

Income-Driven Repayment Plans

Ian Foss, Federal Student Aid

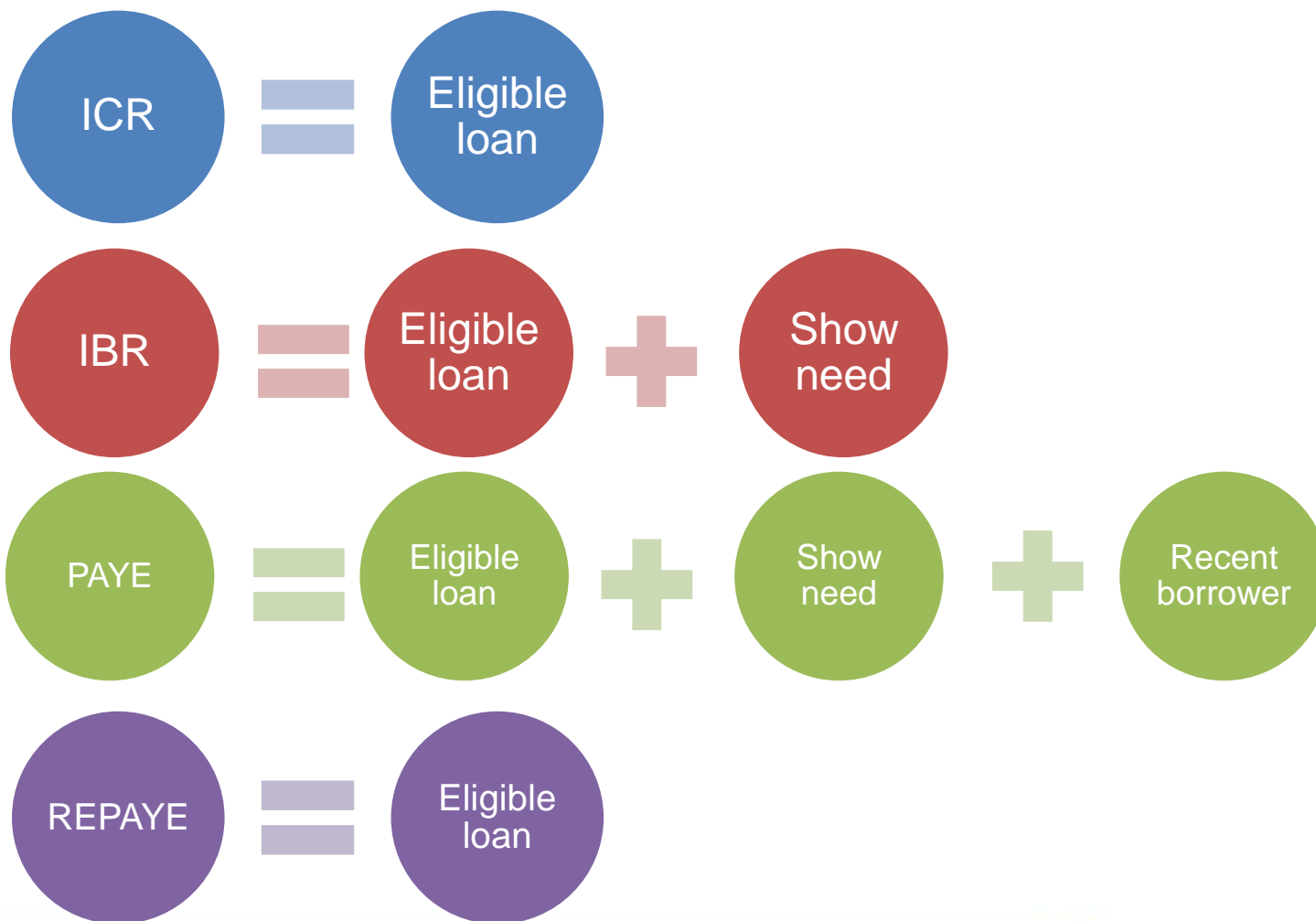
Barbara Hoblitzell, Office of Postsecondary Education

