third party Servicer relating to the Financed Eligible Loans, as such servicing agreements may be amended from time to time.

"*Servicing Fee*" means the monthly fee due to any Servicer (other than the Backup Servicer while acting in the backup servicing capacity) for servicing the Financed Eligible Loans, which fee and expenses for each calendar month shall initially not exceed the greater of (a)(i) one-twelfth of 0.80% multiplied by (ii) the Pool Balance as of the close of business on the last Business Day of the preceding calendar month and may only be increased upon satisfaction of the Rating Agency Condition and (b) the Servicing Fee Floor.

"*Servicing Fee Floor*" means $2.50 per borrower per month, subject to 3% inflation per annum from the Date of Issuance.

"*Special Allowance Payments*" means the special allowance payments authorized to be made by the Secretary by Section 438 of the Higher Education Act, or similar allowances, if any, authorized from time to time by federal law or regulation.

"*Specified Reserve Fund Balance*" means, with respect to any Monthly Distribution Date, the greater of (a) 0.65% of the Pool Balance as of the close of business on the last day of the immediately preceding Collection Period and (b) $201,159; provided that in no event will such balance exceed the sum of the Outstanding Amount of the Notes; and provided further, that such Specified Reserve Fund Balance may be reduced upon satisfaction of the Rating Agency Condition. The Specified Reserve Fund Balance shall be calculated by the Issuer and certified to the Trustee, upon which certification the Trustee may conclusively rely with no duty to further examine or determine such information.

"*Student Loan Notes*" has the meaning ascribed to such term in the Indenture.

"*Student Loan Purchase Agreement*" means a loan purchase agreement entered into by the Issuer in connection with the purchase by the Issuer of a Financed Eligible Loan, including any such Financed Eligible Loan that was purchased by the Issuer prior to being Financed hereunder.

"*Supplemental Indenture*" means an agreement supplemental hereto executed pursuant to the Indenture.

"*Trust Estate*" has the meaning set forth under the caption "SECURITY AND SOURCES OF PAYMENT FOR THE NOTES—General" herein.

"*Trustee Fee*" shall mean an amount equal to (a) the annual fees of the Trustee as set forth in the Trustee Fee Letter, dated July 29, 2021, a portion of which are payable quarterly beginning on the December 2021 Monthly Distribution Date or such other trustee fee letter as the Issuer may designate prior to a successor Trustee being appointed hereunder, which amount shall not exceed the greater of (i) 0.03% per annum of the outstanding principal amount of the Notes as of the beginning of the period for which such fees are paid and (ii) $1,500 per quarter, and (b) the reasonable expenses and extraordinary expenses of the Trustee or successor Trustee and any indemnities owed to the Trustee; provided, that the maximum amount of such expense reimbursement payable to the Trustee or any successor Trustee during any year (beginning November 25 of each year) shall be limited to the Expense Cap; provided that the Expense Cap shall not apply after and during the continuance of an Event of Default.

"*Warehouse Agreement*" means Revolving Credit and Security Agreement, dated as of December 19, 2018, as amended by that certain First Amendment to Revolving Credit and Security Agreement dated November 6, 2019 and that certain Second Amendment to Revolving Credit and Security Agreement dated December 2, 2020, each among the Issuer, Bank of America, N.A., as the lender, and U.S. Bank National Association, as collateral agent.

APPENDIX A

DESCRIPTION OF THE FEDERAL FAMILY EDUCATION LOAN PROGRAM

As of July 1, 2010, FFELP Loans made pursuant to the Higher Education Act were no longer originated, and all new federal student loans are originated solely under the Federal Direct Student Loan Program (the "Direct Loan Program"). However, FFELP Loans originated under the Higher Education Act prior to July 1, 2010 which have been originated or acquired by the Issuer continue to be subject to the provisions of the FFEL Program. The following description of the FFEL Program has been provided solely to explain certain of the provisions of the FFEL Program applicable to the approximately 99.08% in principal amount of the Financed Eligible Loans originated on or after July 1, 1998 and prior to July 1, 2010. Certain additional information about the FFELP Loans which comprise approximately 0.92% in principal amount of the Financed Eligible Loans originated prior to July 1, 1998 is also included. Notwithstanding anything herein to the contrary, after June 30, 2010, no new FFELP Loans (including Consolidation Loans) may be made or insured under the FFEL Program, and no funds are authorized to be appropriated, or may be expended, under the Higher Education Act to make or insure loans under the FFEL Program (including Consolidation Loans) for which the first disbursement is after June 30, 2010, except as expressly authorized by an Act of Congress.

The Higher Education Act provides for several different educational loan programs (collectively, the "Federal Family Education Loan Program" or "FFEL Program," and the loans originated thereunder, "Federal Family Education Loans" or "FFELP Loans"). Under the FFEL Program, state agencies or private nonprofit corporations administering student loan insurance programs ("Guaranty Agencies") are reimbursed for portions of losses sustained in connection with FFELP Loans, and holders of certain loans made under such programs are paid subsidies for owning such FFELP Loans. Certain provisions of the Federal Family Education Loan Program are summarized below. This summary does not purport to be comprehensive or definitive and is qualified in its entirety by reference to the text of the Higher Education Act and the regulations thereunder.

The Higher Education Act has been subject to frequent amendments and federal budgetary legislation, the most significant of which has been the passage of H.R. 4872 (the "Health Care & Education Affordability Reconciliation Act of 2010" or "HCEARA") which terminated originations of FFELP Loans under the FFEL Program after June 30, 2010 such that all new federal student loans originated on and after July 1, 2010 are originated under the Direct Loan Program.

Federal Family Education Loans

Several types of loans were authorized as Federal Family Education Loans pursuant to the Federal Family Education Loan Program. These included: (a) loans to students meeting certain financial needs tests with respect to which the federal government makes interest payments available to reduce student interest cost during periods of enrollment ("Subsidized Stafford Loans"); (b) loans to students made without regard to financial need with respect to which the federal government does not make such interest payments ("Unsubsidized Stafford Loans" and, collectively with Subsidized Stafford Loans, "Stafford Loans"); (c) loans to graduate students, professional students, or parents of dependent students ("PLUS Loans"); and (d) loans available to borrowers with certain existing federal educational loans to consolidate repayment of such loans ("Consolidation Loans").

Generally, a FFELP Loan was made only to a United States citizen or permanent resident or otherwise eligible individual under federal regulations who (a) had been accepted for enrollment or was enrolled and was maintaining satisfactory progress at an eligible institution; (b) was carrying at least one-half of the normal full-time academic workload for the course of study the student was pursuing, as

determined by such institution; (c) agreed to notify promptly the holder of the loan of any address change; (d) was not in default on any federal education loans; (e) met the applicable "need" requirements; and (f) had not committed a crime involving fraud or obtaining funds under the Higher Education Act which funds had not been fully repaid. Eligible institutions included higher educational institutions and vocational schools that complied with certain federal regulations. With certain exceptions, an institution with a cohort default rate that was equal to or greater than 25% for each of the three most recent fiscal years for which data was available was not an eligible institution under the Higher Education Act. However, beginning in fiscal year 2012, the threshold was raised from 25% to 30%. In addition, an institution with a cohort default rate that was equal to or greater than 40% for the most recent fiscal year for which data was available is also not an eligible institution under the Higher Education Act.

Subsidized Stafford Loans

The Higher Education Act provides for federal (a) insurance or reinsurance of eligible Subsidized Stafford Loans, (b) interest benefit payments for borrowers remitted to eligible lenders with respect to certain eligible Subsidized Stafford Loans, and (c) Special Allowance Payments representing an additional subsidy paid by the Secretary to such holders of eligible Subsidized Stafford Loans.

Subsidized Stafford Loans were eligible for reinsurance under the Higher Education Act if the eligible student to whom the loan was made had been accepted or was enrolled in good standing at an eligible institution of higher education or vocational school and was carrying at least one-half the normal full-time workload at that institution. In connection with eligible Subsidized Stafford Loans there were limits as to the maximum amount which could be borrowed for an academic year and in the aggregate for both undergraduate and graduate/professional study. The Secretary had discretion to raise these limits to accommodate students undertaking specialized training requiring exceptionally high costs of education.

Subject to these limits, Subsidized Stafford Loans were available to borrowers in amounts not exceeding their unmet need for financing as provided in the Higher Education Act.

Unsubsidized Stafford Loans

Unsubsidized Stafford Loans were available to students who did not qualify for Subsidized Stafford Loans due to parental and/or student income or assets in excess of permitted amounts. In other respects, the general requirements for Unsubsidized Stafford Loans were essentially the same as those for Subsidized Stafford Loans. The interest rate, the loan fee requirements and the Special Allowance Payment provisions of the Unsubsidized Stafford Loans were the same as the Subsidized Stafford Loans. However, the terms of the Unsubsidized Stafford Loans differ materially from Subsidized Stafford Loans in that the Secretary does not make interest benefit payments and the loan limitations were determined without respect to the expected family contribution. The borrower was required to pay interest from the time such loan was disbursed or capitalize the interest until repayment began.

PLUS Loan Program

The Higher Education Act authorized PLUS Loans to be made to graduate students, professional students, or parents of eligible dependent students. Only graduate students, professional students and parents who did not have an adverse credit history were eligible for PLUS Loans. The basic provisions applicable to PLUS Loans were similar to those of Stafford Loans with respect to the involvement of Guaranty Agencies and the Secretary in providing federal reinsurance on the loans. However, PLUS Loans differ significantly from Subsidized Stafford Loans, particularly because federal interest benefit payments are not available under the PLUS Program and Special Allowance Payments are more restricted.

The Consolidation Loan Program

The Higher Education Act authorized a program under which certain borrowers were permitted to consolidate their various student loans into a single loan insured and reinsured on a basis similar to Subsidized Stafford Loans. The authority to make such Consolidation Loans expired on June 30, 2010. Consolidation Loans were made in an amount sufficient to pay outstanding principal, unpaid interest and late charges on certain federally insured or reinsured student loans incurred under and pursuant to the Federal Family Education Loan Program (other than Parent PLUS Loans) selected by the borrower, as well as loans made pursuant to the Perkins Loan Program, the Health Professions Student Loan Programs and the Direct Loan Program. Consolidation Loans made pursuant to the Direct Loan Program must conform to the eligibility requirements for Consolidation Loans under the Federal Family Education Loan Program. The borrowers could have been either in repayment status or in a grace period preceding repayment, but the borrower could not still be in school. Delinquent or defaulted borrowers were eligible to obtain Consolidation Loans if they agreed to re-enter repayment through loan consolidation. Borrowers were permitted to add additional loans to a Consolidation Loan during the 180-day period following origination of the Consolidation Loan. Further, a married couple who agreed to be jointly and severally liable was treated as one borrower for purposes of loan consolidation eligibility. A Consolidation Loan was federally insured or reinsured only if such loan was made in compliance with the requirements of the Higher Education Act.

The Higher Education Act authorizes the Secretary to offer the borrower a Direct Consolidation Loan with repayment provisions authorized under the Higher Education Act and terms consistent with a Consolidation Loan made pursuant to the FFEL Program. In addition, the Secretary may offer the borrower of a Consolidation Loan a Direct Consolidation Loan for one of three purposes: (a) providing the borrower with an income contingent repayment plan (or income-based repayment plan as of July 1, 2009) if the borrower's delinquent loan has been submitted to a Guaranty Agency for default aversion (or, as of July 1, 2009, if the loan is already in default); (b) allowing the borrower to participate in a public service loan forgiveness program offered under the Direct Loan Program; or (c) allowing the borrower to use the no accrual of interest for active duty service members benefit offered under the Direct Loan Program for not more than 60 months for loans first disbursed on or after October 1, 2008. In order to participate in the public service loan forgiveness program, the borrower must not have defaulted on the Direct Loan; must have made 120 monthly payments on the Direct Loan after October 1, 2007 under certain income based repayment plans, a standard 10-year repayment plan for certain Direct Loans, or a certain income contingent repayment plan; and must be employed in a public service job at the time of forgiveness and during the period in which the borrower makes each of his 120 monthly payments. A public service job is defined broadly and includes working at an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended and restated (the "IRC"), which is exempt from taxation under Section 501(a) of the IRC. No borrower may, however, receive a reduction of loan obligations under both the public service loan forgiveness program offered under the Direct Loan Program and the following programs: (i) the loan forgiveness program for teachers offered under both the FFEL Program and the Direct Loan Program; (ii) the loan forgiveness program for service in areas of national need offered under the FFEL Program; and (iii) the loan repayment program for civil legal assistance attorneys offered under the FFEL Program.

Federal Direct Student Loan Program

The Student Loan Reform Act of 1993 established the Direct Loan Program. The first loans under the Direct Loan Program were made available for the 1994-1995 academic year. Under the Direct Loan Program, approved institutions of higher education, or alternative loan originators approved by the United States Department of Education (the "Department of Education"), make loans to students or parents without application to or funding from outside lenders or Guaranty Agencies. The Department of Education

provides the funds for such loans, and the program provides for a variety of flexible repayment plans, including extended, graduated and income contingent repayment plans, forbearance of payments during periods of national service and consolidation under the Direct Loan Program of existing student loans. Such consolidation permits borrowers to prepay existing student loans and consolidate them into a Federal Direct Consolidation Loan under the Direct Loan Program. The Direct Loan Program also provides certain programs under which principal may be forgiven or interest rates may be reduced. Direct Loan Program repayment plans, other than income contingent plans, must be consistent with the requirements under the Higher Education Act for repayment plans under the FFEL Program. Due to the enactment of HCEARA, FFELP Loans made pursuant to the Higher Education Act are no longer originated, and as of July 1, 2010 new federal student loans are originated solely under the Direct Loan Program.

Interest Rates

Subsidized and Unsubsidized Stafford Loans. Subsidized and Unsubsidized Stafford Loans made on or after October 1, 1998 but before July 1, 2006 which are in in-school, grace and deferment periods bear interest at a rate equivalent to the 91-day T-Bill rate plus 1.70%, with a maximum rate of 8.25%. Subsidized Stafford Loans and Unsubsidized Stafford Loans made on or after October 1, 1998 but before July 1, 2006 in all other payment periods bear interest at a rate equivalent to the 91-day T-Bill rate plus 2.30%, with a maximum rate of 8.25%. The rate is adjusted annually on July 1.

