

Session #41

Loan Repayment Plans

Pamela Moran

Rosa Wright

U.S. Department of Education



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Agenda

- **Direct Loan and FFEL Repayment Plans**
- Other Repayment Strategies
- ED Servicers
- Resources & Appendix

Understanding Repayment Plans

Student borrowers may repay their student loans through one of several repayment plans:

- Standard Repayment Plan
- Graduated Repayment Plan
- Extended Repayment Plan
- Income-Sensitive Repayment (FFEL Only)
- Alternative Repayment Plans (Direct Loan Only)
- Income Contingent Repayment (ICR)
(Direct Loan Only)
- Income-Based Repayment (IBR)

Standard Repayment Plan

Under this plan, the borrower will pay a fixed amount of at least \$50 each month for up to 10 years. For most borrowers, this plan results in the lowest total interest paid because the repayment period is shorter than it would be under any of the other repayment plans.

(Subsidized, Unsubsidized and PLUS Loans)

**Consolidation borrowers
have a repayment period of
10 - 30 years depending on
their total loan indebtedness.**

Graduated Repayment Plan



The Graduated Repayment Plan may be beneficial if the borrower's income is low when they leave school but is likely to steadily increase. Under this plan, payments start out low and then increase every two years. The minimum payment equals the amount of interest that accrues monthly for up to the maximum repayment period.

Like the Standard Plan, the maximum repayment period is 10 years for Subsidized, Unsubsidized, and PLUS Loans and 10-30 years for Consolidation Loans depending on the total loan indebtedness.

Number of Monthly Payments under the **Standard** and **Graduated** Repayment Plans for Consolidation Loans based on the Total Student Loan Indebtedness Amounts.

If the Total Education Indebtedness is		Maximum Number of Monthly Payments
At Least	Less Than	
	\$7,500	120 (10 years)
\$7,500	\$10,000	144 (12 years)
\$10,000	\$20,000	180 (15 years)
\$20,000	\$40,000	240 (20 years)
\$40,000	\$60,000	300 (25 years)
\$60,000		360 (30 years)

Extended Repayment Plan

A borrower may choose this plan if they did not have an outstanding balance on a FFEL or Direct Program loan as of October 7, 1998 or on the date they obtained a student loan after that date **and** have more than \$30,000 in outstanding FFEL Program loans or more than \$30,000 in outstanding Direct Loans.

For example...

A borrower that has \$35,000 in outstanding FFEL Program loans and \$10,000 in outstanding Direct Loans can choose the Extended Plan for their FFEL loans, but not for their Direct Loans.

- ❖ Borrower may choose to make fixed or graduated monthly payments
- ❖ Minimum payment of \$50 for Fixed Extended
- ❖ Maximum repayment period is 25 years



Income-Sensitive Repayment Plan (FFEL Only)

Income-Sensitive is a repayment plan that is lender-specific and bases the scheduled monthly payment on borrower's annual income. Payment amount increases or decreases based on income change. Maximum repayment period is 10 years (except consolidation loans) and borrower must reapply each year.

Monthly payments may be increased for the remaining term of the loan to compensate if the borrower receives decreased payments under ISR.

Alternative Repayment Plans

(Direct Loan Only)



An alternative repayment plan may be used when the terms and conditions of other repayment plans are not adequate to accommodate a borrower's circumstances. The borrower must provide evidence of the exceptional circumstance and the terms must be within the following restrictions:

- maximum 30 year term
- minimum payment of \$5.00
- payments cannot vary by more than 3x the smallest payment

There are four different Direct Loan Alternative Repayment Plans:

Alternative Fixed Payment, Alternative Fixed Term, Alternative Graduated, and Alternative Negative Amortization.



Income Contingent Repayment Plan (Direct Loan Only)

Income Contingent Repayment or ICR is a repayment plan that bases a borrower's monthly payment on yearly income, family size, and loan amount. As the borrower's income rises or falls, so does their payments. After 25 years, any remaining balance on the loan will be forgiven, but the borrower may have to pay taxes on the amount forgiven.

What are the benefits?

High loan debt and low income could actually mean a calculated payment of \$0.



Income-Based Repayment Plan

Under this plan, the required monthly payment is capped at an amount intended to be affordable based on the borrower's income and family size. The maximum repayment period is 25 years and if certain requirements are met, any remaining balance will be cancelled. (20 years for new borrowers on/after July 1, 2014.)