DETAILS OF INCOME-DRIVEN REPAYMENT PLANS

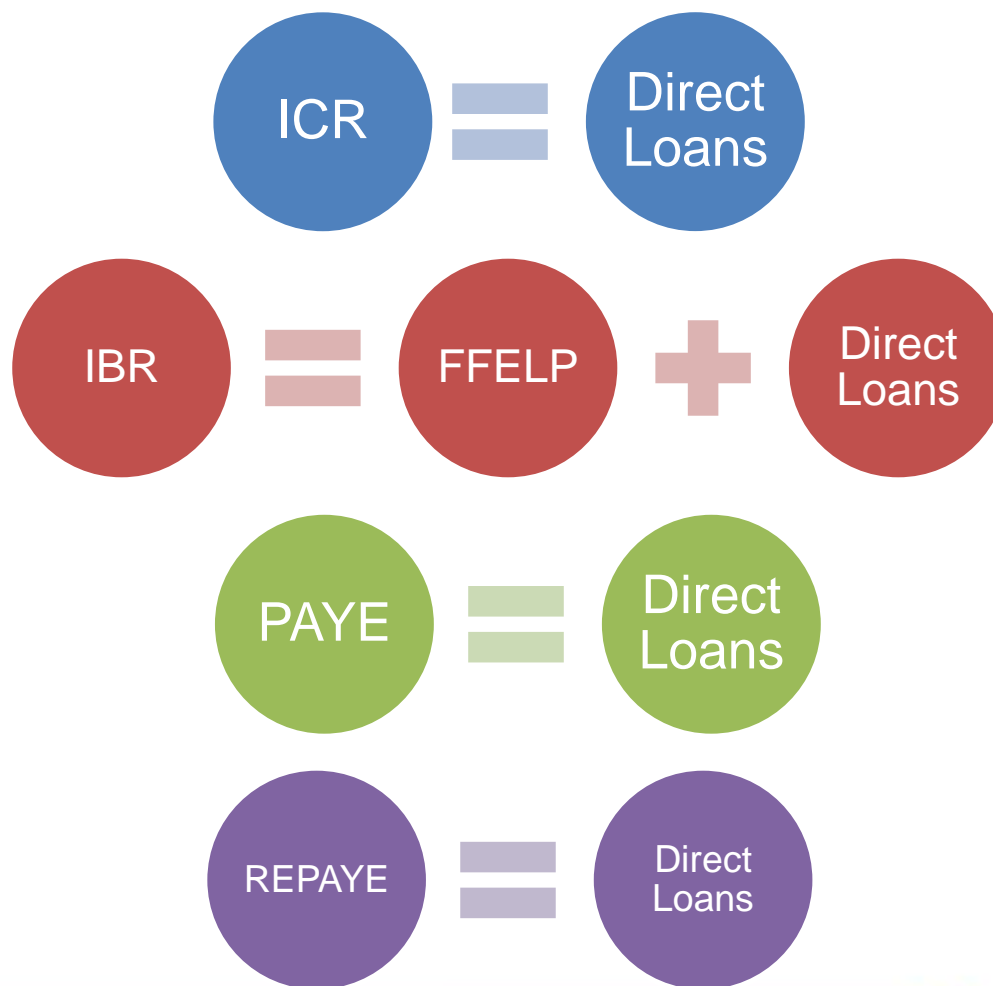
Overview

- 1994: Income-Contingent Repayment Plan (ICR)
- 2009: Income-Based Repayment Plan (IBR)
- 2012: Pay As You Earn Plan (PAYE)
- 2015: Revised Pay As You Earn Plan (REPAYE)

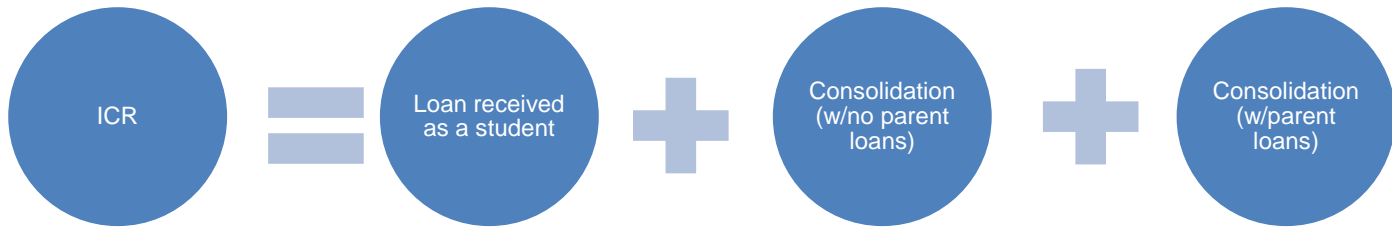
Eligible Borrowers



Eligible Loan Programs

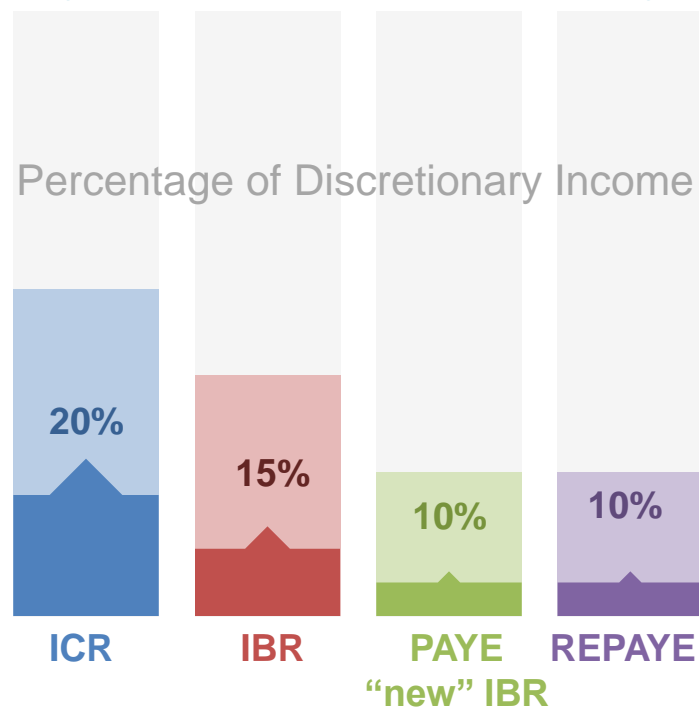


Eligible Loan Type



Payment Amounts

Payment Based On Income Only



Most IDR plans have two formulas: for those that do, borrowers always pay the lesser of the two