Subsidized Stafford Loans disbursed on or after July 1, 2006 and before July 1, 2010 bear interest at progressively lowered rates described below. Subsidized Stafford Loans made on or after July 1, 2006 but before July 1, 2008 bear interest at a rate equal to 6.80% per annum. Subsidized Stafford Loans made on or after July 1, 2008 but before July 1, 2009 bear interest at a rate equal to 6.00% per annum. Subsidized Stafford Loans made on or after July 1, 2009 but before July 1, 2010 bear interest at a rate equal to 5.60% per annum.

Unsubsidized Stafford Loans made on or after July 1, 2006 and before July 1, 2010 bear interest at a rate equal to 6.80% per annum.

PLUS Loans. PLUS Loans made on or after October 1, 1998 but before July 1, 2006 bear interest at a rate equivalent to the 91-day T-Bill rate plus 3.10%, with a maximum rate of 9.00%. The rate is adjusted annually on July 1. PLUS Loans made on or after July 1, 2006 and before July 1, 2010 bear interest at a rate equal to 8.50% per annum.

Consolidation Loans. Consolidation Loans for which the application was received by an eligible lender on or after October 1, 1998 and that was disbursed before July 1, 2010 bear interest at a fixed rate equal to the lesser of (a) the weighted average of the interest rates on the loans consolidated, rounded upward to the nearest 1/8 of 1.00%; or (b) 8.25%. For Consolidation Loans disbursed before July 1, 1994, the applicable interest rate is fixed at the greater of 9% or the weighted average of the interest rates on the loans being consolidated, rounded to the nearest whole percent. For Consolidation Loans disbursed on or after July 1, 1994, based on applications received by the lender before November 13, 1997, the applicable interest rate is fixed and is based on the weighted average of the interest rates on the loans being consolidated, rounded up to the nearest whole percent. For Consolidation Loans (which do not include a HEAL loan) on which the application was received by the lender between November 13, 1997 and September 30, 1998, inclusive, the applicable interest rate is variable based on the bond equivalent rate of the 91-day Treasury bills, auctioned at the final auction before the preceding June, plus 3.1% (adjusted annually on July 1).

Servicemembers Civil Relief Act—6.00% Interest Rate Limitation. As of August 14, 2008, FFELP Loans incurred by a servicemember, or by a servicemember and the servicemember's spouse

jointly, before the servicemember enters military service may not bear interest at a rate in excess of 6.00% during the period of military service.

Loan Disbursements

The Higher Education Act generally required that Stafford Loans and PLUS Loans made to cover multiple enrollment periods, such as a semester, trimester, or quarter, be disbursed by eligible lenders in at least two separate disbursements. The Higher Education Act also generally required that the first installment of such loans made to a student who was entering the first year of a program of undergraduate education and who had not previously obtained a FFEL Program loan (a "First FFEL Student") must have been presented by the institution to the student 30 days after the First FFEL Student begins a course of study. However, certain institutions whose cohort default rate was less than 10% prior to October 1, 2011 and less than 15% on or after October 1, 2011 for each of the three most recent fiscal years for which data was available were permitted to (a) disburse any such loan made in a single installment for any period of enrollment that was not more than a semester, trimester, quarter, or four months; and (b) deliver any such loan that was to be made to a First FFEL Student prior to the end of the 30-day period after the First FFEL Student began his or her course of study at the institution.

Loan Limits

A Stafford Loan borrower was permitted to receive a subsidized loan, an unsubsidized loan, or a combination of both for an academic period. Generally, the maximum amount of Stafford Loans, made prior to July 1, 2007, for an academic year was not permitted to exceed $2,625 for the first year of undergraduate study, $3,500 for the second year of undergraduate study and $5,500 per year for the remainder of undergraduate study. The maximum amount of Stafford Loans, made on or after July 1, 2007, for an academic year was not permitted to exceed $3,500 for the first year of undergraduate study and $4,500 for the second year of undergraduate study. The aggregate limit for undergraduate study was $23,000 (excluding PLUS Loans). Dependent undergraduate students were permitted to receive an additional unsubsidized Stafford Loan of up to $2,000 per academic year, with an aggregate maximum of $31,000. Independent undergraduate students were permitted to receive an additional Unsubsidized Stafford Loan of up to $6,000 per academic year for the first two years and up to $7,000 per academic year thereafter, with an aggregate maximum of $57,500. The maximum amount of subsidized loans for an academic year for graduate students was $8,500. Graduate students were permitted to borrow an additional Unsubsidized Stafford Loan of up to $12,000 per academic year. The Secretary had discretion to raise these limits by regulation to accommodate highly specialized or exceptionally expensive courses of study.

The total amount of all PLUS Loans that (a) parents were permitted to borrow on behalf of each dependent student, or (b) graduate or professional students were permitted to borrow for any academic year was not permitted to exceed the student's estimated cost of attendance minus other financial assistance for that student as certified by the eligible institution which the student attends.

Repayment

General. Repayment of principal on a Stafford Loan does not commence while a student remains a qualified student, but generally begins six months after the date a borrower ceases to pursue at least a half-time course of study (the six-month period is the "Grace Period"). Repayment of interest on an Unsubsidized Stafford Loan begins immediately upon disbursement of the loan; however, the lender may capitalize the interest until repayment of principal is scheduled to begin. Except for certain borrowers as described below, each loan generally must be scheduled for repayment over a period of not more than 10 years after the commencement of repayment. The Higher Education Act currently requires minimum annual payments of $600, including principal and interest, unless the borrower and the lender agree to lesser

payments. Regulations of the Secretary require lenders to offer borrowers standard, graduated, income-sensitive, or, as of July 1, 2009 for certain eligible borrowers, income-based repayment plans. Use of income-based repayment plans may extend the 10-year maximum term.

Effective July 1, 2009, a new income-based repayment plan became available to certain FFEL Program borrowers and Direct Loan Program borrowers. To be eligible to participate in the plan, the borrower's annual amount due on loans made to a borrower prior to July 1, 2010 with respect to FFEL Program borrowers and prior to July 1, 2014 with respect to Direct Loan Program borrowers (as calculated under a standard 10-year repayment plan for such loans) must exceed 15% of the result obtained by calculating the amount by which the borrower's adjusted gross income (and the borrower's spouse's adjusted gross income, if applicable) exceeds 150% of the poverty line applicable to the borrower's family size. With respect to any loan made to a new Direct Loan Program borrower on or after July 1, 2014, the borrower's annual amount due on such loans (as calculated under a standard 10-year repayment plan for such loans) must exceed 10% of the result obtained by calculating the amount by which the borrower's adjusted gross income (and the borrower's spouse's adjusted gross income, if applicable) exceeds 150% of the poverty line applicable to the borrower's family size. Such a borrower may elect to have his payments limited to the monthly amount of the above described result. Furthermore, the borrower is permitted to repay his loans over a term greater than 10 years. The Secretary will repay any outstanding principal and interest on eligible FFEL Program loans and cancel any outstanding principal and interest on eligible Direct Loan Program loans for borrowers who participated in the new income-based repayment plan and, for a period of time prescribed by the Secretary (but not more than 25 years for a borrower whose loan was made prior to July 1, 2010 with respect to FFEL Program loans and prior to July 1, 2014 with respect to Direct Loan Program loans and not more than 20 years for a Direct Loan Program borrower whose loan was made on or after July 1, 2014), have (a) made certain reduced monthly payments under the income-based repayment plan, (b) made certain payments based on a 10-year repayment period when the borrower first made the election to participate in the income-based repayment plan, (c) made certain payments based on a standard 10-year repayment period, (d) made certain payments under an income-contingent repayment plan for certain Direct Loan Program loans, or (e) have been in an economic hardship deferment.

Borrowers of Subsidized Stafford Loans and of the subsidized portion of Consolidation Loans, and borrowers of similar subsidized loans under the Direct Loan Program receive additional benefits under the new income-based repayment program: the Secretary will pay any unpaid interest due on the borrower's subsidized loans for up to three years after the borrower first elects to participate in the new income-based repayment plan (excluding any periods where the borrower has obtained economic hardship deferment). For both subsidized and unsubsidized loans, interest is capitalized when the borrower either ends his participation in the income-based repayment program or begins making certain payments under the program calculated for those borrowers whose financial hardship has ended.

PLUS Loans enter repayment on the date the last disbursement is made on the loan. Interest accrues and is due and payable from the date of the first disbursement of the loan. The first payment is due within 60 days after the loan is fully disbursed, subject to deferral. For parent borrowers whose loans were first disbursed on or after July 1, 2008, it is possible, upon the request of the parent, to begin repayment on the later of (a) six months and one day after the student for whom the loan is borrowed ceases to carry at least one-half of the normal full-time academic workload (as determined by the school); and (b) if the parent borrower is also a student, six months and one day after the date such parent borrower ceases to carry at least one-half such a workload. Similarly, graduate and professional student borrowers whose loans were first disbursed on or after July 1, 2008 may begin repayment six months and one day after such student ceases to carry at least one-half the normal full-time academic workload (as determined by the school). Repayment plans are the same as in the Subsidized and Unsubsidized Stafford Loan Program for all PLUS Loans except those PLUS Loans which are made, insured, or guaranteed on behalf of a dependent student; such excepted PLUS Loans are not eligible for the income-based repayment plan which became effective

on July 1, 2009. Furthermore, eligible lenders were permitted to determine for all PLUS Loan borrowers (i) whose loans were first disbursed on or after July 1, 2008 that extenuating circumstances existed if between January 1, 2007 through December 31, 2009, a PLUS Loan applicant (A) was or had been delinquent for 180 days or less on the borrower's residential mortgage loan payments or on medical bills; and (B) did not otherwise have an adverse credit history, as determined by the lender in accordance with the regulations promulgated under the Higher Education Act prior to May 7, 2008; and (ii) whose loans were first disbursed prior to July 1, 2008 that extenuating circumstances existed if between January 1, 2007 through December 31, 2009, a PLUS Loan applicant (A) was or had been delinquent for 180 days or less on the borrower's residential mortgage loan or on medical bills, and (B) was not and had not been delinquent on the repayment of any other debt for more than 89 days during the period.

Consolidation Loans enter repayment on the date the loan is disbursed. The first payment is due within 60 days after all holders of the loan have discharged the liabilities of the borrower on the loan selected for consolidation. Consolidation Loans which are not being paid pursuant to income-sensitive repayment plans (or, as of July 1, 2009, income-based repayment plans) must generally be repaid during a period agreed to by the borrower and lender, subject to maximum repayment periods which vary depending upon the principal amount of the borrower's outstanding student loans (but no longer than 30 years for Consolidation Loans made after January 1, 1993). Consolidation Loans may also be repaid pursuant to the new income-based repayment plan which became effective on July 1, 2009. However, Consolidation Loans which have been used to repay a PLUS Loan that has been made, insured, or guaranteed on behalf of a dependent student were not eligible for this new income-based repayment plan.

FFEL Program borrowers who accumulate outstanding FFELP Loans on or after October 7, 1998 totaling more than $30,000 were permitted to receive an extended repayment plan, with a fixed annual or graduated payment amount paid over a longer period of time, not to exceed 25 years. A borrower may accelerate principal payments at any time without penalty. Once a repayment plan is established, the borrower may annually change the selection of the plan.

Deferment and Forbearance Periods. No principal repayments need to be made during certain periods prescribed by the Higher Education Act ("Deferment Periods") but interest accrues and must be paid. Generally, Deferment Periods include periods (a) when the borrower has returned to an eligible educational institution on a half-time basis or is pursuing studies pursuant to an approved graduate fellowship or an approved rehabilitation training program for disabled individuals; (b) not in excess of three years while the borrower is seeking and unable to find full-time employment; (c) while the borrower is serving on active duty during a war or other military operation or national emergency, is performing qualifying National Guard duty during a war or other military operation or national emergency, and for 180 days following the borrower's demobilization date for the above described services; (d) during the 13 months following service if the borrower is a member of the National Guard, a member of a reserve component of the military, or a retired member of the military who (i) is called or ordered to active duty, and (ii) is or was enrolled within six months prior to the activation at an eligible educational institution; (e) if the borrower is in active military duty, or is in reserve status and called to active duty; and (f) not in excess of three years for any reason which the lender determines, in accordance with regulations, has caused or will cause the borrower economic hardship. Deferment periods extend the maximum repayment periods. Under certain circumstances, a lender may also allow periods of forbearance ("Forbearance") during which the borrower may defer payments because of temporary financial hardship. The Higher Education Act specifies certain periods during which Forbearance is mandatory. Mandatory Forbearance periods include, but are not limited to, periods during which the borrower is (A) participating in a medical or dental residency and is not eligible for deferment; (B) serving in a qualified medical or dental internship program or certain national service programs; or (C) determined to have a debt burden of certain federal loans equal to or exceeding 20% of the borrower's gross income. In other circumstances, Forbearance may be granted at the lender's option. Forbearance also extends the maximum repayment periods.

Master Promissory Notes

Since July 2000, all lenders were required to use a master promissory note (the "MPN") for new Stafford Loans. Unless otherwise notified by the Secretary, each institution of higher education that participated in the FFEL Program was permitted to use a master promissory note for FFELP Loans. The MPN permitted a borrower to obtain future loans without the necessity of executing a new promissory note. Borrowers were not, however, required to obtain all of their future loans from their original lender, but if a borrower obtains a loan from a lender which does not presently hold an MPN for that borrower, that borrower was required to execute a new MPN. A single borrower may have several MPNs evidencing loans to multiple lenders. If multiple loans have been advanced pursuant to a single MPN, any or all of those loans may be individually sold by the holder of the MPN to one or more different secondary market purchasers.

Interest Benefit Payments

The Secretary is to pay interest on Subsidized Stafford Loans while the borrower is a qualified student, during a Grace Period or during certain Deferment Periods. In addition, Consolidation Loans made after August 10, 1993 that repay only Subsidized Stafford Loans are eligible for Interest Benefit Payments. Consolidation Loans made on or after November 13, 1997, are eligible for Interest Benefit Payments on that portion of the Consolidation Loan that repays subsidized FFELP Loans or similar subsidized loans made under the Direct Loan Program are eligible for interest benefit payments. The Secretary is required to make interest benefit payments to the holder of Subsidized Stafford Loans in the amount of interest accruing on the unpaid balance thereof prior to the commencement of repayment or during any Deferment Period. The Higher Education Act provides that the holder of an eligible Subsidized Stafford Loan, or the eligible portions of Consolidation Loans, shall be deemed to have a contractual right against the United States to receive interest benefit payments in accordance with its provisions.

