




**Midwest Association of Student
Financial Aid Administrators**




**Income Based Repayment
and
Public Service Loan Forgiveness**

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Income Based Repayment


- Background
- IBR Eligibility
- Key Terms and Factors
- IBR Calculation
- Repayment Terms
- Counseling and Disclosure
- Forgiveness


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Background


- Based on Five-Point Plan for Fair Loan Payments
 - Developed by Project on Student Loan Debt
- Included in College Cost Reduction and Access Act (CCRAA)
 - Passed in Fall 2007; Public Law 110-84
- Final Rule – October 23, 2008


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IBR Eligibility



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What is IBR?


- Income based repayment (IBR)
- New repayment plan as of July 1, 2009
- Designed to help borrowers with unmanageable payments relative to income
- Payments capped at a percentage of disposable income



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Who is Eligible?

- Available for borrowers with:
 - Stafford, SLS, Grad PLUS, and Consolidation loans
 - Perkins, HPSL, HEAL, and FISL loans eligible if included in a FFELP or DL Consolidation loan
- Not available for:
 - Parent PLUS loans or Consolidation loans that include Parent PLUS loans
 - Private (or "alternative") student loans
 - Loans in default



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Who is Eligible?

- Available to *all* FFELP and DL borrowers beginning July 1, 2009
 - Former, current, and future
- Borrower has to demonstrate hardship with current payments to qualify



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Key Terms and Factors



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Partial Financial Hardship (PFH)

- PFH = annual payment amount on all eligible loans exceeds 15% of difference between borrower's adjusted gross income (AGI) and 150% of poverty line for borrower's family size
- Determining factors:
 - Payment amount
 - AGI
 - Poverty guidelines
 - Family size



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Partial Financial Hardship (PFH)

- 1½ (150%) of poverty line is protected income
 - Minimum needed to live
- Disposable income is what is above 1½ poverty line
- Intent – not to have student loan payments exceed 15% of disposable income



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Payment Amount

- Based on standard 10-year repayment plan
- Balance at the time of “entering repayment”
 - Issue – may not be reflective of borrower’s true repayment obligation for some
- Upcoming regulatory change – based on the greater of:
 - Balance at time of entering repayment
 - Balance at time of requesting IBR



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Adjusted Gross Income (AGI)

- Based on filed tax return
 - IRS Consent form 4506-T
 - Other documentation acceptable for non-filers
 - Lenders can accept signed tax forms
- Single borrower: borrower’s AGI
- Married borrower filing separately: only borrower’s AGI considered



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Adjusted Gross Income (AGI)

- Married borrower filing jointly: both spouses AGI considered
 - Created a "penalty" when both spouses have loan debt
 - Upcoming regulatory change to cap payment at 15%
 - Example:
 - PFH calculated on total debt (both spouses' loans)
 - Husband has 60% of debt; wife has 40% of debt
 - IBR payment will be applied accordingly – 60% to husband's debt and 40% to wife's debt



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2009 Poverty Guidelines

Number in Household	Poverty Guideline	150% of Poverty Guideline
1	\$10,830	\$16,245
2	\$14,570	\$21,855
3	\$18,310	\$27,465
4	\$22,050	\$33,075
5	\$25,790	\$38,685
6	\$29,530	\$44,295
7	\$33,270	\$49,905
8	\$37,010	\$55,515

Published by Dept. of Health and Human Services in Federal Register dated January 23, 2009, for the 48 Contiguous States and DC; amounts higher in AK and HI



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Family Size


- Self-certified annually
- Includes borrower, spouse, children, unborn children, and others who live with borrower and receive >50% support during given year
 - Support includes money, gifts, loans, housing, food, clothes, car, medical and dental care, and payment of college costs
- Defaults to one if borrower does not provide




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IBR Calculation




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PFH Formula

- Annual standard payment > 15% of X
 - X = AGI – 150% of poverty line (for state of residence)
- If PFH exists:
 - Monthly payment capped at 15% of X
- Example:
 - Family size of 3
 - Monthly income \$3750; 150% of poverty line = \$2289
 - Difference = \$1,461.25 X 15% = \$219.19
 - Current payment = \$327.59
 - \$327.59 > \$219.19 – PFH exists



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Maximum Income Examples


Family Size = 1		Family Size = 3	
Loan Debt	AGI	Loan Debt	AGI
\$10,000	\$25,450	\$10,000	\$36,670
\$15,000	\$30,053	\$15,000	\$41,273
\$25,000	\$39,360	\$25,000	\$50,480
\$35,000	\$48,466	\$35,000	\$59,686
\$50,000	\$62,276	\$50,000	\$73,496
\$100,000	\$108,308	\$100,000	\$119,528

Assumes interest rate of 6.8% and poverty line for 48 contiguous states or DC



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Determining PFH

- Lender verifies PFH and minimum monthly payment calculation initially and annually thereafter
- If borrower selects IBR but fails to submit documentation, placed in standard repayment plan
- Borrower can elect to remain in IBR even if/when no longer meets hardship requirement