Percentage of Discretionary Income

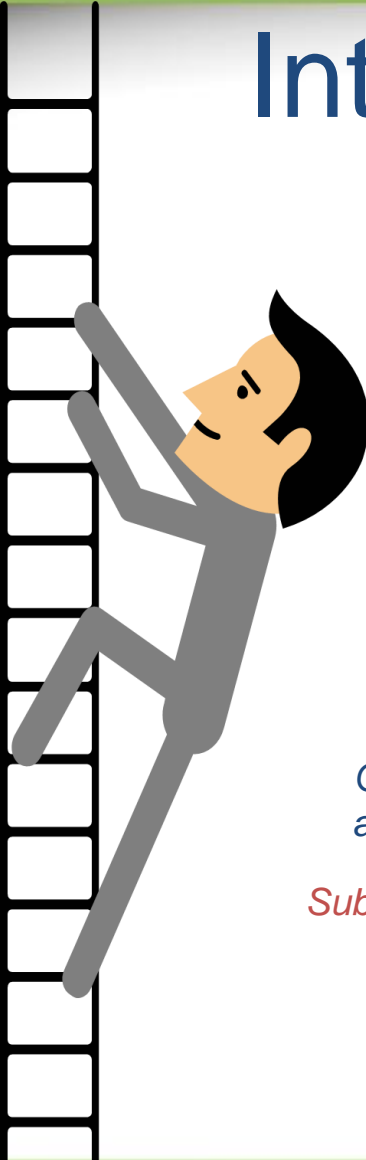
- ✓ 12-year standard payment adjusted by income
- ✓ 10-year standard amount
- ✓ 10-year standard amount
- ✓ None

Discretionary Income??

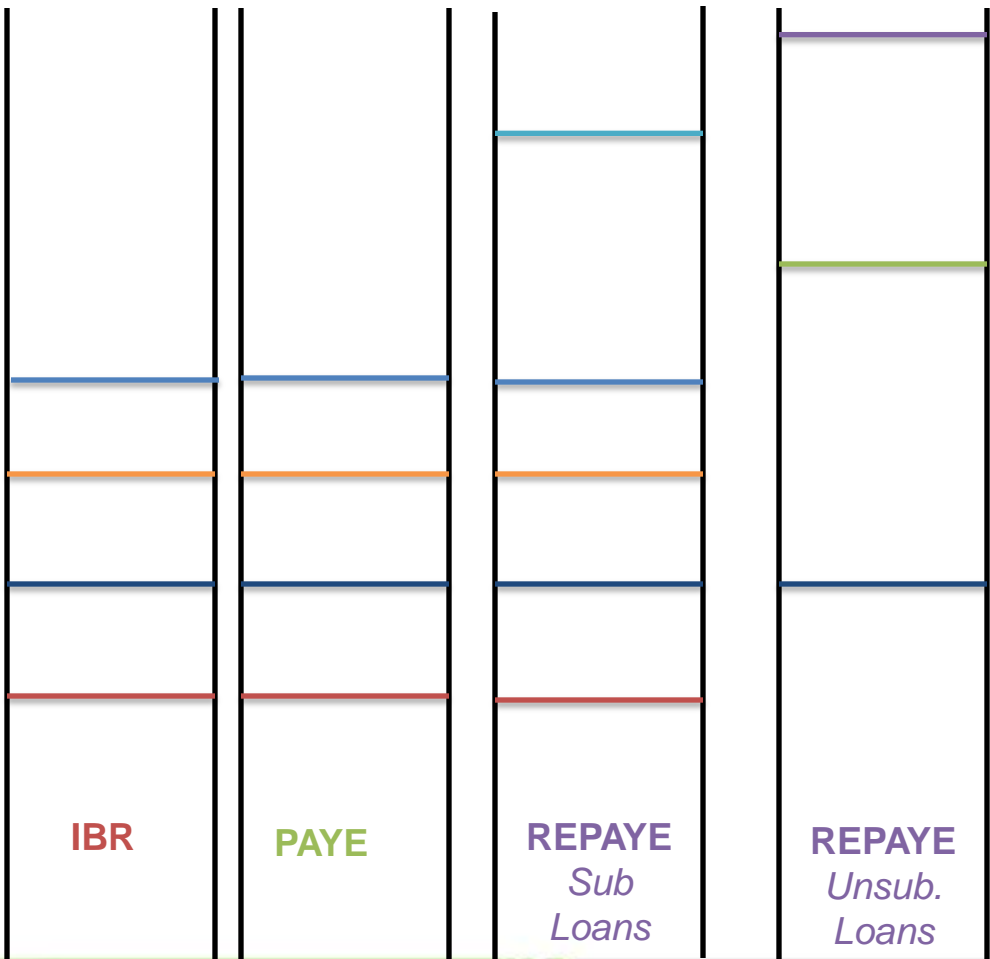
Discretionary income is

- the difference between your income and
- 150 percent of the poverty guideline
- for your family size and
- state of residence.