Special Allowance Payments

The Higher Education Act provides for Special Allowance Payments to be made by the Secretary to eligible lenders. The rates for Special Allowance Payments are based on formulas that differ according to the type of loan, the date the loan was first disbursed, the interest rate and the type of funds used to finance such loan (tax-exempt or taxable). Loans made or purchased with funds obtained by the holder from the issuance of tax-exempt obligations issued prior to October 1, 1993 have an effective minimum rate of return of 9.50%. Amounts derived from recoveries of principal on loans made prior to October 1, 1993 may only be used to originate or acquire additional loans by a unit of a state or local government, or non-profit entity not owned or controlled by or under common ownership of a for-profit entity and held directly or through any subsidiary, affiliate or trustee, which entity has a total unpaid balance of principal equal to or less than $100,000,000 on loans for which special allowances were paid in the most recent quarterly payment prior to September 30, 2005. Such entities were permitted to originate or acquire additional loans with amounts derived from recoveries of principal until December 31, 2010. The Special Allowance Payments payable with respect to student loans acquired or funded with the proceeds of tax-exempt obligations issued after September 30, 1993 are equal to those paid to other lenders.

Public Law 112-74, dated December 23, 2011, amended the Higher Education Act, reflecting financial market conditions, to allow FFELP lenders to make an affirmative election to permanently change the index for Special Allowance Payment calculations on all FFELP Loans in the lender's portfolio (with certain limited exceptions) disbursed after January 1, 2000 from the Three Month Commercial Paper Rate (as hereafter defined) to the One Month LIBOR Rate (as hereafter defined), commencing with the Special Allowance Payment calculations for the calendar quarter beginning on April 1, 2012. Such election to permanently change the index for Special Allowance Payment calculations must have been made by

April 1, 2012 and must also have waived all contractual, statutory or other legal rights to the Special Allowance Payment calculation formula in effect at the time the loans were first disbursed. The Department of Education has not indicated what index it will use to calculate Special Allowance Payments presently based upon the One Month LIBOR Rate if the One Month LIBOR Rate is no longer available. See the caption "RISK FACTORS—LIBOR is being discontinued as a floating rate benchmark, and various aspects of the discontinuation are uncertain and will affect the financial markets and may also affect the Financed Eligible Loans and the Class A-1B Notes and the Class B Notes" in the body of this Offering Memorandum.

Subject to the foregoing, the formulas for Special Allowance Payment rates for Subsidized and Unsubsidized Stafford Loans are summarized in the following chart. The term "T-Bill" as used in this table and the following table, means the average 91-day treasury bill rate calculated at a "bond equivalent rate" in the manner applied by the Secretary as referred to in Section 438 of the Higher Education Act. The term "Three Month Commercial Paper Rate" means the 90-day commercial paper index calculated quarterly and based on an average of the daily 90-day commercial paper rates reported in the Federal Reserve's Statistical Release H-15. The term "One Month LIBOR Rate" means the one-month London Interbank Offered Rate for United States dollars in effect for each of the days in such quarter as compiled and released by Intercontinental Exchange Group (ICE).

Date of Loans	Annualized SAP Rate
On or after October 1, 1992	T-Bill Rate less Applicable Interest Rate + 3.10%
On or after July 1, 1995	T-Bill Rate less Applicable Interest Rate + 3.10%[1]
On or after July 1, 1998	T-Bill Rate less Applicable Interest Rate + 2.80%[2]
On or after January 1, 2000 (and before October 1, 2007)	Three Month Commercial Paper Rate[6] less Applicable Interest Rate + 2.34%[3]
On or after October 1, 2007 and before July 1, 2010 if an eligible not-for-profit lender (or an eligible lender trustee on its behalf) is the holder of the loan	Three Month Commercial Paper Rate[6] less Applicable Interest Rate + 1.94%[4]
On or after October 1, 2007 and before July 1, 2010 if an eligible lender other than an eligible not-for-profit lender (or an eligible lender trustee on its behalf) is the holder of the loan	Three Month Commercial Paper Rate[6] less Applicable Interest Rate + 1.79%[5]

[1] Substitute 2.50% in this formula while such loans are in the in-school or grace period.
[2] Substitute 2.20% in this formula while such loans are in the in-school or grace period.
[3] Substitute 1.74% in this formula while such loans are in the in-school or grace period.
[4] Substitute 1.34% in this formula while such loans are in the in-school or grace period.
[5] Substitute 1.19% in this formula while such loans are in the in-school or grace period.
[6] Substitute "One Month LIBOR Rate" for "Three Month Commercial Paper Rate" in this formula where lenders made the affirmative election by no later than April 1, 2012 under Public Law 112-74, dated December 23, 2011, to permanently change the index for Special Allowance Payment calculations for all loans in the lender's portfolio.

The formulas for Special Allowance Payment rates for PLUS Loans are as follows:

Date of Loans	Annualized SAP Rate
On or after October 1, 1992	T-Bill Rate less Applicable Interest Rate + 3.10%
On or after January 1, 2000 (and before October 1, 2007)	Three Month Commercial Paper Rate* less Applicable Interest Rate +2.64%
On or after October 1, 2007 and before July 1, 2010 if an eligible not-for-profit lender (or an eligible lender trustee on its behalf) is the holder of the loan	Three Month Commercial Paper Rate* less Applicable Interest Rate + 1.94%
On or after October 1, 2007 and before July 1, 2010 if an eligible lender other than an eligible not-for-profit lender (or an eligible lender trustee on its behalf) is the holder of the loan	Three Month Commercial Paper Rate* less Applicable Interest Rate + 1.79%

* Substitute "One Month LIBOR Rate" for "Three Month Commercial Paper Rate" in this formula where lenders made the affirmative election by no later than April 1, 2012 under Public Law 112-74, dated December 23, 2011, to permanently change the index for Special Allowance Payment calculations for all loans in the lender's portfolio.

The formulas for Special Allowance Payment rates for Consolidation Loans are as follows:

Date of Loans	Annualized SAP Rate
On or after October 1, 1992	T-Bill Rate less Applicable Interest Rate + 3.10%
On or after January 1, 2000 (and before October 1, 2007)	Three Month Commercial Paper Rate* less Applicable Interest Rate + 2.64%
On or after October 1, 2007 and before July 1, 2010 if an eligible not-for-profit lender (or an eligible lender trustee on its behalf) is the holder of the loan	Three Month Commercial Paper Rate* less Applicable Interest Rate + 2.24%
On or after October 1, 2007 and before July 1, 2010 if an eligible lender other than an eligible not-for-profit lender (or an eligible lender trustee on its behalf) is the holder of the loan	Three Month Commercial Paper Rate* less Applicable Interest Rate + 2.09%

* Substitute "One Month LIBOR Rate" for "Three Month Commercial Paper Rate" in this formula where lenders made the affirmative election by no later than April 1, 2012 under Public Law 112-74, dated December 23, 2011, to permanently change the index for Special Allowance Payment calculations for all loans in the lender's portfolio.

Special allowance payments are generally payable, with respect to variable rate FFELP Loans to which a maximum borrower interest rate applies, only when the maximum borrower interest rate is in effect. The Secretary offsets interest benefit payments and Special Allowance Payments by the amount of origination fees and lender loan fees described under the caption "—Loan Fees" below.

The Higher Education Act provides that a holder of a qualifying loan who is entitled to receive Special Allowance Payments has a contractual right against the United States to receive those payments during the life of the loan. Receipt of Special Allowance Payments, however, is conditioned on the eligibility of the loan for federal insurance or reinsurance benefits. Such eligibility may be lost due to violations of federal regulations or Guaranty Agencies' requirements.

The Higher Education Act provides that for FFELP Loans first disbursed prior to April 1, 2006, lenders are entitled to retain interest income in excess of the special allowance support level in instances

when the loan rate exceeds the special allowance support level. However, lenders are not allowed to retain interest income in excess of the special allowance support level on FFELP Loans disbursed on or after April 1, 2006, and are required to rebate any such "excess interest" to the Secretary on a quarterly basis. This modification effectively limits lenders' returns to the special allowance support level and could require a lender to rebate excess interest accrued but not yet received.

Loan Fees

Insurance Premium. For loans guaranteed before July 1, 2006, a Guaranty Agency was authorized to charge a premium, or guarantee fee, of up to 1.00% of the principal amount of the loan, which may be deducted proportionately from each installment of the loan. Generally, Guaranty Agencies had waived this fee since 1999. For loans guaranteed on or after July 1, 2006 that are first disbursed before July 1, 2010, a federal default fee equal to 1.00% of principal was required to be paid into such Guaranty Agency's Federal Student Loan Reserve Fund (hereinafter defined as the "Federal Fund").

Origination Fee. Lenders were authorized to charge borrowers of Subsidized Stafford Loans and Unsubsidized Stafford Loans an origination fee in an amount not to exceed: 3.00% of the principal amount of the loan for loans disbursed prior to July 1, 2006; 2.00% of the principal amount of the loan for loans disbursed on or after July 1, 2006 and before July 1, 2007; 1.50% of the principal amount of the loan for loans disbursed on or after July 1, 2007 and before August 1, 2008; 1.00% of the principal amount of the loan for loans disbursed on or after August 1, 2008 and before July 1, 2009; and 0.50% of the principal amount of the loan for loans disbursed on or after July 1, 2009 and before July 1, 2010. The Secretary is authorized to charge borrowers of Direct Loans 4.00% of the principal amount of the loan for loans disbursed prior to February 8, 2006. A lender was permitted to charge a lesser origination fee to Stafford Loan borrowers so long as the lender did so consistently with respect to all borrowers who resided in or attended school in a particular state. For borrowers of Direct Loans other than Federal Direct Consolidation Loans and Federal Direct PLUS Loans, the Secretary may charge such borrowers as follows: 3.00% of the principal amount of the loan for loans disbursed on or after February 8, 2006 and before July 1, 2007; 2.50% of the principal amount of the loan for loans disbursed on or after July 1, 2007 and before August 1, 2008; 2.00% of the principal amount of the loan for loans disbursed on or after August 1, 2008 and before July 1, 2009; 1.50% of the principal amount of the loan for loans disbursed on or after July 1, 2009 and before July 1, 2010; and 1.00% of the principal amount of the loan for loans disbursed on or after July 1, 2010. These fees must be deducted proportionately from each installment payment of the loan proceeds prior to payment to the borrower. The lenders were required to pass the origination fees received under the FFEL Program on to the Secretary.

Lender Loan Fee. The lender of any FFELP Loan was required to pay to the Secretary an additional origination fee equal to 0.50% of the principal amount of the loan for loans first disbursed on or after October 1, 1993, but prior to October 1, 2007. For all loans first disbursed on or after October 1, 2007 and before July 1, 2010, the lender was required to pay an additional origination fee equal to 1.00% of the principal amount of the loan.

The Secretary collects from the lender or subsequent holder of the loan the maximum origination fee authorized (regardless of whether the lender actually charges the borrower) and the lender loan fee, either through reductions in interest benefit payments or Special Allowance Payments or directly from the lender or holder of the loan.

Rebate Fee on Consolidation Loans. The holder of any Consolidation Loan for which the first disbursement was made on or after October 1, 1993, is required to pay to the Secretary a Monthly Consolidation Rebate Fees equal to .0875% (1.05% per annum) of the principal amount plus accrued unpaid interest on the loan. However, for Consolidation Loans for which applications were received from

October 1, 1998 to January 31, 1999, inclusive, the Monthly Consolidation Rebate Fees is approximately equal to .0517% (.62% per annum) of the principal amount plus accrued interest on the loan.

Insurance and Guarantees

A Guaranty Agency guarantees Federal Family Education Loans made to students or parents of students by eligible lenders. A Guaranty Agency generally purchases defaulted student loans which it has guaranteed with its reserve fund (as described under the caption "Guaranty Agency Reserves" below). A Federal Family Education Loan is considered to be in default for purposes of the Higher Education Act when the borrower fails to make an installment payment when due, or to comply with other terms of the loan, and if the failure persists for 270 days in the case of a loan repayable in monthly installments or for 330 days in the case of a loan repayable in less frequent installments. If the loan is guaranteed by a Guaranty Agency in accordance with the provisions of the Higher Education Act, the Guaranty Agency is to pay the holder a percentage of such amount of the loss subject to a reduction (as described in 20 U.S.C. § 1075(b)) within 90 days of notification of such default. The default claim package submitted to a Guaranty Agency must include all information and documentation required under the Federal Family Education Loan Program regulations and such Guaranty Agency's policies and procedures.

The Higher Education Act gives the Secretary of Education various oversight powers over the Guaranty Agencies. These include requiring a Guaranty Agency to maintain its reserve fund at a certain required level and taking various actions relating to a Guaranty Agency if its administrative and financial condition jeopardizes its ability to meet its obligations.

Federal Insurance. The Higher Education Act provides that, subject to compliance with such Act, the full faith and credit of the United States is pledged to the payment of insurance claims and ensures that such reimbursements are not subject to reduction. In addition, the Higher Education Act provides that if a Guaranty Agency is unable to meet its insurance obligations, holders of loans may submit insurance claims directly to the Secretary until such time as the obligations are transferred to a new Guaranty Agency capable of meeting such obligations or until a successor Guaranty Agency assumes such obligations. Federal reimbursement and insurance payments for defaulted loans are paid from the student loan insurance fund established under the Higher Education Act. The Secretary is authorized, to the extent provided in advance by appropriations acts, to issue obligations to the Secretary of the Treasury to provide funds to make such federal payments.