Only FFEL or Direct Stafford, Grad PLUS, and Consolidation (that did not pay a Parent PLUS) loans that are currently not in default are eligible for repayment under IBR.



Income-Based Repayment Plan

Borrower Eligibility

A borrower is eligible to repay under IBR if the monthly payment amount calculated under the 10-year Standard repayment plan is **MORE** than the IBR monthly payment amount. (Borrower deemed to have “partial financial hardship” [PFH].)

- ❖ Borrower provides AGI or alternative income documentation annually based on borrower’s IBR anniversary date to determine eligibility and calculate IBR payment amount
- ❖ If multiple loan holders, borrower must apply to each and IBR payments are pro-rated

Income-Based Repayment Plan

Calculating IBR Payment

- Annual IBR payment is 15% of the difference between borrower's income and 150% of the HHS Poverty Guidelines
(10% for new borrowers on/after July 1, 2014)
- Monthly payment is based on the borrower's Adjusted Gross Income (AGI), family size, and state of residence
- Combined AGI is used for married borrower who filed joint return
- The minimum monthly payment may be as low as \$0 or \$10 depending on the calculated IBR amount

Income-Based Repayment Plan

Payment Estimates

Single Borrower	
Estimated Total Adjusted Gross Income:	\$35,000
Estimated Total Student Loans:	\$50,000
Estimated Average Interest Rate:	6.8%
State of Residence:	Outside of Alaska & Hawaii
Family Size:	1

Results

According to the information provided, it appears the borrower is eligible for IBR with a monthly payment amount of approximately **\$235**.



Income-Based Repayment Plan

Payment Estimates

Married Borrower, Filing Jointly

Estimated Total Adjusted Gross Income:	\$35,000
Estimated Total Student Loans:	\$50,000
Estimated Average Interest Rate:	6.8%
State of Residence:	Outside of Alaska & Hawaii
Family Size:	2

Results

According to the information provided, it appears the borrower is eligible for IBR with a monthly payment amount of approximately **\$160**.

Income-Based Repayment Plan

Payment Estimates

Married Borrowers Filing Jointly; Two IBR Borrowers

Estimated Total Adjusted Gross Income:	\$70,000
Estimated Total Student Loans:	\$ 80,000
Estimated Average Interest Rate:	6.8%
Spouse #2 Estimated Total Student Loans:	\$30,000
Spouse's Estimated Average Interest Rate:	6.8%
State of Residence:	Outside of Alaska & Hawaii
Family Size:	2

Results

According to the information provided, it appears the borrower is eligible for IBR with a monthly payment amount of approximately **\$436**.

Spouse #2's IBR monthly payment amount is approximately **\$164**.



Income-Based Repayment Plan

Payments

- If payment is less than accrued interest on subsidized loan (or subsidized portion of consolidation loan), Secretary pays difference for up to three consecutive years from IBR repayment start date
- If borrower no longer shows PFH at annual evaluation, payment is recalculated on 10-year Standard Repayment and unpaid interest is capitalized

Income-Based Repayment Plan

Leaving IBR:

- Borrower must repay outstanding balance under Standard Repayment plan (10-year standard or consolidation loan standard) with time in IBR counted in maximum repayment time
 - ❖ Borrower may request another repayment plan after being placed on Standard and paying one monthly payment under Standard
- Any unpaid interest capitalized

Income-Based Repayment Plan

Advantages of IBR

- ❖ Affordable payment (including \$0)
- ❖ The government will pay the unpaid interest on subsidized loans for up to three consecutive years if the monthly IBR payment does not cover the monthly accrued interest
- ❖ Any remaining principal and interest will be cancelled after 25 years of repayment
- ❖ IBR payments count for Public Service Loan Forgiveness (PLSF)

Disadvantages of IBR

- ❖ More interest paid over the life of the loan
- ❖ To continue reduced payments under IBR, a borrower must submit updated information on income and family size each year

Income-Based vs. Income Contingent

IBR vs. ICR

- No IBR for Parent Plus or Consolidation with Parent PLUS; ICR for Consolidation with Parent PLUS
- IBR for FFEL and DL; ICR for DL only
- IBR monthly payments are lower than ICR
- IBR and ICR may have monthly payments less than accrued interest (negative amortization)



Income-Based vs. Income Contingent

IBR vs. ICR

- IBR – Interest subsidy for three consecutive years for Neg. Am. borrowers; ICR – borrower pays all interest
- IBR – Unpaid interest capitalized only if no PFH or borrower leaves IBR; ICR – unpaid interest capitalized annually, but no more than 10% of the original loan amount
- IBR – Forgiveness after 25 years, but reduced to 20 years for new borrowers July 1, 2014; ICR – forgiveness after 25 years

“Pay As You Earn” Initiative

- Implements IBR statutory changes as soon as 2012 through regulatory initiative
- Subject to negotiated rulemaking
- Payments capped at 10% of discretionary income and forgiveness after 20 years

Repayment Plans and PSLF

A borrower must have made 120 monthly payments on any one or combination of eligible repayment plans to have the remaining balance cancelled under PSLF.