Interest Subsidy Benefits



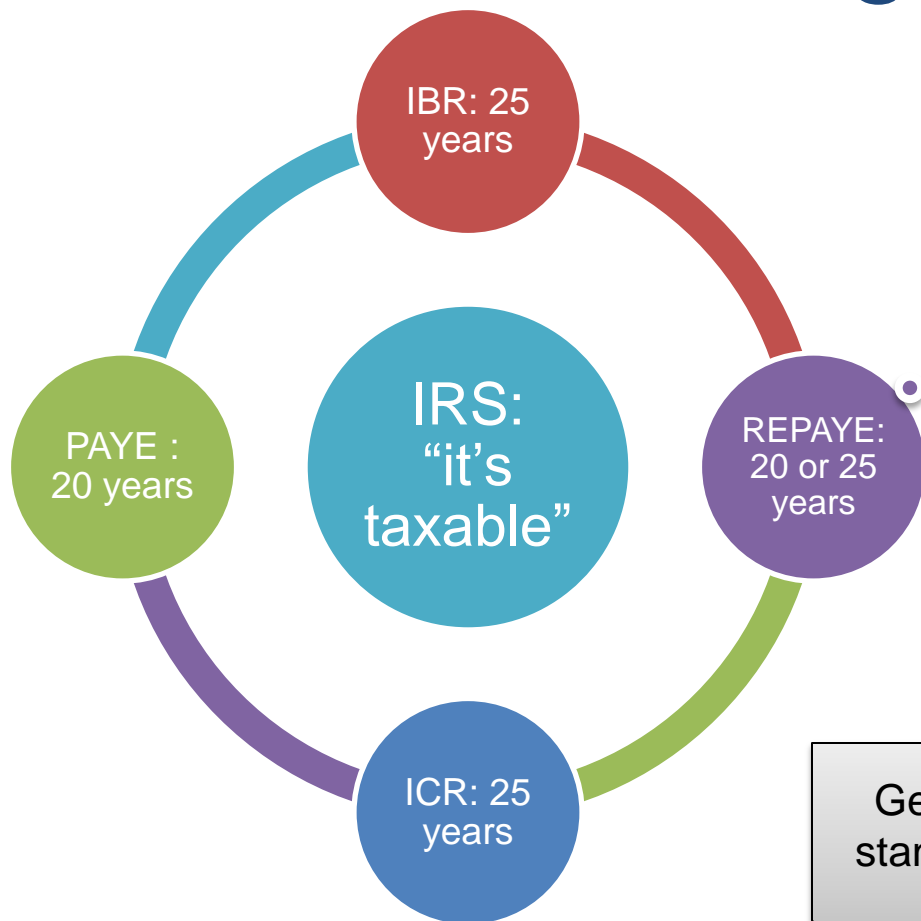
- No time limit*
- 50% of negative am. after 3 years*
- 50% of negative amortization*
- 100% of negative amortization*
- Only for first 3 years under plan*
- Only during negative amortization*
- Subsidized loans only*



Interest Capitalization

	ICR	IBR	PAYE	REPAYE
While payment is income-based, normal rules are suspended		×	×	
While normal rules are suspended, only trigger is conversation to standard plan amount		×	×	×
Interest capitalizes when leaving the plan		×	×	×
Normal rules apply (upon expiration of deferment/forbearance)	×			
Interest accruing due to negative amortization is capitalized annually	×			
Capitalization of negative amortization interest is limited to 10% of balance	×			
Capitalization caused by conversion is limited to 10% of balance			×	

Loan Forgiveness



20 years is for all undergraduate loans and 25 years is for any graduate loans

Generally, payments on an IDR plan, 10-year standard plan, or periods of economic hardship deferment count toward forgiveness