Guarantees. If the loan is guaranteed by a Guaranty Agency in accordance with the provisions of the Higher Education Act, the eligible lender is reimbursed by the Guaranty Agency for a statutorily set percentage (100% for loans first disbursed prior to October 1, 1993, 98% for loans first disbursed on or after October 1, 1993, but before July 1, 2006, and 97% for loans first disbursed on or after July 1, 2006 but before July 1, 2010) of the unpaid principal balance of the loan plus accrued unpaid interest on any defaulted loan so long as the eligible lender has properly serviced such loan. Under the Higher Education Act, the Secretary enters into a guarantee agreement and a reinsurance agreement (the "Guarantee Agreements") with each Guaranty Agency which provides for federal reimbursement for amounts paid to eligible lenders by the Guaranty Agency with respect to defaulted loans.

Guarantee Agreements. Pursuant to the Guarantee Agreements, the Secretary is to reimburse a Guaranty Agency for the amounts expended in connection with a claim resulting from the death of a borrower; bankruptcy of a borrower; total and permanent disability of a borrower (including those borrowers who have been determined by the Secretary of Veterans Affairs to be unemployable due to a service-connected condition); inability of a borrower to engage in any substantial, gainful activity by reason of any medically determinable physical or mental impairment that can be expected to result in death, has lasted continuously for at least 60 months, or can be expected to last continuously for at least 60 months;

the death of a student whose parent is the borrower of a PLUS Loan; certain claims by borrowers who are unable to complete the programs in which they are enrolled due to school closure; borrowers whose borrowing eligibility was falsely certified by the eligible institution; or the amount of an unpaid refund due from the school to the lender in the event the school fails to make a required refund. Such claims are not included in calculating a Guaranty Agency's claims rate experience for federal reimbursement purposes. Generally, educational loans are non-dischargeable in bankruptcy unless the bankruptcy court determines that the debt will impose an undue hardship on the borrower and the borrower's dependents. Further, the Secretary is to reimburse a Guaranty Agency for any amounts paid to satisfy claims not resulting from death, bankruptcy, or disability subject to reduction as described below. See the caption "—Education Loans Generally Not Subject To Discharge in Bankruptcy" below.

The Secretary may terminate Guarantee Agreements if the Secretary determines that termination is necessary to protect the federal financial interest or to ensure the continued availability of loans to student or parent borrowers. Upon termination of such Guarantee Agreements, the Secretary is authorized to provide the Guaranty Agency with additional advance funds with such restrictions on the use of such funds as is determined appropriate by the Secretary, in order to meet the immediate cash needs of the Guaranty Agency, ensure the uninterrupted payment of claims, or ensure that the Guaranty Agency will make loans as the lender-of-last-resort.

If the Secretary has terminated or is seeking to terminate Guarantee Agreements, or has assumed a Guaranty Agency's functions, notwithstanding any other provision of law: (a) no state court may issue an order affecting the Secretary's actions with respect to that Guaranty Agency; (b) any contract entered into by the Guaranty Agency with respect to the administration of the Guaranty Agency's reserve funds or assets purchased or acquired with reserve funds shall provide that the contract is terminable by the Secretary upon 30 days' notice to the contracting parties if the Secretary determines that such contract includes an impermissible transfer of the reserve funds or assets or is inconsistent with the terms or purposes of the Higher Education Act; and (c) no provision of state law shall apply to the actions of the Secretary in terminating the operations of the Guaranty Agency. Finally, notwithstanding any other provision of law, the Secretary's liability for any outstanding liabilities of a Guaranty Agency (other than outstanding student loan guarantees under the Higher Education Act), the functions of which the Secretary has assumed, shall not exceed the fair market value of the reserves of the Guaranty Agency, minus any necessary liquidation or other administrative costs.

Reimbursement. The amount of a reimbursement payment on defaulted loans made by the Secretary to a Guaranty Agency is subject to reduction based upon the annual claims rate of the Guaranty Agency calculated to equal the amount of federal reimbursement as a percentage of the original principal amount of originated or guaranteed loans in repayment on the last day of the prior fiscal year. The claims experience is not accumulated from year to year, but is determined solely on the basis of claims in any one federal fiscal year compared with the original principal amount of loans in repayment at the beginning of that year. The formula for reimbursement amounts is summarized below:

Claims Rate	Guaranty Agency Reinsurance Rate for Loans Made prior to October 1, 1993	Guaranty Agency Reinsurance Rate for Loans Made Between October 1, 1993 and September 30, 1998	Guaranty Agency Reinsurance Rate for Loans Made On or After October 1, 1998 and Prior to July 1, 2010*
0% up to 5%	100%	98%	95%
5% up to 9%	100% of claims up to 5%; and 90% of claims 5% and over	98% of claims up to 5%; and 88% of claims 5% and over	95% of claims up to 5% and 85% of claims 5% and over
9% and over	100% of claims up to 5%; 90% of claims 5% up to 9%; 80% of claims 9% and over	98% of claims up to 5%; 88% of claims 5% up to 9%; 78% of claims 9% and over	95% of claims up to 5%, 85% of claims 5% up to 9%; 75% of claims 9% and over

* Student loans made pursuant to the lender-of-last resort program have an amount of reinsurance equal to 100%; student loans transferred by an insolvent Guaranty Agency have an amount of reinsurance ranging from 80% to 100%. The Consolidated Appropriations Act, 2016, Pub. L. 114-113, signed by the President on December 18, 2015 changed the applicable reinsurance percentage for guaranty agencies on default claims in the FFEL program from 95% to 100% if such guaranty agency's "*trigger rate*" is below 5.0%.

The amount of loans guaranteed by a Guaranty Agency which are in repayment for purposes of computing reimbursement payments to a Guaranty Agency means the original principal amount of all loans guaranteed by a Guaranty Agency less: (a) guarantee payments on such loans, (b) the original principal amount of such loans that have been fully repaid, and (c) the original amount of such loans for which the first principal installment payment has not become due.

In addition, the Secretary may withhold reimbursement payments if a Guaranty Agency makes a material misrepresentation or fails to comply with the terms of its agreements with the Secretary or applicable federal law. A supplemental guarantee agreement is subject to annual renegotiation and to termination for cause by the Secretary.

Under the Guarantee Agreements, if a payment by the borrower on a FFELP Loan guaranteed by a Guaranty Agency is received after reimbursement by the Secretary, the Secretary is entitled to receive an equitable share of the borrower's payment. The Secretary's equitable share of the borrower's payment equals the amount remaining after the Guaranty Agency has deducted from such payment: (a) the percentage amount equal to the complement of the reinsurance percentage in effect when payment under the Guarantee Agreement was made with respect to the loan; and (b) as of October 1, 2007, 16% of the borrower's payments (to be used for the Guaranty Agency's Operating Fund (hereinafter defined)). The percentage deduction for use of the borrower's payments for the Guaranty Agency's Operating Fund varied prior to October 1, 2007; from October 1, 2003 through and including September 30, 2007, the percentage in effect was 23% and prior to October 1, 2003, the percentage in effect was 24%. The Higher Education Act further provides that on or after October 1, 2006, a Guaranty Agency may not charge a borrower collection costs in an amount in excess of 18.50% of the outstanding principal and interest of a defaulted loan that is paid off through consolidation by the borrower; provided that the Guaranty Agency must remit to the Secretary a portion of the collection charge equal to 8.50% of the outstanding principal and interest of the defaulted loan. In addition, on or after October 1, 2009, a Guaranty Agency must remit to the Secretary any collection fees on defaulted loans paid off with consolidation proceeds by the borrower which are in excess of 45% of the Guaranty Agency's total collections on defaulted loans in any one federal fiscal year.

Lender Agreements. Pursuant to most typical agreements for guarantee between a Guaranty Agency and the originator of the loan, any eligible holder of a loan insured by such a Guaranty Agency is entitled to reimbursement from such Guaranty Agency, subject to certain limitations, of any proven loss incurred by the holder of the loan resulting from default, death, permanent and total disability, certain medically determinable physical or mental impairment, or bankruptcy of the student borrower at the rate of 100% for loans first disbursed prior to October 1, 1993, 98% for loans first disbursed on or after October 1, 1993, but before July 1, 2006, and 97% for loans in default made on or after July 1, 2006 but prior to July 1, 2010. Certain holders of loans may receive higher reimbursements from Guaranty Agencies. For example, lenders of last resort may receive reimbursement at a rate of 100% from Guaranty Agencies.

Guaranty Agencies generally deem default to mean a student borrower's failure to make an installment payment when due or to comply with other terms of a note or agreement under circumstances in which the holder of the loan may reasonably conclude that the student borrower no longer intends to honor the repayment obligation and for which the failure persists for 270 days in the case of a loan payable in monthly installments or for 330 days in the case of a loan payable in less frequent installments. When a loan becomes at least 60 days past due, the holder is required to request default aversion assistance from the applicable Guaranty Agency in order to attempt to cure the delinquency. When a loan becomes 240 days past due, the holder is required to make a final demand for payment of the loan by the borrower. The holder is required to continue collection efforts until the loan is 270 days past due. At the time of payment of insurance benefits, the holder must assign to the applicable Guaranty Agency all right accruing to the holder under the note evidencing the loan. The Higher Education Act prohibits a Guaranty Agency from filing a claim for reimbursement with respect to losses prior to 270 days after the loan becomes delinquent with respect to any installment thereon.

Any holder of a loan is required to exercise due care and diligence in the servicing of the loan and to utilize practices which are at least as extensive and forceful as those utilized by financial institutions in the collection of other consumer loans. If a Guaranty Agency has probable cause to believe that the holder has made misrepresentations or failed to comply with the terms of its agreement for guarantee, the Guaranty Agency may take reasonable action including withholding payments or requiring reimbursement of funds. The Guaranty Agency may also terminate the agreement for cause upon notice and hearing.

Rehabilitation of Defaulted Loans. Under the Higher Education Act, the Secretary of Education is authorized to enter into an agreement with each Guaranty Agency pursuant to which a Guaranty Agency sells defaulted student loans that are eligible for rehabilitation to an eligible lender. For a defaulted student loan to be rehabilitated, the borrower must request rehabilitation and the applicable Guaranty Agency must receive an on-time, voluntary, full payment each month for 12 consecutive months. However, effective July 1, 2006, for a student loan to be eligible for rehabilitation, the applicable Guaranty Agency must receive nine payments made within 20 days of the due date during 10 consecutive months. Upon rehabilitation, a student loan is eligible for all the benefits under the Higher Education Act for which it would have been eligible had no default occurred.

A Guaranty Agency repays the Secretary an amount equal to 100% of the amount of the principal balance outstanding at the time of the sale of such student loan, multiplied by the reinsurance percentage in effect when payment under the guaranty agreement was made with respect to the student loan, and may charge to the borrower an amount not to exceed 16% of the outstanding principal and interest at the time of the loan sale. The amount of such repayment is deducted from the amount of federal reimbursement payments for the fiscal year in which such repayment occurs, for purposes of determining the reimbursement rate for that fiscal year.

Loans Subject To Repurchase. The Higher Education Act requires a lender to repurchase student loans from a Guaranty Agency, under certain circumstances, after a Guaranty Agency has paid for the

student loan through the claim process. A lender is required to repurchase: (a) a student loan found to be legally unenforceable against the borrower; (b) a student loan for which a bankruptcy claim has been paid if the borrower's bankruptcy is subsequently dismissed by the court or, as a result of the bankruptcy hearing, the student loan is considered non-dischargeable and the borrower remains responsible for repayment of the student loan; (c) a student loan which is subsequently determined not to be in default; or (d) a student loan for which a Guaranty Agency inadvertently paid the claim.

Guaranty Agency Reserves

Each Guaranty Agency is required to establish a Federal Fund which, together with any earnings thereon, is deemed to be property of the United States. Each Guaranty Agency is required to deposit into the Federal Fund any reserve funds plus reinsurance payments received from the Secretary, a certain percentage of default collections equal to the complement of the reinsurance percentage in effect when payment under the Guarantee Agreement was made, insurance premiums, 70% of payments received after October 7, 1998 from the Secretary for administrative cost allowances for loans insured prior to that date, and other receipts as specified in regulations. A Guaranty Agency is authorized to transfer up to 180 days' cash expenses for normal operating expenses (other than claim payments) from the Federal Fund to the Operating Fund at any time during the first three years after establishment of the fund. The Federal Fund may be used to pay lender claims and to pay default aversion fees into the Operating Fund. A Guaranty Agency is also required to establish an operating fund (the "Operating Fund"), which, except for funds transferred from the Federal Fund to meet operating expenses during the first three years after fund establishment, is the property of the Guaranty Agency. A Guaranty Agency was permitted to deposit into the Operating Fund loan processing and issuance fees equal to 0.40% of the total principal amount of loans insured during the fiscal year for loans originated on or after October 1, 2003 and first disbursed before July 1, 2010, 30% of payments received after October 7, 1998 for the administrative cost allowances for loans insured prior to that date, the account maintenance fee paid by the Secretary for Direct Loan Program loans in the amount of 0.06% of the original principal amount of the outstanding loans insured, any default aversion fee that is paid, the Guaranty Agency's 16% retention on collections of defaulted loans and other receipts as specified in the regulations. An Operating Fund must be used for application processing, loan disbursement, enrollment and repayment status management, default aversion, collection activities, school and lender training, financial aid awareness and related outreach activities, compliance monitoring, and other student financial aid related activities. For Subsidized and Unsubsidized Stafford Loans guaranteed on or after July 1, 2006 and first disbursed before July 1, 2010, Guaranty Agencies were required to collect and deposit a federal default fee to the Federal Fund equal to 1.00% of the principal amount of the loan.

The Higher Education Act provides for a recall of reserves from each Federal Fund in certain years, but also provides for certain minimum reserve levels which are protected from recall. The Secretary is authorized to enter into voluntary, flexible agreements with Guaranty Agencies under which various statutory and regulatory provisions can be waived; provided, however, the Secretary is not authorized to waive, among other items, any deposit of default aversion fees by Guaranty Agencies. In addition, under the Higher Education Act, the Secretary is prohibited from requiring the return of all of a Guaranty Agency's reserve funds unless the Secretary determines that the return of these funds is in the best interest of the operation of the FFEL Program, or to ensure the proper maintenance of such Guaranty Agency's funds or assets or the orderly termination of the Guaranty Agency's operations and the liquidation of its assets. The Higher Education Act also authorizes the Secretary to direct a Guaranty Agency to: (a) return to the Secretary all or a portion of its reserve fund which the Secretary determines is not needed to pay for the Guaranty Agency's program fees and contingent liabilities; and (b) cease any activities involving the expenditure, use or transfer of the Guaranty Agency's reserve funds or assets which the Secretary determines is a misapplication, misuse or improper expenditure.