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IBR Repayment Terms

- IBR brings complexity for lenders
- To assist, lending community developed identifying terms:
 - Standard-Standard
 - Permanent-Standard
 - Expedited-Standard



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Standard-Standard

- Payment amount calculated when borrower initially enters repayment
- Based on standard 10-year term
- Calculated for all borrowers who enter repayment on or after July 1, 2009
- Used to determine eligibility of payments that count towards IBR loan forgiveness



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Permanent-Standard

- Payment amount calculated when borrower enters IBR plan
- Based on a new standard 10-year term
- Maximum payment amount borrower required to make while in IBR plan
 - When no longer have PFH



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Expedited-Standard

- Payment amount calculated once borrower voluntarily elects to leave IBR plan
- Amount is calculated using remaining loan term based on a standard repayment plan



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Expedited-Standard

- Unlike for deferment or forbearance, borrower does not regain months spent in IBR when recalculating terms upon leaving IBR
- Borrower must enter expedited-standard repayment plan when terminating repayment under IBR
 - Borrower not required to stay in expedited-standard 10-year repayment plan





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IBR Payment

- Annual payments limited to 15% of amount by which AGI exceeds 150% of poverty line based on family size
- 15% [AGI – (150% Poverty line applicable to family size)] divided by 12
- Payment adjusted annually based on changes in AGI and family size
- Negative amortization can occur
- Calculated IBR payment can be \$0




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IBR Payment

- Subsidized Stafford only:
 - If payment does not pay interest, Department will pay for first three years
- Interest continues to accrue on unsubsidized and Grad PLUS
 - Also on subsidized Stafford after three years of subsidy




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IBR Payment


- Calculators:
 - www.IBRinfo.org
 - www.finaid.org
 - www.studentaid.ed.gov (student portal)




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Repayment Terms



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Multiple Loans and Lenders


- Borrower must contact each lender separately to request IBR
- Lender must include all eligible loans held unless borrower requests otherwise
- Each lender must include loans held by other lenders in payment calculations, then prorate based on principal amount held by that loan holder
- Department approved use of NSLDS by lenders to determine amount owed on eligible loans held by other lenders



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Repayment Terms

- Can extend beyond 10 years regardless of amount of debt
- Payment application order different than other repayment plans
- Applied to:
 - Interest
 - Interest paid on subsidized loans (3 years)
 - Interest capitalized when borrower no longer demonstrates PFH
 - Loan fees
 - Principal






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Special Payment Rules

- Calculated payment amount less than \$5 = \$0 payment amount due
- Calculated payment amount between \$5 to \$10 = \$10 payment amount due


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Recalculation of Payment Amount

- Occurs when borrower:
 - No longer has partial financial hardship (PFH)
 - No longer wants IBR
- Maximum monthly payment must not exceed monthly payment calculated under a 10-year repayment plan at the time borrower entered IBR (permanent-standard amount)


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Recalculation of Payment Amount (cont.)

- Repayment period may still exceed 10 years when borrower no longer qualifies for PFH or does not renew IBR (permanent-standard)
- Repayment period limited to years remaining if borrower chooses to leave IBR (expedited-standard)


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Paying Ahead

- Borrower permitted to pay ahead, but forgiveness may not occur until 25th year is reached
- Cannot pay ahead on a \$0 monthly payment amount




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Interest Capitalization

- Interest must be capitalized:
 - When borrower no longer has a PFH
 - Borrower does not have to leave IBR altogether
 - When borrower chooses to leave IBR
 - Payment amount recalculated to expedited-standard

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Counseling and Disclosure

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Repayment Comparisons

\$20,000 income and family size of 1

Loan Debt	\$10,000	\$20,000	\$35,000
IBR (PFH) Payment*	\$46.94	\$46.94	\$46.94
Standard Payment	\$115.08	\$230.16	\$402.78
Extended Payment	N/A	N/A	\$242.93
Graduated Payment	\$56.67/ \$135.34	\$113.33/ \$270.69	\$198.33/ \$473.70

*IBR payment may not fully cover accruing interest and there would be no reduction to principal



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Repayment Comparisons

\$50,000 income and family size of 1

Loan Debt	\$30,000	\$50,000	\$65,000
IBR (PFH) Payment*	\$296.94	\$296.94	\$296.94
Standard Payment	\$345.24	\$575.40	\$748.02
Extended Payment	N/A	\$347.04	\$451.15
Graduated Payment	\$170.00 \$406.03	\$283.33 \$676.72	\$368.33 \$879.74

*IBR payment may not fully cover accruing interest and there would be no reduction to principal



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Exit Counseling

- Schools must inform borrowers of repayment plans available, including IBR
 - Include description of features of IBR
 - Sample information showing average anticipated monthly payments
 - Difference in interest paid and total payments under IBR plan






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Disclosures

- Lenders must provide borrowers with notice on availability of IBR
 - At time of offering borrower a loan
 - At time of offering borrower repayment options


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Disclosures (cont.)