- ❖ 10-year Standard Repayment Plan
- ❖ Income Contingent Repayment (ICR) Plan
- ❖ Income-Based Repayment (IBR) Plan
- ❖ Any other repayment plan if monthly payment is at least equal to the amount required under the 10-year Standard

See session #40 for dedicated PSLF session.

Agenda

- Direct Loan and FFEL Repayment Plans
- **Other Repayment Strategies**
- ED Servicers
- Resources & Appendix

Other Repayment Strategies

Borrower Tools

- Repayment Incentives
- Entitlements
 - Deferments
 - Forbearances
- Loan Consolidation



Other Repayment Strategies

Repayment Incentives

Up-Front Interest Rebate

- ❖ Rebate is equal to a percentage of the loan principal that is borrowed
- ❖ Rebate is 0.5% for loans which the first disbursement is made on or after July 1, 2010
- ❖ Borrower must make the first 12 payments on time upon entering repayment to retain the rebate
- ❖ The Budget Control Act of 2011 eliminates the authority for ED to provide the up-front interest rebate for a loan first disbursed on or after July 1, 2012

Electronic Debit

- ❖ A 0.25% interest reduction for agreeing to have monthly payment automatically debited from either a checking or savings account

Other Repayment Strategies

Deferments and Forbearances



Borrowers may experience trouble making payments under any repayment plan. Deferment and forbearance options may be the right choice to assist them.

Deferments

Deferments allow a borrower to postpone their monthly payment in certain circumstances.

- **In-School** – Unlimited for borrowers enrolled at least half-time; special parent PLUS and post-enrollment PLUS deferments for PLUS loans first disbursed on/after 7/1/2008
- **Unemployment** – Up to three years, usually in 6-month increments; based on evidence of unemployment benefits or registering with employment agency; borrower must search for and accept full-time employment of any type

Deferments

- **Economic Hardship** – Up to three years in 12-month increments if borrower is:
 - ❖ Receiving payment under federal or state public assistance program
 - ❖ Working full-time, but monthly income is not more than the federal minimum wage or 150% of HHS poverty guideline based on family size
 - ❖ Serving as Peace Corps volunteer

Deferments

Military Deferments

- **Active Duty** – Available to service members during a war or other military operations (contingency operation) or national emergency for the period of service; includes national guard activated by President or Secretary of DOD
- **Post-Active Duty Student** – May be applied for up to 13 months after active duty for members of national guard or other reserve component (includes members in retired status) who was enrolled at least half-time or within six months of that date

Forbearances

Borrowers may temporarily postpone or agree to make smaller payments with a forbearance in certain circumstances.

- Based on poor health or other acceptable reason
- During medical internship or residency
- During National Community Service
- During teaching service eligible for Teacher Loan Forgiveness
- Up to three years during repayment if monthly payment is \geq to 20% of total monthly

Other Repayment Strategies

Loan Consolidation

Benefits of Consolidation:

- One Lender and One Monthly Payment
- Flexible Repayment Options
- Lower Monthly Payments
- Fixed Interest Rate for Life of Loan
- It's Free



Special Consolidation Program for Split Borrowers

- Borrowers with at least one commercial FFEL loan and one ED-held Direct or FFEL loan
- Borrowers must be in grace, repayment, deferment or forbearance; no defaulted commercial FFEL loan unless rehabilitated
- Available only 1/12-6/12; borrower contacted by ED servicer
- Benefits: one servicer/one payment; 0.25% interest rate reduction; prior time in repayment and IBR payments count; converted new Direct Loan eligible for PSLF

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- Other Repayment Strategies
- **ED Servicers**
- **Resources & Appendix**

Federal Loan Servicers

The Department currently has six federal loan servicers to which we assign Direct Loans. Our federal loan servicers are:



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To help ensure a successful repayment experience for the borrower, it is good to get to know your federal loan servicers.