Lender-of-Last-Resort Program

The FFEL Program allowed Guaranty Agencies and certain eligible lenders to act as lenders-of-last-resort before July 1, 2010. A lender-of-last-resort was authorized to receive advances from the Secretary in order to ensure that adequate loan capital exists in order to make loans to students before July 1, 2010. Students and parents of students who were otherwise unable to obtain FFELP Loans (other than Consolidation Loans) were permitted to apply to receive loans from the state's lenders-of-last-resort before July 1, 2010.

Education Loans Generally Not Subject To Discharge in Bankruptcy

Under the U.S. Bankruptcy Code, educational loans are not generally dischargeable. Title 11 of the United States Code at Section 523(a)(8)(A)(i)-(ii) provides that a discharge under Section 727, 1141, 1228(a), 1228(b), or 1328(b) of Title 11 of the United States Code does not discharge an individual debtor from any debt for an education benefit overpayment or loan made, insured, or guaranteed by a governmental unit or made under any program funded in whole or in part by a governmental unit or nonprofit institution, or for an obligation to repay funds received as an educational benefit, scholarship or stipend unless excepting such debt from discharge under this section will impose an undue hardship on the debtor and the debtor's dependents.

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APPENDIX B

WEIGHTED AVERAGE LIVES, EXPECTED MATURITIES AND PERCENTAGES OF ORIGINAL PRINCIPAL REMAINING AT CERTAIN MONTHLY DISTRIBUTION DATES FOR THE NOTES

Prepayments on pools of student loans can be calculated using a variety of models. Two models are used to calculate prepayments in this Offering Memorandum: a constant prepayment rate ("CPR") model, and a pricing prepayment curve ("PPC") model.

The CPR model is based on prepayments assumed to occur at a flat, constant prepayment rate. CPR is stated as an annualized rate and is calculated as the percentage of the loan amount outstanding at the beginning of a period (including accrued interest to be capitalized), after applying scheduled payments, that is prepaid during that period. The CPR model assumes that student loans will prepay in each month according to the following formula:

Monthly Prepayments = (Principal Balance after scheduled payments) x $(1-(1-\text{CPR})^{1/12})$

Accordingly, monthly prepayments, assuming a $1,000 balance after scheduled payments would be as follows for various levels of CPR:

	0% CPR	**2% CPR**	**4% CPR**	**6% CPR**	**8% CPR**
Monthly Prepayment	$0.00	$1.68	$3.40	$5.14	$6.92

The PPC model is based on a combination of prepayment rates. In the PPC model, prepayments are calculated as in the CPR model. For purposes of this Offering Memorandum, 100% PPC implies (a) 4% CPR for consolidation loans, (b) 6% CPR for non-consolidation loans, and (c) 8% CPR for rehabilitation loans. A rate of "x% PPC" implies the indicated multiple of each such CPR rate for each such loan type.

Neither the CPR model nor the PPC model purports to describe historical prepayment experience or to predict the prepayment rate of any actual student loan pool. The Financed Eligible Loans will not prepay according to such models, nor will all of the Eligible Loans prepay at the same rate. Noteholders must make an independent decision regarding the appropriate principal prepayment scenarios to use in making any investment decision.

Cash Flow Assumptions for Structuring Runs

The tables below have been prepared based on the assumptions described below (including the assumptions regarding the characteristics and performance of the rep lines, which will differ from the characteristics and performance of the actual pool of Financed Eligible Loans) and should be read in conjunction therewith. In addition, the diverse characteristics, remaining terms and loan ages of the Financed Eligible Loans could produce slower or faster principal payments than implied by the information in these tables, even if the dispersion of weighted average characteristics, remaining terms and loan ages are the same as the characteristics, remaining terms and loan ages assumed. Different assumptions will have a material impact on the information presented in this Appendix, and investors should make an independent assessment of the assumptions used herein.

For the purposes of calculating the information presented in the tables in this Appendix, it is assumed, among other things, that:

(a) the statistical cutoff date for modeling the Financed Eligible Loans is June 30, 2021;

(b) the Date of Issuance is September 21, 2021;

(c) the Financed Eligible Loans have an initial principal balance plus accrued interest to be capitalized at issuance of $201,159,098.18 which equates, on a pro-rata basis, to the estimated principal balance plus accrued interest expected to be capitalized on the Date of Issuance;

(d) all Financed Eligible Loans (as grouped in the "rep lines" described below), with the exception of in-school status loans and in-grace status loans, immediately move to repayment status and immediately capitalize accrued interest expected to be capitalized;

(e) the Collection Period with respect to a Monthly Distribution Date will be the calendar month preceding such Monthly Distribution Date, with the first period being from the Date of Issuance to October 31, 2021;

(f) none of the Financed Eligible Loans move into deferment or forbearance status;

(g) the Financed Eligible Loans that are subsidized Stafford loans or subsidized Consolidation loans and are in-school, grace or deferment status have interest paid (Interest Subsidy Payments) by the U.S. Department of Education quarterly, based on a quarterly calendar accrual period;

(h) there are government payment delays of 60 days for Interest Subsidy Payments and Special Allowance Payments;

(i) no delinquencies or defaults occur on any of the Financed Eligible Loans, no repurchases occur, and all borrower payments are collected in full;

(j) there are no minimum monthly payments from the borrowers;

(k) index levels for calculation of borrower and government payments and interest rates on the Notes are:

(i) 91-day Treasury bill bond equivalent rate of 0.05%;

(ii) One-Month LIBOR rate of 0.09%;

(l) monthly distributions begin on November 25, 2021, and are made monthly on the twenty-fifth day of every month thereafter, whether or not the twenty-fifth is a Business Day;

(m) the initial par amount of the Class A-1A Notes and the interest rate for the Class A-1A Notes at all times will equal: $15,000,000 and 1.58%, the initial par amount of the Class A-1B Notes and the interest rate for the Class A-1B Notes at all times will equal: $178,000,000 and 0.66% and the initial par amount of the Class B Notes and the interest rate for the Class B Notes at all times will equal $4,500,000 and 1.24%;

(n) interest accrues on the Class A-1A Notes on a 30/360-day count basis and on the Class A-1B Notes and Class B Notes on an actual/360-day count basis (the initial Interest Accrual Period for the Notes begins on the Date of Issuance and ends on November 24, 2021);

(o) the Administration Fees to be paid monthly are equal to 1/12 of 0.05% per annum on the outstanding principal balance of the Financed Eligible Loans and assumed to begin November 25, 2021 (the Administrative Fee for first Monthly Distribution Date is based on 40 days assuming a 360-day year);

(p) the Servicing Fees to be paid monthly beginning on November 25, 2021 are equal to the greater of (1) 1/12 of 0.80% per annum on the outstanding principal balance of the Financed Eligible Loans with no inflation adjustment, and (ii) $2.50 per borrower per month, subject to 3% inflation per annum each January, starting January 2022;

(q) a Program Fee equal to $100,000 per annum is paid each September beginning September 25, 2022;

(r) a Trustee Fee equal to 0.03% per annum of the outstanding principal balance of the Financed Eligible Loans is paid each quarter beginning December 25, 2021 based on the outstanding Note balance as of the beginning of the period for which such fees are paid;

(s) a Monthly Consolidation Rebate Fee equal to 1.05% per annum of the aggregate outstanding principal balance of the Financed Eligible Loans that are Consolidation loans is paid monthly by the Issuer to the Department of Education and no payment delays are assumed;

(t) the Reserve Fund has an initial balance equal to $1,307,534.14, and at all times a balance equal to the greater of (i) 0.65% of the Pool Balance as of the close of business on the last day of the immediately preceding Collection Period and (ii) $201,159;

(u) the Capitalized Interest Fund has an initial balance equal to $6,000,000; on the September 2023 Monthly Distribution Date, any amounts remaining in the Capitalized Interest Fund in excess of $4,400,000 shall be transferred to the Collection Fund; on the September 2025 Monthly Distribution Date, any amounts remaining in the Capitalized Interest Fund in excess of $2,400,000 shall be transferred to the Collection Fund; and on the September 2027 Monthly Distribution Date, any amounts remaining in the Capitalized Interest Fund shall be transferred to the Collection Fund and the Capitalized Interest Fund will be closed;

(v) amounts on deposit in any of the Funds or Accounts are not assumed to be reinvested;

(w) receipts received on the first of any month are assumed to be available for distribution on the immediately succeeding distribution date;

(x) prepayments on the Financed Eligible Loans are applied monthly in accordance with CPR or PPC, as described above;

(y) optional redemption from a sale of Financed Eligible Loans occurs when the outstanding Pool Balance is 10% or less of the initial Pool Balance;

(z) the Issuer makes no other purchases or originations of Eligible Loans under the Indenture; and

(aa) the initial pool of Financed Eligible Loans was grouped into 169 representative loans ("rep lines"), which have been created, for modeling purposes, from individual Financed Eligible Loans based on combinations of similar individual Financed Eligible Loans characteristics, which include, but are not limited to, interest rate, loan type, SAP index and applicable margin, repayment status and remaining term.

The tables below have been prepared based on the assumptions described above (including the assumptions regarding the characteristics and performance of the rep lines, which will differ from the characteristics and performance of the actual pool of Financed Eligible Loans) and should be read in conjunction therewith. In addition, the diverse characteristics, remaining terms and loan ages of the Financed Eligible Loans could produce slower or faster principal payments than implied by the information in these tables, even if the dispersions of weighted average characteristics, remaining terms and loan ages are the same as the characteristics, remaining terms and loan ages assumed.

Weighted Average Lives and Expected Maturity Dates of the Class A-1A Notes at Various Percentages of the PPC Model[1]

	Weighted Average Life (Years)[2]				
	0% PPC	**50% PPC**	**100% PPC**	**150% PPC**	**200% PPC**
Class A-1A Notes	7.53	6.66	6.08	5.42	4.86

	Expected Maturity Date				
	0% PPC	**50% PPC**	**100% PPC**	**150% PPC**	**200% PPC**
Class A-1A Notes	November 2035	February 2035	April 2034	June 2033	September 2032

[1] Assuming for purposes of this table that, among other things, the optional redemption occurs on the Monthly Distribution Date immediately following the date on which the Pool Balance is less than or equal to 10% of the initial Pool Balance.
[2] The weighted average life of the Class A-1A Notes (assuming a 360-day year consisting of twelve 30-day months) is determined by: (a) multiplying the amount of each principal payment on the Class A-1A Notes by the number of years from the Date of Issuance to the related Monthly Distribution Date, (b) adding the results, and (c) dividing that sum by the aggregate principal amount of the Class A-1A Notes as of the Date of Issuance.

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Weighted Average Lives and Expected Maturity Dates of the Class A-1B Notes at Various Percentages of the PPC Model[1]

	Weighted Average Life (Years)[2]				
	0% PPC	**50% PPC**	**100% PPC**	**150% PPC**	**200% PPC**
Class A-1B Notes	7.53	6.66	6.08	5.42	4.86

	Expected Maturity Date				
	0% PPC	**50% PPC**	**100% PPC**	**150% PPC**	**200% PPC**
Class A-1B Notes	November 2035	February 2035	April 2034	June 2033	September 2032

[1] Assuming for purposes of this table that, among other things, the optional redemption occurs on the Monthly Distribution Date immediately following the date on which the Pool Balance is less than or equal to 10% of the initial Pool Balance.
[2] The weighted average life of the Class A-1B Notes (assuming a 360-day year consisting of twelve 30-day months) is determined by: (a) multiplying the amount of each principal payment on the Class A-1B Notes by the number of years from the Date of Issuance to the related Monthly Distribution Date, (b) adding the results, and (c) dividing that sum by the aggregate principal amount of the Class A-1B Notes as of the Date of Issuance.

Weighted Average Lives and Expected Maturity Dates of the Class B Notes at Various Percentages of the PPC Model[1]

	Weighted Average Life (Years)[2]				
	0% PPC	**50% PPC**	**100% PPC**	**150% PPC**	**200% PPC**
Class B Notes	14.18	13.43	12.59	11.76	11.01

	Expected Maturity Date				
	0% PPC	**50% PPC**	**100% PPC**	**150% PPC**	**200% PPC**
Class B Notes	November 2035	February 2035	April 2034	June 2033	September 2032

[1] Assuming for purposes of this table that, among other things, the optional redemption occurs on the monthly distribution date immediately following the date on which the Pool Balance is less than or equal to 10% of the initial Pool Balance.
[2] The weighted average life of the Class B Notes (assuming a 360-day year consisting of twelve 30-day months) is determined by: (a) multiplying the amount of each principal payment on the Class B Notes by the number of years from the Date of Issuance to the related Monthly Distribution Date, (b) adding the results, and (c) dividing that sum by the aggregate principal amount of the Class B Notes as of the Date of Issuance.

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Percentages of Original Principal Amount of the Class A-1A Notes Remaining at Certain Monthly Distribution Dates at Various Percentages of the PPC*

Dates	0% PPC	50% PPC	100% PPC	150% PPC	200% PPC
Date of Issuance	100%	100%	100%	100%	100%
September 25, 2022	96	94	92	90	88
September 25, 2023	90	86	82	78	75
September 25, 2024	84	78	73	68	63
September 25, 2025	77	70	64	57	52
September 25, 2026	71	63	56	49	43
September 25, 2027	62	54	47	40	34
September 25, 2028	55	46	40	33	27
September 25, 2029	47	38	33	26	21
September 25, 2030	39	31	26	20	15
September 25, 2031	31	23	20	15	10
September 25, 2032	22	16	14	10	0
September 25, 2033	14	10	9	0	0
September 25, 2034	8	5	0	0	0
September 25, 2035	3	0	0	0	0
September 25, 2036	0	0	0	0	0

*Assuming for purposes of this table that, among other things, the optional redemption does occur.