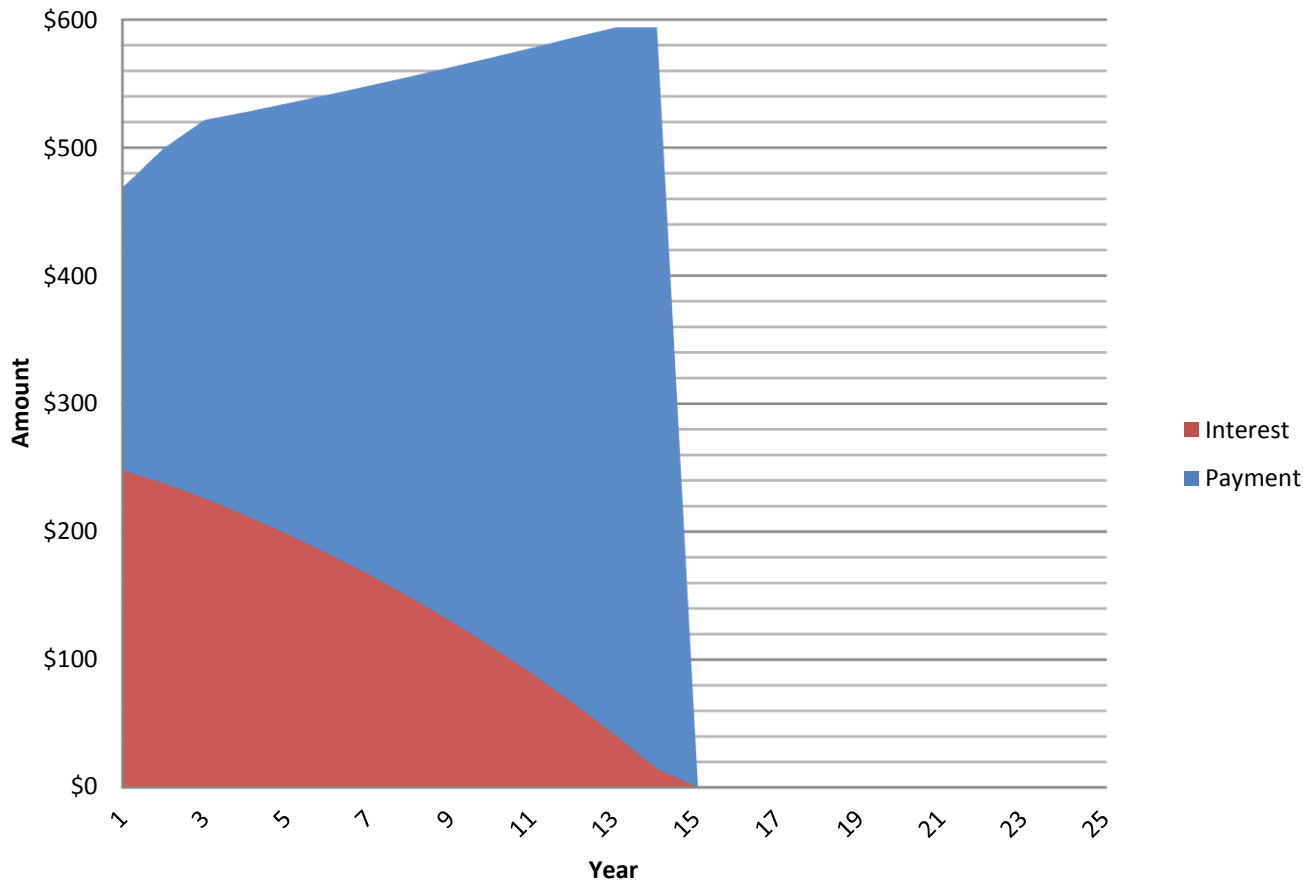
BILLY BORROWER



Billy Borrower

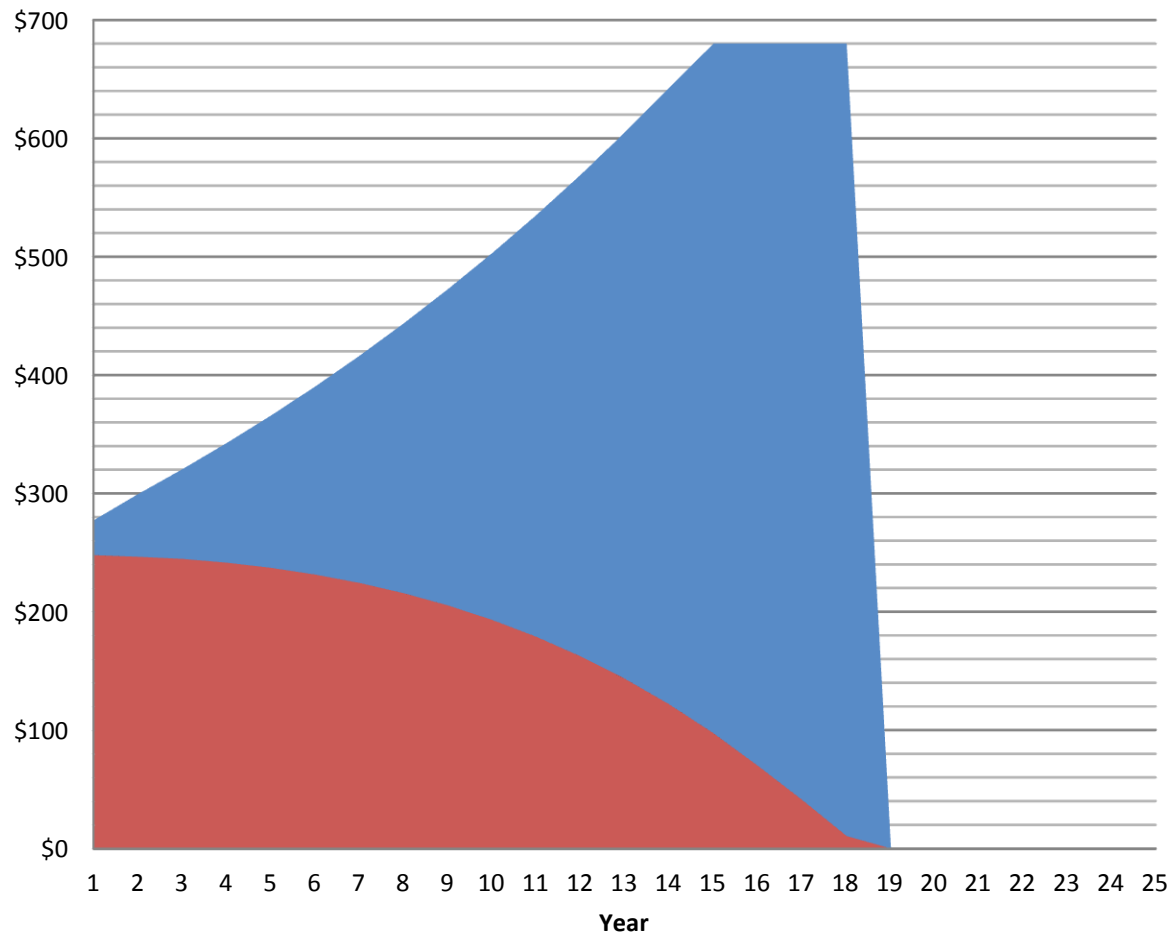
- Is single with no dependents and lives in DC
- Has \$65,500 in Direct Loan debt (\$23,000 of which is subsidized), which has a weighted average interest rate of 4.5%
- Borrowed for graduate school to get an MSW
- Has an AGI of \$40,000 that rises at 5% per year