- They provide interactive tools, loan calculators and counseling aids for use during all points in the loan life cycle for your students
- They offer dedicated services, including individualized reporting tools, to assist you with managing cohort default rates

Resources

General Servicing Information

- ❖ Electronic Announcement – Loan Servicing Information
<http://www.ifap.ed.gov/eannouncements/092311LSINFPNewServicersJoin.html>

Income-Based Repayment (IBR) Plan

- ❖ IBR Fact Sheet
http://studentaid.ed.gov/students/publications/factsheets/factsheet_IncomeBasedRepayment.pdf
- ❖ IBR Q&A
http://studentaid.ed.gov/students/attachments/siteresources/IBR_QA_Final2-2011.pdf

Public Service Loan Forgiveness Program

- ❖ PSLF Fact Sheet
http://studentaid.ed.gov/students/attachments/siteresources/LoanForgivenessv5_051511.pdf
- ❖ PSLF Q&A
http://studentaid.ed.gov/students/attachments/siteresources/PSLF_QAs_final_02%2012%2010.pdf

Delinquency and Default Management

- ❖ Electronic Announcement – Delinquency Prevention Resource Information Web Page
<http://ifap.ed.gov/eannouncements/071411DefaultPreventionResourceInfoSite.html>

Appendix - Applicable Legislation: Budget Control Act (BCA) of 2011

- Public Law 112-25
- Enacted August 2, 2011
- Ends loan subsidy on Direct Loans for Graduate/Professional Student for loan made for periods of enrollment on/after July 1, 2012
- Eliminates authority for Direct Loan Borrower Repayment Incentives for loans first disbursed on/after July 1, 2012

Health Care & Education Reconciliation Act (HCERA) of 2010

- Public Law 111-152
- Enacted March 30, 2010
- Amended the HEA to provide that new borrowers, on or after July 1, 2014:
 - ❖ Qualify for IBR if borrower's Standard Repayment exceeds 10% of discretionary income
 - ❖ Make an IBR payment of 10% of discretionary income
 - ❖ Receive IBR forgiveness after 20 years instead of 25 years

Higher Education Opportunity Act (HEOA)

- Public Law 110-315
- Enacted August 14, 2008
- Amended HEA to:
 - ❖ Extend Teacher Loan Forgiveness to full-time teachers employed by an educational service agency (ESA)
 - ❖ Include new eligibility standards for Title IV loan total and permanent disability discharges

Higher Education Opportunity Act (HEOA)

- Amended the HEA to:
 - ❖ Authorize FFEL and Direct Loan forgiveness for service in areas of national need (no appropriations)
 - ❖ Authorize loan repayment of Perkins, FFEL and Direct Loans for civil legal assistance attorneys (To date, \$5,000,000 for FY 2010 only)

College Cost Reduction and Access Act of 2007 (CCRAA)

Public Law 110-84, enacted Sept. 27, 2007

- Amended the Higher Education Act (HEA) by adding:
 - ❖ PSLF to Direct Loan Program (HEA section 455(m))
 - ❖ IBR to Direct Loan and FFEL Programs (HEA section 493C)

Applicable Regulations

- Final (CCRAA) Rule published October 23, 2008:
www.ifap.ed.gov/fregisters/attachments/FR10232008.pdf
- Final Rule (HEOA) published October 29, 2009:
www.ifap.ed.gov/fregisters/attachments/FR10292009.pdf

Sessions of Interest



Loan Servicing

- #7. Strategies to Navigate in a Multiple Servicer Environment
- #9. Default Prevention Essentials
- #40. Public Service Loan Forgiveness & Teacher Loan Forgiveness

Federal Loan Servicers Information Sessions

Come and hear of the unique services each of our federal loan servicers offer!

- ACS – Wednesday, Nov. 30th 7:30 am – 8:45 am
- FedLoan Servicing (PHEAA) – Tuesday, Nov. 29th 5:15 pm – 6:30 pm
- Great Lakes – Wednesday, Nov. 30th 5:15 pm – 6:30 pm
- Nelnet – Thursday, Dec. 1st 5:15 pm - 6:30 pm
- Sallie Mae – Thursday, Dec. 1st 7:30 am – 8:45 am

Remember to Visit All Servicers in the PC Lab!



Contact Information

We appreciate your feedback & comments.

Pam Moran

Phone: 202-502-7732

E-mail: Pamela.Moran@ed.gov

Rosa Wright

Phone: 202-377-3283

E-mail: Rosalizes.Wright@ed.gov