Percentages of Original Principal Amount of the Class A-1B Notes Remaining at Certain Monthly Distribution Dates at Various Percentages of the PPC*

Dates	0% PPC	50% PPC	100% PPC	150% PPC	200% PPC
Date of Issuance	100%	100%	100%	100%	100%
September 25, 2022	96	94	92	90	88
September 25, 2023	90	86	82	78	75
September 25, 2024	84	78	73	68	63
September 25, 2025	77	70	64	57	52
September 25, 2026	71	63	56	49	43
September 25, 2027	62	54	47	40	34
September 25, 2028	55	46	40	33	27
September 25, 2029	47	38	33	26	21
September 25, 2030	39	31	26	20	15
September 25, 2031	31	23	20	15	10
September 25, 2032	22	16	14	10	0
September 25, 2033	14	10	9	0	0
September 25, 2034	8	5	0	0	0
September 25, 2035	3	0	0	0	0
September 25, 2036	0	0	0	0	0

*Assuming for purposes of this table that, among other things, the optional redemption does occur.

Percentages of Original Principal Amount of the Class B Notes Remaining at Certain Monthly Distribution Dates at Various Percentages of the PPC*

Dates	0% PPC	50% PPC	100% PPC	150% PPC	200% PPC
Date of Issuance	100%	100%	100%	100%	100%
September 25, 2022	100	100	100	100	100
September 25, 2023	100	100	100	100	100
September 25, 2024	100	100	100	100	100
September 25, 2025	100	100	100	100	100
September 25, 2026	100	100	100	100	100
September 25, 2027	100	100	100	100	100
September 25, 2028	100	100	100	100	100
September 25, 2029	100	100	100	100	100
September 25, 2030	100	100	100	100	100
September 25, 2031	100	100	100	100	100
September 25, 2032	100	100	100	100	0
September 25, 2033	100	100	100	0	0
September 25, 2034	100	100	0	0	0
September 25, 2035	100	0	0	0	0
September 25, 2036	0	0	0	0	0

*Assuming for purposes of this table that, among other things, the optional redemption does occur.

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APPENDIX C

FORM OF CONTINUING DISCLOSURE AGREEMENT

THIS CONTINUING DISCLOSURE AGREEMENT (the "Continuing Disclosure Agreement") is executed and delivered by the Higher Education Loan Authority of the State of Missouri (the "Obligated Person") in connection with the issuance of $197,500,000 aggregate principal amount of its Taxable Student Loan Asset-Backed Notes, Series 2021-3, consisting of its Senior Series 2021-3A-1A Notes, Senior Series 2021-3A-1B and Subordinate Series 2021-3B Notes (collectively, the "Series 2021-3 Notes"). The Series 2021-3 Notes are being issued pursuant to an Indenture of Trust, dated as of September 1, 2021 (the "Indenture"), between the Obligated Person and U.S. Bank National Association, as trustee (the "Trustee"). The Obligated Person undertakes and agrees as follows:

Section 1. Purpose of the Continuing Disclosure Agreement. This Continuing Disclosure Agreement is being executed and delivered by the Obligated Person for the benefit of the Noteholders and beneficial owners of the Series 2021-3 Notes and in order to assist the Underwriter (as defined below) in complying with the Rule (as defined below).

Section 2. Definitions. In addition to the definitions set forth in the Indenture, which apply to any capitalized term used in this Continuing Disclosure Agreement unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"*Annual Financial Information*" shall mean any Annual Financial Information provided by the Obligated Person pursuant to, and as described in, Sections 3 and 4 of this Continuing Disclosure Agreement.

"*Disclosure Representative*" shall mean the Treasurer of the Obligated Person or his or her designee, or such other person as the Obligated Person shall designate.

"*Dissemination Agent*" shall mean any Dissemination Agent designated by the Obligated Person.

"*EMMA*" means the Electronic Municipal Market Access facility for municipal securities disclosure of the MSRB.

"*Financial Obligation*" means (a) a debt obligation, (b) a derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation, or (c) a guarantee of either clause (a) or (b) above. The term "Financial Obligation" shall not include municipal securities as to which a final official statement has been provided to the MSRB consistent with the Rule.

"*Listed Event*" shall mean any of the events listed in Section 5(a) of this Continuing Disclosure Agreement.

"*MSRB*" shall mean the Municipal Securities Rulemaking Board, and any successors or assigns, or any other entities or agencies approved under the Rule.

"*Offering Memorandum*" shall mean the Offering Memorandum, dated September 9, 2021, of the Obligated Person with respect to its offering of the Series 2021-3 Notes.

"*Repository*" shall mean, until otherwise designated by the SEC, the Electronic Municipal Market Access website of the MSRB located at http://emma.msrb.org.

"*Rule*" shall mean Rule 15c2-12 adopted by the SEC under the Securities Exchange Act of 1934, as amended, as such rule may be amended from time to time.

"*SEC*" shall mean the United States Securities and Exchange Commission.

"*Underwriter*" means the "participating underwriter" as that term is defined in the Rule, and in relation to the Series 2021-3 Notes, shall mean BofA Securities, Inc. or any successors known to the Obligated Person.

Section 3. Provision of Annual Financial Information.

(a) The Obligated Person shall, or shall cause the Dissemination Agent to, not later than 180 days after the end of the Obligated Person's fiscal year, commencing with the report of the fiscal year ending June 30, 2021, provide to the Repository, at www.emma.msrb.org, in such electronic format accompanied by such identifying information (the "Prescribed Form") as shall have been prescribed by the MSRB and which shall be in effect on the date of filing of such information, the Annual Financial Information which is consistent with the requirements of Section 4 of this Continuing Disclosure Agreement.

(b) The Annual Financial Information may be submitted as a single document or as separate documents comprising a package, or by specific cross reference to other documents which have been submitted to the Repository and available to the public on the Repository's website or filed with the SEC. If the document so referenced is a final offering document within the meaning of the Rule, such final offering document must be available from the Repository. The Obligated Person shall clearly identify each such other document so incorporated by cross-reference.

(c) If the financial statements of the Obligated Person are audited, the audited financial statements of the Obligated Person must be submitted if and when available but may be submitted separately from the balance of the Annual Financial Information and later than the date required above for the filing of the Annual Financial Information if they are not available by that date.

Section 4. Content of Annual Financial Information. The Obligated Person's Annual Financial Information shall contain or incorporate by reference the following:

(a) annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America;

(b) an update and a discussion of the financial information and operating data in the Offering Memorandum under the heading "HIGHER EDUCATION LOAN AUTHORITY OF THE STATE OF MISSOURI—Members and Staff," "—Previous Financings of the Issuer" and "—Lewis and Clark Discovery Initiative; Scholarship Funding"; and under the heading "CHARACTERISTICS OF THE FINANCED ELIGIBLE LOANS";

(c) The following Indenture information:

(i) balances in the Capitalized Interest Fund, the Collection Fund, the Department SAP Rebate Fund and the Reserve Fund; and

(ii) outstanding principal amount of the Series 2021-3 Notes of each class issued under the Indenture then outstanding; and

(d) changes to the Higher Education Act having a special financial impact on the program of the Obligated Person financed by the Series 2021-3 Notes which is not generally experienced in the student loan sector.

Section 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section, the Obligated Person shall give, or cause to be given, on behalf of itself and any other persons providing undertakings under the Rule with respect to the Series 2021-3 Notes, notice to the Repository of the occurrence of any of the following events with respect to the Series 2021-3 Notes:

(i) principal and interest payment delinquencies;

(ii) non-payment related defaults, if material;

(iii) unscheduled draws on debt service reserves reflecting financial difficulties;

(iv) unscheduled draws on credit enhancements reflecting financial difficulties;

(v) substitution of credit or liquidity providers, or their failure to perform;

(vi) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Series 2021-3 Notes, or other material events affecting the Series 2021-3 Notes;

(vii) modifications to rights of Noteholders of the Series 2021-3 Notes, if material;

(viii) any call of any Series 2021-3 Notes, if material, and tender offers;

(ix) defeasances;

(x) release, substitution or sale of property securing repayment of the Series 2021-3 Notes, if material;

(xi) rating changes;

(xii) bankruptcy, insolvency, receivership, or similar event of the Obligated Person;

(xiii) the consummation of a merger, consolidation, or acquisition involving an Obligated Person or the sale of all or substantially all of the assets of the Obligated Person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material;

(xiv) appointment of a successor or additional trustee or the change of name of a trustee, if material;

(xv) incurrence of a Financial Obligation of the Obligated Person, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar

terms of a Financial Obligation of the Obligated Person, any of which affect security holders, if material; and

(xvi) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a Financial Obligation of the Obligated Person, any of which reflect financial difficulties.

(b) If the Obligated Person obtains knowledge of the occurrence of a Listed Event, the Obligated Person shall file, in a timely manner not in excess of ten (10) Business Days after the occurrence of the Listed Event, a notice of such occurrence in Prescribed Form with EMMA.

(c) The Obligated Person shall provide, in a timely manner, to the MSRB in Prescribed Form in accordance with EMMA, notice of any failure of the Obligated Person to timely provide the Annual Financial Information as specified in Section 4 hereof.

(d) If the Obligated Person changes its fiscal year, it shall provide in Prescribed Form notice of the change of fiscal year to the Trustee and to the MSRB.

Section 6. Termination of Reporting Obligation. The Obligated Person's obligations under this Continuing Disclosure Agreement shall terminate upon the earliest to occur of (a) the legal defeasance, prior redemption or payment in full of all of the Series 2021-3 Notes; or (b) the date that the Obligated Person shall no longer constitute an "obligated person" with respect to the Series 2021-3 Notes within the meaning of the Rule (or, if later, the date on which the Obligated Person determines to no longer voluntarily comply with the Rule in the event that the Rule does not apply to the Series 2021-3 Notes at the time). The Obligated Person shall file a notice of any such termination with the Repository in the Prescribed Form in accordance with EMMA.

Section 7. Dissemination Agent. The Obligated Person may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Continuing Disclosure Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent.

Section 8. Amendment: Waiver. Notwithstanding any other provision of this Continuing Disclosure Agreement, the Obligated Person may amend this Continuing Disclosure Agreement, and any provision of this Continuing Disclosure Agreement may be waived, if such amendment or waiver is consistent with the Rule, as determined by an opinion of counsel experienced in federal securities laws selected by the Obligated Person. Written notice of any such amendment or waiver shall be provided by the Obligated Person to the MSRB in Prescribed Form in accordance with EMMA, and the next Annual Financial Information shall explain in narrative form the reasons for the amendment and the impact of any change in the type of information being provided. If any amendment changes the accounting principles to be followed in preparing financial statements, the Annual Financial Information for the year in which the change is made will present a comparison between the financial statement or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

Section 9. Additional Information. Nothing in this Continuing Disclosure Agreement shall be deemed to prevent the Obligated Person from disseminating any other information, using the means of dissemination set forth in this Continuing Disclosure Agreement or any other means of communication, or including any other information in any Annual Financial Information or notice of occurrence of a Listed Event, in addition to that which is required by this Continuing Disclosure Agreement. If the Obligated Person chooses to include any information in any Annual Financial Information or notice of occurrence of a Listed Event, in addition to that which is specifically required by this Continuing Disclosure Agreement,

the Obligated Person shall have no obligation under this Continuing Disclosure Agreement to update such information or include it in any future Annual Financial Information or notice of occurrence of a Listed Event.

Section 10. Default. In the event of a failure of the Obligated Person to comply with any provision of this Continuing Disclosure Agreement, any Noteholder or beneficial owner of the Series 2021-3 Notes may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Obligated Person to comply with its obligations under this Continuing Disclosure Agreement. A default under this Continuing Disclosure Agreement shall not be deemed an Event of Default under the Indenture, and the sole remedy under this Continuing Disclosure Agreement in the event of any failure of the Obligated Person to comply with this Continuing Disclosure Agreement shall be an action to compel performance.

Section 11. Beneficiaries. This Continuing Disclosure Agreement shall inure solely to the benefit of the Obligated Person, the Dissemination Agent, the Underwriter, the Noteholders and beneficial owners from time to time of the Series 2021-3 Notes and shall create no rights in any other person or entity.

Date: September 21, 2021

HIGHER EDUCATION LOAN AUTHORITY
OF THE STATE OF MISSOURI

By ______________________________
Name ____________________________
Title _____________________________

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EXHIBIT 7

CONGRESSIONAL BUDGET OFFICE
U.S. Congress
Washington, DC 20515

Phillip L. Swagel, Director

March 13, 2023

Honorable Virginia Foxx
Chairwoman
Committee on Education and
the Workforce
U.S. House of Representatives
Washington, DC 20515

Honorable William Cassidy, M.D.
Ranking Member
Committee on Health, Education,
Labor, and Pensions
United States Senate
Washington, DC 20510

Re: Costs of the Proposed Income-Driven Repayment Plan for Student Loans

Dear Chairwoman Foxx and Ranking Member Cassidy:

This letter responds to questions you asked about the cost of the Administration's proposed rule for a new income-driven repayment (IDR) plan for federal student loans, as published by the Department of Education in the *Federal Register* on January 11, 2023.[1]

The Congressional Budget Office estimates that if the final rule was unchanged from the proposed rule, the cost of the federal student loan program would rise by about $230 billion, on a net-present-value basis, over the 2023–2033 period.[2]

- The cost of outstanding loans would rise by $76 billion, which would be recorded as an increase in the deficit in 2023, the year in which the terms of those loans would be modified; and

- The cost of new loans originated over the 2023–2033 period would rise by $154 billion, which would be recorded as adding to the deficit in the years in which loans are originated.[3]

Under current law, borrowers may choose from several income-driven and fixed-length repayment plans. For most borrowers, the proposed IDR plan would be more generous than existing IDR plans, and many borrowers selecting the proposed IDR plan would pay less in principal and interest than they would otherwise. In addition, some students who are already expected to borrow would borrow more, and additional students would borrow because of

the proposed plan's more generous terms. The expected net costs to the Treasury over the life of each cohort of loans are reported here as present values, which are calculated by discounting the government's outlays and the payments it receives, using methods specified in the Federal Credit Reform Act of 1990.[4]

The added costs are relative to CBO's February 2023 baseline projections, which account for the Administration's plan to cancel outstanding debt for certain borrowers. If the Supreme Court fully invalidates that cancellation, the cost of the proposed IDR plan would be higher because some borrowers whose loans would have been partially or entirely canceled would instead choose to repay their loans under the proposed plan. In that case, CBO estimates that the costs for outstanding loans would increase by another $46 billion in 2023.[5] Thus, without cancellation, the costs would total $276 billion for outstanding and new loans, recorded on a net-present-value basis over the 2023–2033 period.