ICR



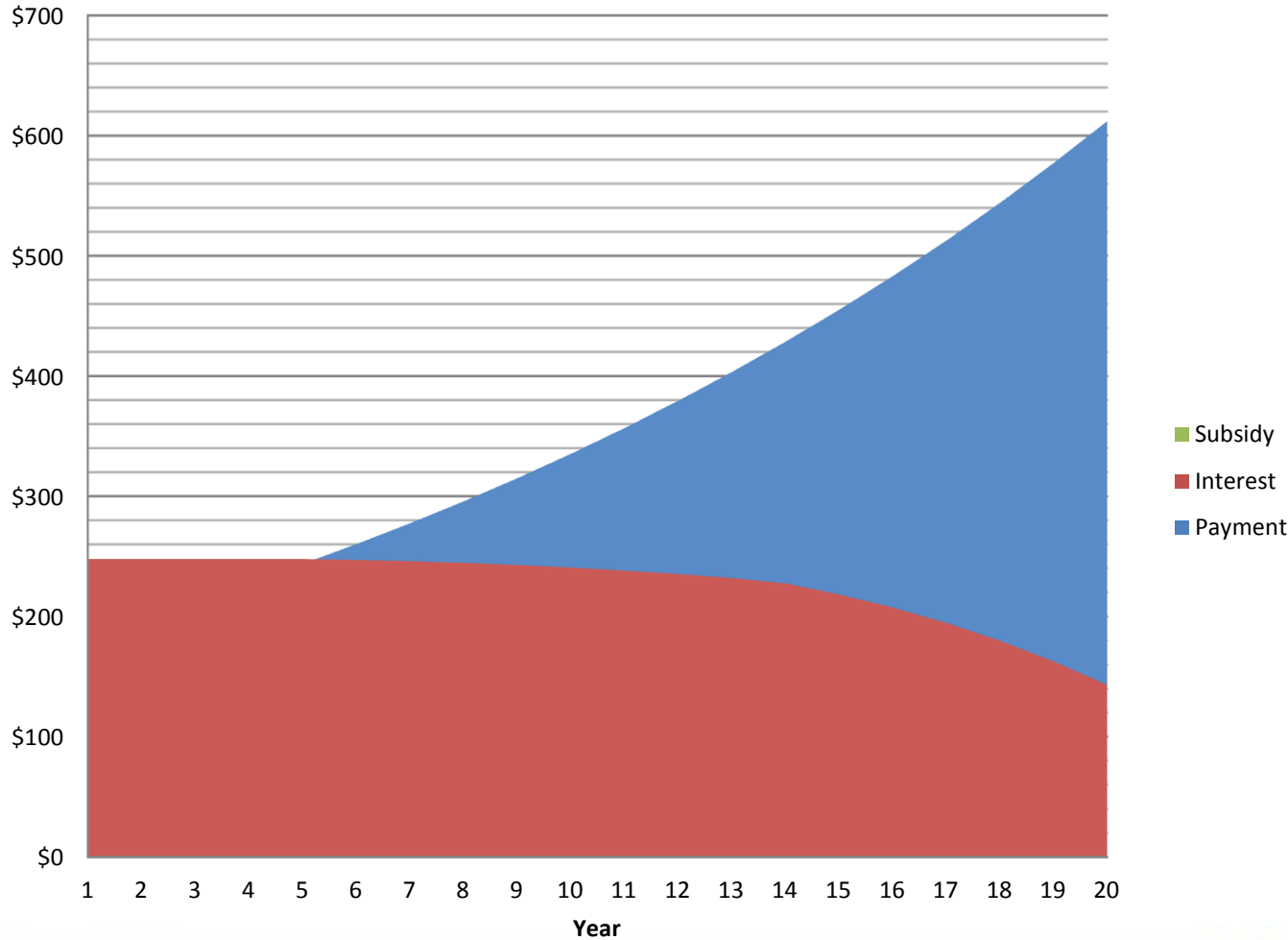
Year Interest Payment		
1	\$248	\$469
2	\$238	\$499
3	\$226	\$522
4	\$213	\$528
5	\$198	\$535
6	\$183	\$541
7	\$166	\$548
8	\$149	\$556
9	\$130	\$563
10	\$110	\$571
11	\$88	\$578
12	\$65	\$586
13	\$41	\$594
14	\$15	\$594