- Notice must inform borrower of:
 - Eligibility for income-sensitive repayment (ISR) and possible eligibility for IBR, including through loan consolidation
 - Procedures by which borrower can elect ISR or IBR
 - Where and how borrower may obtain more information concerning ISR and IBR


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Is IBR the Right Plan?

- Do I have a PFH?
- Will another repayment plan work better?
 - Higher payment and shorter term
 - Lower payment and longer term
- Am I eligible for a deferment or forbearance?
- Will I be eligible for forgiveness?
- Annual verification requirements


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Is IBR the Right Plan?

- No more PFH; payments go to permanent-standard amount
- Will pay more in interest
- Unpaid interest will be capitalized at some point
 - No longer demonstrate PFH
 - Leave IBR




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Forgiveness

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Payment Tracking

- Lenders need to “track” each month in which the borrower:
 - Makes a payment under an IBR plan, including a payment amount of \$0
 - Makes payments under the permanent-standard payment amount
 - Uses economic hardship deferment

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Conditions for Forgiveness

- Borrower must have been in IBR repayment plan at least once
- Borrower must have made 300 eligible payments
- 25 years must have elapsed
- Any loan amount forgiven may be taxable
- No forgiveness will be granted until 2034



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Eligible Payment

- All payments made on or after July 1, 2009 if:
 - PFH payments made under IBR, including \$0 payment amounts
 - Payments made at the permanent-standard amount
 - Any payment not less than standard-standard payment amount
 - Each month borrower on economic hardship deferment
- Payments made prior to July 1, 2009 do not count
 - Exception – ICR payments



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Counting 25 years

- Began no earlier than July 1, 2009
- Begins date borrower made an eligible payment or received economic hardship deferment before qualifying for IBR
- If borrower consolidates, 25 years starts over and does not count any payments or deferment period received on underlying loans prior to consolidation





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Public Service Loan Forgiveness

- Regulations negotiated in 2008
- NPRM issued June 23, 2008
- Final Rule issued October 23, 2008
- New section in regulations – §685.219
- Effective date – July 1, 2009



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Public Service Loan Forgiveness

- Limited to Direct Loan borrowers
- FFELP borrowers have to consolidate or re-consolidate into Direct Consolidation Loan to take advantage of program




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Public Service Definition

- Public service organization –
 - A federal, state, local, or Tribal government organization, agency, or entity
 - A public child or family service agency
 - A non-profit organization under section 501(c)(3) of the Internal Revenue Code that is exempt from taxation under section 501(a) of the IRC
 - A tribal college or university






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Public Service Definition

- Public service organization –
 - A private organization that provides public services
 - Emergency management, military service, public safety
 - Law enforcement, public interest law services, public child care
 - Public service for individuals with disabilities and the elderly
 - Public health, public education, public library services
 - School library or other school-based services
 - Is not a business organized for profit, a labor union, partisan political organization, or religious organization
- Peace Corps and Americorps also qualify


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Public Service Employees

- Cannot be in default
- Must be employed full-time
 - 30 hours per week or the equivalent
 - During the time borrower makes the qualifying payments
 - At the time loan forgiveness is requested and granted


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Qualifying Payments

- Must make 120 monthly payments after October 1, 2007
- Payments prior to October 1, 2007 do not qualify
- FFELP borrowers who consolidate into Direct Loan to qualify
 - Only payments made on DL consolidation loan count toward qualifying payments
- Payments must be made within 15 days of due date
- Must be employed full-time in a public service position


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Definition of Full-Time

- Working in qualifying employment in one or more jobs for the greater of:
 - An annual average of at least 30 hours weekly, or
 - For a contractual or employment period of at least 8 months, an average of 30 hours per week, or
 - Unless the qualifying employment is with two or more employers, the number of hours the employer considers full-time
- 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 is not considered in determining the average hours worked



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Repayment/Forgiveness: \$100,000 (\$75,000 Stafford @ 6.8% and \$25,000 Grad PLUS @ 8.5%)
Public Service Forgiveness

Starting Income (AGI)	Annual Raise	Payment: Year 1	Payment: Year 10	Total Amount Paid over 10 Years	Comparable Total Amount Paid over 25 Years: Earlier Slide	Amount Forgiven after 10 Years
\$35,000	3%	\$246	\$321	\$33,850	\$107,655	\$138,400
\$40,000	3%	\$309	\$403	\$42,448	\$135,000	\$129,802
\$40,000	4%	\$309	\$462	\$45,701	\$166,119	\$126,548
\$40,000	5%	\$309	\$526	\$49,132	\$201,998	\$123,118
\$50,000	3%	\$434	\$566	\$59,644	\$189,688	\$112,606
\$50,000	4%	\$434	\$640	\$63,710	\$228,106	\$108,509
\$55,000	4%	\$492	\$729	\$72,715	\$230,086	\$99,009



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Questions?

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