If the Department of Education changes the proposed IDR plan before issuing the final rule or if the Supreme Court invalidates only a portion of the Administration's proposed debt cancellation (as opposed to upholding or fully invalidating the cancellation plan as discussed in this letter), CBO's estimates would differ from the amounts discussed here.

CBO's estimates for the proposed IDR plan depend on expected responses by students and postsecondary education institutions. Those factors and the uncertainty surrounding them are discussed below.[6]

Overview of the Proposed Income-Driven Repayment Plan

Student borrowers currently are eligible for several repayment plans. Payments under IDR plans are based on borrowers' income and family size (some plans cap payment amounts), and those plans offer forgiveness after a certain number of years in repayment. The proposed IDR plan would replace REPAYE, an existing IDR plan created through regulation. PAYE, another IDR plan created through regulation, would be phased out altogether. The current Income-Based Repayment (IBR) plan, created by law, would continue to be available.[7] The largest changes in the proposed IDR rule would:

- Increase the amount of income exempted from the calculation of monthly payments from 150 percent to 225 percent of the federal poverty guideline, which varies by family size. Payment amounts are calculated on the basis of discretionary income, defined as income above the exempted amount.

- Reduce from 10 percent to 5 percent the amount of discretionary income that borrowers must pay if they have undergraduate loans only. Borrowers with only graduate loans would continue to pay 10 percent of their discretionary income. Borrowers with undergraduate and graduate loans would pay a percentage of their discretionary income based on the weighted average of their combined loan amounts. The existing IBR plan requires all borrowers to pay 10 percent of their income above 150 percent of the applicable federal poverty guideline, but it caps payments at the amount the borrower would have paid upon entering repayment under the standard 10-year plan. Consequently, some higher-income borrowers could pay less each month in the IBR plan.

- Eliminate accrual of unpaid interest when a borrower's payment does not cover the entire amount of interest due. Current IDR plans either waive 50 percent of that interest or waive none at all. The IBR plan generally does not waive any interest.

- Allow student borrowers who initially borrowed less than $22,000 to have their outstanding balance forgiven after 10 to 20 years in repayment, depending on the amount borrowed. Undergraduate borrowers with a balance above that amount would receive forgiveness after 20 years in repayment; graduate borrowers would receive forgiveness after 25 years. In this regard, the proposed IDR plan would be less generous for some graduate borrowers than the IBR plan, which permits graduate loans to be forgiven after 20 years in repayment.

- Authorize the Department of Education to automatically enroll borrowers in an IDR plan if their payments are 75 days delinquent and if they have authorized disclosure of income and tax return information to the department.

Estimated Costs of the Proposed IDR Plan: Outstanding Loans

At the end of fiscal year 2022, the amount of outstanding direct loans to students, excluding loans to parents, totaled $1.3 trillion. (That amount does not account for the Administration's planned cancellation of loans.) Data from the department indicate that about 50 percent of the volume of direct student loans in a repayment plan is owed by borrowers in an IDR plan. In CBO's February 2023 baseline projections, around $900 billion of the $1.3 trillion total remains after the Administration's planned loan cancellation; 57 percent of that volume is in IDR plans.[8]

Under the proposed rule and in keeping with an assumption that the Administration's loan cancellation will take effect, CBO estimates that the outstanding volume in IDR plans would increase to 66 percent, as borrowers in fixed-length repayment plans select the proposed IDR plan and as eligible borrowers whose loans are 75 days delinquent are automatically enrolled in that plan. If the Supreme Court fully invalidates the Administration's planned loan cancellation, CBO estimates that outstanding volume in IDR plans would increase from about 50 percent to about 60 percent.

To assess the likelihood of borrowers' choosing to enroll in the proposed IDR plan, CBO developed a statistical model using historical usage rates for income-driven repayment plans that is based on data from the National Student Loan Data System (NSLDS)—discussed below in "Sources of Evidence." The model uses the present value of the payment reduction that borrowers could receive under the proposed IDR plan to determine the likelihood of their changing plans. Because the payment reduction under the proposed plan is larger than the reduction for existing plans, CBO expects that borrowers would be more likely to choose the proposed IDR plan.

To project rates of automatic enrollment in the proposed IDR plan, CBO analyzed historical data from the NSLDS concerning borrowers with delinquent balances.[9]

Estimated Costs of the Proposed IDR Plan: New Loans

In the absence of the proposed IDR plan, and excluding loans to parents, CBO projects that under current law about $900 billion in new loans will be originated over the 2023–2033 period. On average, in CBO's assessment, 52 percent of that volume each year will be originated to borrowers who eventually choose an IDR plan; that includes 34 percent of undergraduate loan volume and 66 percent of graduate loan volume.

Selection of IDR Plans by Borrowers Currently Projected to Use an IDR Plan. CBO anticipates that before any increase in IDR enrollment, about 80 percent of the loan volume originated to borrowers who are projected to enroll in IDR plans will be repaid under the proposed IDR plan; the remaining 20 percent will be originated to borrowers who select the IBR plan. That estimate incorporates CBO's expectation that some borrowers would select the IBR plan because its terms would be more generous if their income or debt falls within certain ranges.

Increased Use of IDR Plans. CBO projects that under the proposed IDR plan, loan volume would be shifted away from fixed-length repayment plans and into IDR plans. The share of loan volume originating to borrowers who

eventually enroll in any IDR plan would increase from 52 percent to 73 percent. That change in volume incorporates increases from 34 percent to 66 percent for undergraduate loans and from 66 percent to 79 percent for graduate loans, arising from two main factors:

- More borrowers are likely to benefit from the proposed IDR plan and would select it rather than a fixed-length repayment plan. CBO used the methodology previously discussed to assess the likelihood of borrowers' choosing that plan.

- Nearly all borrowers whose payments are 75 days delinquent would automatically be enrolled in the proposed IDR plan. As was the case for estimating cohorts of outstanding loans, CBO's analysis relies on data from the NSLDS.

Increased Borrowing. CBO estimates that under the proposed IDR plan, by fiscal year 2027 the total volume of student borrowing would rise by about 12 percent annually (or about $10 billion) above the amounts in the February 2023 baseline. That represents an increase of about 15 percent in undergraduate borrowing and about 10 percent in graduate borrowing. Almost all of the expected increase in borrowing would be by students who ultimately would participate in the proposed IDR plan. In CBO's assessment, the rise in volume would be an expected consequence of two main factors:

- Students who already would be expected to take out federal loans would borrow more because the proposed IDR plan would make borrowing less costly.

- Some students who would not borrow under current law would take out loans as they and postsecondary institutions respond to the availability of the proposed IDR plan.

CBO expects that most of the higher loan volume would come from students who, although they already fill out the Free Application for Federal Student Aid, either do not borrow at all or borrow less than they could. Currently, about half of undergraduate borrowers do not take out the maximum amount available to them in subsidized and unsubsidized loans (those amounts are bounded by statutory limits). Roughly half of graduate borrowers do not take out the maximum in unsubsidized Stafford loans, and only about 30 percent of graduate borrowers take out GradPLUS loans, which are limited only by the cost of attendance.

Because few researchers have examined whether people are more likely to borrow if they have access to loans with better terms, CBO's analysis in part used research concerning postsecondary grant programs and student borrowing limits. In CBO's judgment, it would be difficult for most students to evaluate their potential savings from the proposed IDR plan the way they assess grant offers. Consequently, the possibility of repaying loans under the proposed IDR plan would probably have a substantially smaller effect on their decisionmaking than would the prospect of grant offers. Similarly, policy changes affecting limits on amounts students could borrow would have different effects on their decisions about how much to borrow than would changes to loan terms while the limits on amounts borrowed remain intact.

Some research indicates that changes in loan generosity in the form of the availability of lower interest rates can lead to small increases in borrowing. To inform the estimates here, CBO compared the proposed IDR plan's value to borrowers with the value of a change in interest rates alone.

In addition, there is some evidence that postsecondary institutions can influence students' borrowing decisions by including loan offers in financial aid letters, and CBO anticipates that the proposed IDR plan would lead more institutions to recommend federal loan programs to students who would not otherwise borrow.

CBO expects that some institutions will raise tuition in response to increased borrowing under the proposed plan. That, in turn, would probably lead to more borrowing.

The automatic enrollment of delinquent borrowers into the proposed IDR plan also would probably lead to increased borrowing, especially among students enrolled in for-profit institutions and community colleges. Currently, if too high a percentage of borrowers from an institution default on their loans within three years after entering repayment, that institution can become ineligible for federal financial aid. Some schools do not participate in the loan program or discourage borrowing in part to help maintain their eligibility. The proposed IDR plan would prevent or delay many early defaults, thus reducing the likelihood that institutions could lose eligibility under this metric even if the number of enrolled borrowers increased.

The Administration has announced plans to issue a proposed rule about gainful employment in April 2023 that could offset some of the increased borrowing. A previous gainful-employment rule, which required institutions to meet benchmarks for debt-to-earnings rates among people who complete programs, was repealed in 2019.

Sources of Evidence

For this analysis, CBO used administrative data from the NSLDS for a representative sample of borrowers, along with survey data from the National Postsecondary Student Aid Study. The agency supplemented that information with other data as inputs to project borrowers' lifetime earnings and repayment of loans.[10] CBO also consulted with a range of experts on postsecondary student aid and reviewed literature on postsecondary enrollment, tuition, and borrowing.

Baseline Treatment

The rules that CBO follows when it updates baseline projections include a long-standing convention for incorporating the effects of proposed and final rules. The current baseline, which was completed before the publication of the proposed rule, has been adjusted since it was released in February 2023 to incorporate 50 percent of the estimated costs of the proposed IDR plan.[11] Thus, if legislation permanently blocked the proposed IDR plan, CBO would project that direct spending for student loans would decrease by $115 billion, or 50 percent of the total, over the 2023–2033 period.[12]

Once the Department of Education publishes a final rule, CBO will update its estimate to account for any changes, and the baseline will incorporate 100 percent of the estimated cost. CBO also will update the baseline if the Supreme Court issues a decision that fully or partially invalidates the Administration's planned loan cancellation.

Each spring, CBO typically releases updated budget projections in conjunction with its analysis of the President's budgetary proposals. Updates of the factors underpinning CBO's estimates of the federal student loan program could change the estimated costs described here.

Comparison With the Department of Education's Estimate

In its January 11, 2023, publication in the *Federal Register,* the Department of Education estimated that the total cost of implementing the proposed IDR plan would be $138 billion over the 2023–2032 period. The department's total includes increased costs of $77 billion for outstanding loans and $61 billion for new loans originated over the 2023–2032 period.

Most of the differences between CBO's and the department's estimated costs stem from the department's assumptions that there would be no increase in enrollment in the proposed IDR plan among current or future borrowers and no increase in borrowing among eligible students in the future. The

department's estimate also covers the period from 2023 to 2032, one year less than the 11-year projection period for CBO's February 2023 baseline.

Aside from those important factors (and without regard to differences in CBO's and the department's assessments of students' decisions about borrowing), differences between the two sets of estimates may be found in projected income, tax-filing status, interest rates, discount rates, loan volume, and baseline enrollment in IDR plans.

Uncertainty of Estimates

Although CBO has endeavored to develop estimates of the budgetary effects of the proposed IDR plan that are in the middle of the distribution of potential outcomes, those estimates are highly uncertain. In particular, it is difficult to anticipate the ways students and postsecondary institutions would respond to the availability of the plan. If more or fewer borrowers enroll in the proposed IDR plan or if additional borrowing grows by more or less than CBO projects, the costs could differ significantly from those presented here. For example, broader publicity about the plan could generate unprecedented use and larger costs. Alternatively, use and costs could be low, as they have been in the past for repayment plans that appeared to be more generous than existing plans—perhaps because IDR plans are complex and the total amount borrowers will pay can initially be unclear.

In addition, estimating repayments and forgiveness for borrowers in IDR plans requires projecting borrowers' earnings, rates of fertility and marriage, and tax-filing decisions—all of which are inherently uncertain. The uncertainty is further complicated by difficulty in anticipating changes in the composition or characteristics of enrollees in the proposed IDR plan relative to those under current law.

I hope this information is helpful to you. Please let me know if you have further questions.

Sincerely,

Phillip L. Swagel
Director

cc: Honorable Robert C. "Bobby" Scott
Ranking Member
House Committee on Education and the Workforce

Honorable Bernie Sanders
Chair
Senate Committee on Health, Education, Labor, and Pensions

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1. See "Improving Income-Driven Repayment for the William D. Ford Federal Direct Loan Program," 88 Fed. Reg. 1894 (January 11, 2023), https://tinyurl.com/465r5ad3.

2. A present value is a single number that expresses a flow of current and future income or payments in terms of an equivalent lump sum received or paid at a specific time. The value depends on the rates of interest, known as the discount rates, used to translate future cash flows into current dollars. The Federal Credit Reform Act of 1990 specifies those discount rates as the rates on Treasury securities with similar terms to maturity.

3. This represents CBO's estimate of the change in the cost of the federal student loan programs. It does not include any changes in spending for other federal programs, such as the Federal Pell Grant Program, or any changes in revenues stemming from changes in deductible interest payments, amounts of loan forgiveness subject to taxation, or taxpayers' filing status.

4. A cohort is a set of loans originated during the same fiscal year.

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5. In fiscal year 2022, the Administration recorded a cost of $379 billion for loan cancellation—its estimate of the net present value of that proposal. If the Supreme Court invalidates the cancellation in its entirety, CBO expects that the Administration would record savings of a similar amount in fiscal year 2023. The deficit for 2022 would not change, but the deficit for 2023 would be lower by a roughly offsetting amount.

   For details about debt cancellation, see Alexandra Hegji, *The Biden Administration's One-Time Student Loan Debt Relief Policy,* Report IN11997, version 7 (Congressional Research Service, December 29, 2022), https://tinyurl.com/yc27b3cj.

6. This letter describes expected increases in the use of IDR plans and in borrowing, which CBO estimates would have the largest effects on the cost of the proposed plan. The estimate of costs also incorporates other responses by borrowers, such as an increase in the number of married borrowers whose federal tax filing status would change to filing separately and in the use of Public Service Loan Forgiveness, which are not described here.