IBR



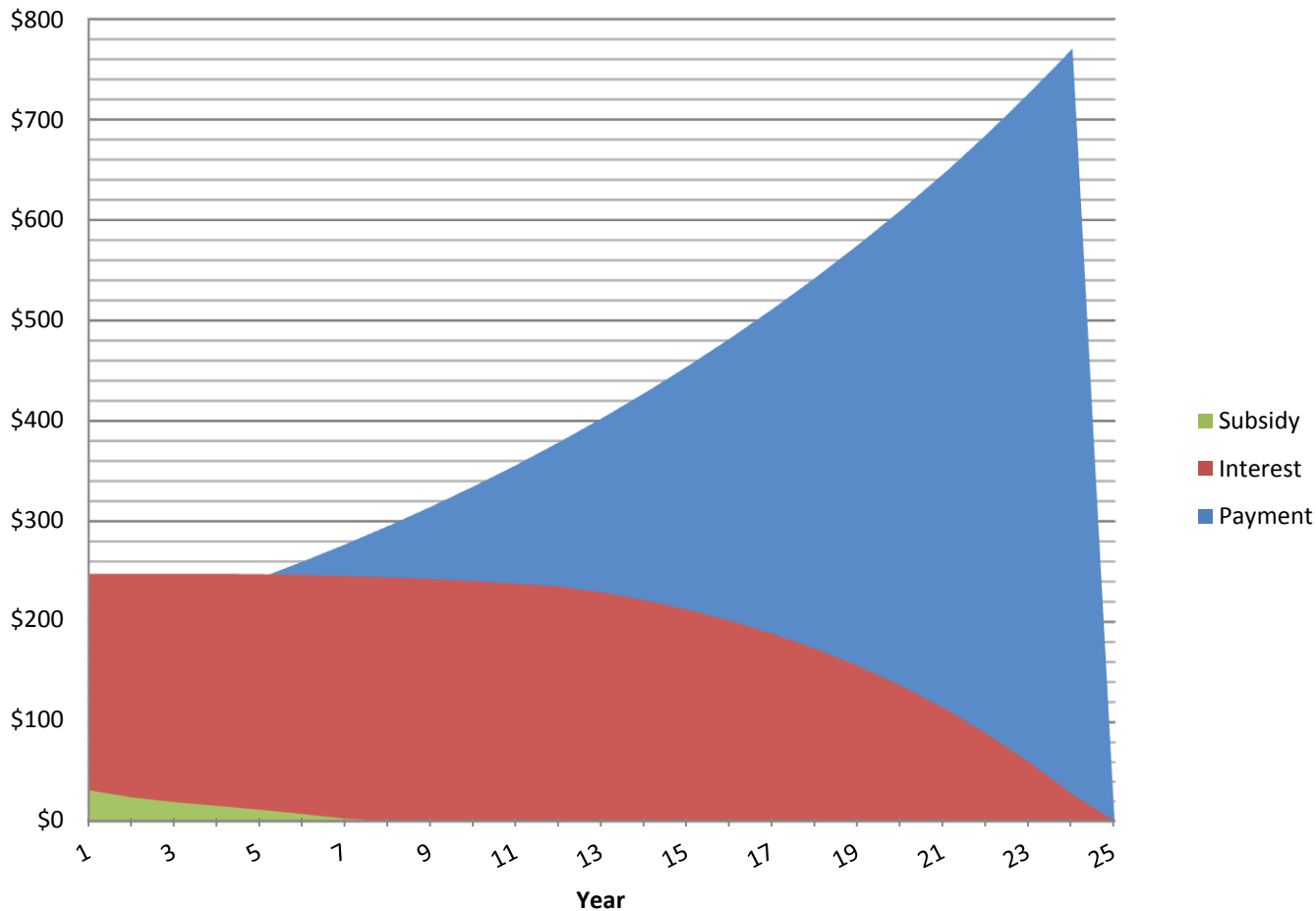
Year	Int.	Pmt.	Sub.
1	\$248	\$277	\$0
2	\$247	\$299	\$0
3	\$245	\$320	\$0
4	\$242	\$342	
5	\$237	\$366	
6	\$231	\$390	
7	\$224	\$416	
8	\$216	\$444	
9	\$205	\$473	
10	\$193	\$503	
11	\$179	\$535	
12	\$162	\$569	
13	\$143	\$605	
14	\$122	\$643	
15	\$97	\$680	
16	\$70	\$680	
17	\$41	\$680	
18	\$11	\$680	