7. For information about the history and details of existing IDR plans, see Alexandra Hegji, David P. Smole, and Elayne J. Heisler, *Federal Student Loan Forgiveness and Loan Repayment Programs,* Report R43571, version 11 (Congressional Research Service, November 20, 2018), https://tinyurl.com/4mmvs5xe.

8. The percentage totals in this letter are percentages of dollar volume rather than percentages of borrowers. In addition, the totals include only federal loans to students and exclude loans to parents, who generally do not enroll in income-driven repayment plans.

9. Under the Administration's suspension of loan payments and its Fresh Start initiative, no outstanding loans are currently considered delinquent.

10. For a technical description of CBO's modeling of income-driven repayment plans, see Nadia Karamcheva, Jeffrey Perry, and Constantine Yannelis, *Income-Driven Repayment Plans for Student Loans*, Working Paper 2020-02 (Congressional Budget Office, April 2020), www.cbo.gov/publication/56337.

11. For more information about the treatment of rules in the baseline, see Congressional Budget Office, *How CBO and JCT Analyzed Coverage Effects of New Rules for Association Health Plans and Short-Term Plans* (January 2019), www.cbo.gov/publication/54915, and Congressional Budget Office, letter to the Honorable John M. Spratt Jr. explaining how CBO reflects anticipated administrative actions in its baseline projections (May 2, 2007), www.cbo.gov/publication/18615.

12. For the purposes of estimating the budgetary effects of any proposed legislation, CBO will use its own estimate of changes to the costs of outstanding future cohorts of loans. The amounts recorded in the budget will be determined by the Administration's Office of Management and Budget. For the purposes of projecting the deficit, CBO's baseline will incorporate the cost for outstanding loans as recorded by the Administration. CBO will report those amounts in its *Monthly Budget Review* after they are recorded.

EXHIBIT 8

Congressional Budget Office
Cost Estimate

September 18, 2023

At a Glance

H.J. Res. 88, a joint resolution providing for Congressional disapproval under chapter 8 of title 5, United States Code, of the rule submitted by the Department of Education relating to "Improving Income Driven Repayment for the William D. Ford Federal Direct Loan Program and the Federal Family Education Loan (FFEL) Program"

As ordered reported by the House Committee on Education and the Workforce on September 14, 2023

By Fiscal Year, Millions of Dollars	2023	2023-2028	2023-2033
Direct Spending (Outlays)	-129,400	-190,800	-260,700
Revenues	0	0	0
Decrease (-) in the Deficit	-129,400	-190,800	-260,700
Spending Subject to Appropriation (Outlays)	not estimated	not estimated	not estimated

Increases *net direct spending* in any of the four consecutive 10-year periods beginning in 2034?	No
Increases *on-budget deficits* in any of the four consecutive 10-year periods beginning in 2034?	No
Statutory pay-as-you-go procedures apply?	Yes
Mandate Effects	
Contains intergovernmental mandate?	No
Contains private-sector mandate?	No

The resolution would

- Repeal the income-driven repayment plan for new and existing student loan borrowers created by the final rule published by the Department of Education on July 10, 2023, and prohibit the department from creating a similar plan in the future.

Estimated budgetary effects would mainly stem from

- Increased future repayments of principal and interest on student loans from repeal of the new income-driven repayment plan (which on average reduces payments for borrowers) thereby reducing the costs of those loans

Areas of significant uncertainty include

- Estimating the amount of payments from borrowers with and without the income-driven repayment plan
- Estimating the enrollment of the new income driven repayment plan versus other repayment options

Detailed estimate begins on the next page.

See also
CBO's Cost Estimates Explained, *CBO Describes Its Cost-Estimating Process*, *Glossary*

Resolution Summary

H.J. Res. 88 would disapprove the final rule relating to "Improving Income Driven Repayment for the William D. Ford Federal Direct Loan Program and the Federal Family Education Loan (FFEL) Program" issued by the Department of Education and published in the *Federal Register* on July 10, 2023. (That rule created a new income-driven repayment plan called Saving on a Valuable Education, or SAVE.) The resolution would invoke a legislative process established by the Congressional Review Act, which would repeal the rule and prohibit the department from issuing the same or similar rules in the future.

Estimated Federal Cost

The costs of the legislation, detailed in Table 1, fall within budget function 500 (education, training, employment, and social services).

Table 1.
Estimated Changes in Direct Spending Under H.J. Res. 88

	By Fiscal Year, Billions of Dollars												
	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2023-2028	2023-2033
	Decreases (-) in Direct Spending												
Estimated Budget Authority	-129.4	-11.8	-13.0	-14.1	-15.6	-15.6	-15.8	-15.8	-15.8	-16.1	-16.2	-199.5	-279.2
Estimated Outlays	-129.4	-10.3	-11.4	-12.4	-13.6	-13.7	-13.8	-13.9	-13.9	-14.0	-14.3	-190.8	-260.7

Basis of Estimate

For this estimate, CBO assumes that the resolution will be enacted before the end of fiscal year 2023. The estimate is relative to CBO's May 2023 baseline, which incorporates the final rule on the SAVE plan published on July 10, 2023.

As required under the Federal Credit Reform Act of 1990 (FCRA), most of the costs of the federal student loan program are estimated on a net-present-value basis. A present value is a single number that expresses a flow of current and future payments in terms of an equivalent lump sum received or paid today. Under FCRA, the present value of all loan-related cash flows is calculated by discounting those expected cash flows to the year of disbursement, using the rates for comparable maturities on Treasury borrowing. For changes to the cost of outstanding loans, the estimated costs or savings are shown in the year in which the legislation making those changes is enacted.

For more information about how CBO estimated this proposal, see the letter transmitted on March 13, 2023.[1]

Background

The July rule created a new income-driven repayment (IDR) plan, called SAVE. In an IDR plan, monthly loan payments are based on the borrower's income and family size and the remaining loan balance is forgiven after a certain period of time in repayment, usually 20 or 25 years. The SAVE plan replaced the Revised Pay-As-You-Earn (REPAYE) repayment plan, one of several existing IDR plans available to borrowers.

In comparison to the REPAYE plan and other IDR plans, the SAVE plan:

- Increases the amount of income exempted from the calculation of monthly payments from 150 percent to 225 percent of the federal poverty guideline, which varies by family size. Payment amounts are calculated based on discretionary income, defined as income above the exempted amount.
- Eliminates accrual of unpaid interest when a borrower's payment does not cover the entire amount of interest due. (The former REPAYE plan waived 50 percent of that interest.)

Beginning in July 2024, the SAVE plan also:

- Reduces from 10 percent to 5 percent the amount of discretionary income that borrowers must pay if they have undergraduate loans only. Borrowers with only graduate loans would continue to pay 10 percent of their discretionary income. Borrowers with undergraduate and graduate loans would pay a percentage of their discretionary income based on the weighted average of their combined loan amounts.
- Allows student borrowers who initially borrowed less than $22,000 to have their outstanding balance forgiven after 10 to 20 years in repayment, depending on the amount borrowed. (Undergraduate borrowers with a balance above that amount would receive forgiveness after 20 years in repayment; graduate borrowers would receive forgiveness after 25 years, which is not a change from the old REPAYE plan.)
- Authorizes the Department of Education to automatically enroll borrowers in an IDR plan if their payments are 75 days delinquent and if they have authorized disclosure of income and tax return information to the department.

1. See Congressional Budget Office, letter to the Honorable Virginia Foxx and the Honorable William Cassidy, concerning the costs of the proposed income-driven repayment plan for student loans (March 13, 2023), www.cbo.gov/publication/58983.

Direct Spending
CBO estimates that enacting H.J. Res. 88 would reduce direct spending, on a net-present-value basis, by $129.4 billion in 2023, and by $260.7 billion over the 2023-2033 period. CBO expects that, on average, borrowers who enroll in the SAVE plan will pay less in principal and interest than they would if that plan were no longer available. The estimated savings is the present value of the borrowers' projected payments of principal and interest on student loans before accounting for the repeal of that policy, minus the present value of payments after doing so. Under both scenarios, the present value is calculated by discounting the payments the government receives, using methods specified in FCRA.

Outstanding Loans. CBO estimates that borrowers will hold a total of $1.4 trillion in outstanding direct loans to students, excluding loans to parents, by the end of fiscal year 2023. If the SAVE plan were repealed, CBO expects that borrowers would make higher payments, on average, and that fewer borrowers would pay using income-driven repayment. Under current law and regulations, CBO estimates that about 60 percent of outstanding loan volume to students will be repaid in an IDR plan. If the SAVE plan were eliminated, the agency expects that the percentage of outstanding volume repaid in an IDR would drop to 50 percent. In total, CBO estimates that enacting H.J. Res 88 would increase future cash inflows from borrowers with outstanding loans by $129.4 billion on a net-present value basis, which is shown as a reduction in direct spending in 2023.

Loans Originated in Years 2024 Through 2033. CBO projects that about $900 billion in new loans will be originated to students over the 2024–2033 period. CBO expects that more students will choose to take out loans, and more students will enroll in an income-driven repayment plan with the SAVE plan available than if it were eliminated. The share of loan volume originated to student borrowers who eventually enroll in any IDR plan would decrease from about 70 percent of volume to about 50 percent. That decrease would stem from two factors:

- Borrowers would be less likely to select an IDR plan because the remaining plans would be less generous than the SAVE Plan, and
- The department would no longer automatically enroll borrowers who are 75 days delinquent into an IDR plan.

Further, CBO estimates that loan volume originated to students over the 2024 though 2033 period would decline by about 8 percent if the SAVE plan were to be eliminated, primarily because repayment options in the loan program would be less generous, on average, and because expected institutional responses to the availability of the plan would not occur.

In total, CBO estimates that enacting H.J Res. 88 would decrease the costs of future cohorts of loans by $131.3 billion on a net-present value basis.

Sources of Data. For this analysis, CBO used administrative data from the National Student Loan Data System for a representative sample of borrowers, along with survey data from the National Postsecondary Student Aid Study. We supplemented that information with other data as inputs to project borrowers' lifetime earnings and repayment of loans.[2] CBO also consulted with a range of experts on postsecondary student aid and reviewed literature on postsecondary enrollment, tuition, and borrowing.

Spending Subject to Appropriation

Additional funding to administer the student loan program is provided each year in appropriation acts. In fiscal year 2023, the Congress appropriated $2.0 billion for student aid administration, which is used to administer student loans and other student aid programs. CBO has not estimated the impact on the amount of funding that would be needed to administer the student loan program if H.J. Res 88 were enacted. Any change in spending would be subject to the availability of appropriated funds.

Uncertainty

Although CBO has endeavored to develop an estimate of H.J. Res. 88 that is in the middle of the distribution of potential outcomes, those estimates are highly uncertain. In particular, it is difficult to anticipate the ways students and postsecondary institutions will respond to the availability of the plan. If more or fewer borrowers enroll in the SAVE plan or if additional borrowing grows by more or less than CBO projects, the costs could differ significantly from those presented here. The uncertainty is further complicated by difficulty in anticipating changes in the composition or characteristics of enrollees in the new IDR plan relative to those currently participating.

Pay-As-You-Go Considerations

The Statutory Pay-As-You-Go Act of 2010 establishes budget-reporting and enforcement procedures for legislation affecting direct spending or revenues. The net changes in outlays that are subject to those pay-as-you-go procedures are shown in Table 1.

Increase in Long-Term Net Direct Spending: None.

Mandates: None.

Previous CBO Estimates

On March 13, 2023, CBO published a letter detailing the estimated budgetary effects of the proposed rule for the new IDR, as published by the Department of Education in the *Federal Register* on January 11, 2023. In that letter, CBO estimated that the new IDR plan would

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2. For a technical description of CBO's modeling of income-driven repayment plans, see Nadia Karamcheva, Jeffrey Perry, and Constantine Yannelis, Income-Driven Repayment Plans for Student Loans, Working Paper 2020-02 (Congressional Budget Office, April 2020), www.cbo.gov/publication/56337.

increase the cost of the federal student loan program by $276 billion over the 2023-2033 period, assuming the Supreme Court fully invalidated the Administration's plan to cancel outstanding debt. That estimate was relative to CBO's February 2023 baseline projections.

The estimate of the final rule reflects several changes from the estimate of the proposed rule. First, it has been updated to reflect the assumptions in CBO's May 2023 baseline, which projects less overall volume originated over the 2024-2033 period than in the February 2023 baseline. The estimated cost of the new IDR plan is lower under the assumption that less volume will be originated in the future.

In addition, this estimate incorporates the effects of the proposed rule relating to "Financial Value Transparency and Gainful Employment (GE), Financial Responsibility, Administrative Capability, Certification Procedures, Ability to Benefit (ATB)," as published by the Department of Education in the *Federal Register* on May 19, 2023. As standard practice, CBO incorporates 50 percent of the budgetary effects of proposed rules into its baseline and estimates. CBO expects that the proposed rule on gainful employment, which requires institutions to meet benchmarks for debt-to-earnings rates, will reduce some of the additional borrowing that would have otherwise occurred.

Finally, it reflects small differences between the proposed and final rule. Under the final rule, several benefits of the SAVE plan, such as reduction in the amount of discretionary income that borrowers must pay if they have undergraduate loans only, do not start until July 2024. Under the proposed rule, those benefits were immediately available.

Other Estimates

In the final rule published on July 10, 2023, the Department of Education estimated that the SAVE Plan will cost $156 billion over the 2023-2033 period. Of that total, the department estimates the cost for existing loan cohorts will total $70.9 billion, about $59 billion lower than CBO's estimate. Much of that difference stems from the fact that the department's estimate incorporates the costs of the Administration's plan to cancel up to $20,000 in outstanding balances for eligible borrowers. This assumption makes the estimated costs for outstanding loans much lower than if that assumption had not been included. The Supreme Court invalidated the loan cancellation plan on June 30, 2023.

The department estimated an additional cost of $85.1 billion for loan cohorts originated from 2024 to 2033, about $46 billion lower than CBO's estimate. Most of the difference between CBO's and the department's estimated costs for future loans stems from the fact that the department did not include any costs for increased borrowing among eligible students in the future.

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