PAYE/“new” IBR



Year	Int.	Pmt.	Sub.
1	\$248	\$185	\$0
2	\$248	\$200	\$0
3	\$248	\$214	\$0
4	\$248	\$228	\$0
5	\$248	\$244	\$0
6	\$247	\$260	\$0
7	\$246	\$278	\$0
8	\$245	\$296	\$0
9	\$243	\$315	\$0
10	\$241	\$335	\$0
11	\$238	\$357	\$0
12	\$235	\$380	\$0
13	\$232	\$404	\$0
14	\$227	\$429	\$0
15	\$218	\$455	\$0
16	\$207	\$484	\$0
17	\$194	\$513	\$0
18	\$180	\$544	\$0
19	\$163	\$577	\$0
20	\$143	\$612	\$0

REPAYE











Year	Int.	Pmt.	Sub.
1	\$248	\$185	\$32
2	\$248	\$200	\$24
3	\$248	\$214	\$19
4	\$248	\$228	\$16
5	\$248	\$244	\$12
6	\$247	\$260	\$7
7	\$246	\$278	\$2
8	\$244	\$296	\$0
9	\$243	\$315	\$0
10	\$240	\$335	\$0
11	\$238	\$357	\$0
12	\$235	\$380	\$0
13	\$229	\$404	\$0
14	\$221	\$429	\$0
15	\$212	\$455	\$0
16	\$201	\$484	\$0
17	\$187	\$513	\$0
18	\$172	\$544	\$0
19	\$155	\$577	\$0
20	\$135	\$612	\$0
21	\$113	\$649	\$0
22	\$87	\$687	\$0
23	\$59	\$728	\$0
24	\$27	\$771	\$0

The bigger picture

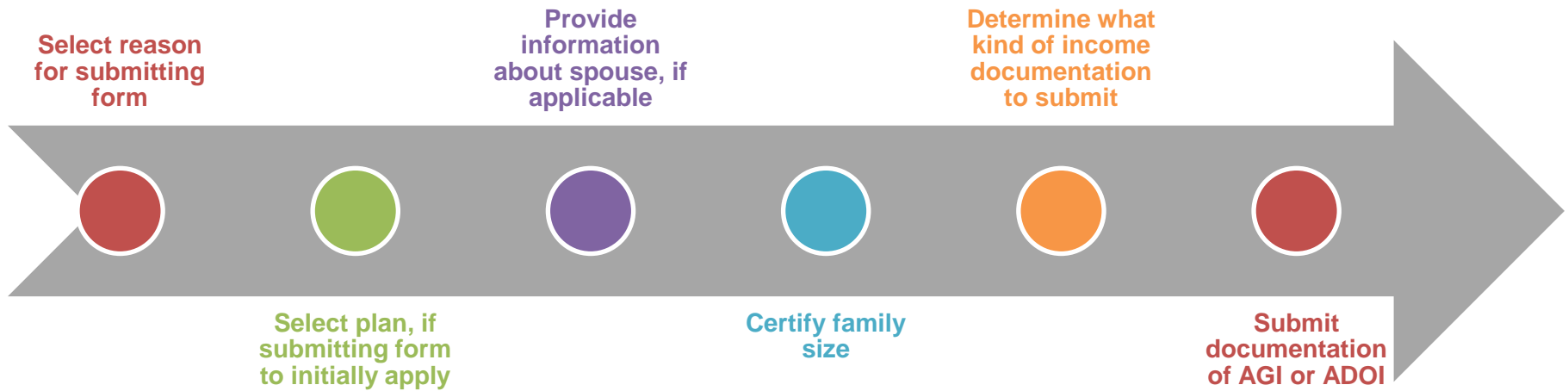
Payment Type	Repayment Plan	Payments	Total Paid	Time in Repayment	Forgiven Amount
Income	IBR	\$277 → \$680	\$101,452	17 yrs., 5 mos.	\$0
Income	PAYE	\$185 → \$612	\$87,705	20 years	\$31,086
Income	REPAYE	\$185 → \$771	\$119,535	23 yrs., 10 mos.	\$0
Income	ICR	\$469 → \$594	\$88,944	13 yrs., 7 mos.	\$0
Fixed	Standard	\$680	\$81,615	10 years	N/A
Fixed	Extended	\$416	\$124,678	25 years	N/A
Fixed	Consolidation Standard	\$333	\$120,050	30 years	N/A
Graduated	Graduated	\$383 → \$1,148	\$85,699	10 years	N/A
Graduated	Extended-Graduated	\$248 → \$620	\$119,910	25 years	N/A
Graduated	Consolidation Graduated	\$248 → \$507	\$127,641	30 years	N/A

StudentAid.gov/Repayment-Estimator

Repayment Plan	Repayment Period	Monthly Payment Initial to Final Amounts	Projected Loan Forgiveness ⓘ	Total Interest Paid ⓘ	Total Amount Paid
Standard ⓘ	120 months	\$555 to \$555 	\$0	\$16,612	\$66,612
Graduated ⓘ	120 months	\$317 to \$952 	\$0	\$21,060	\$71,060
Extended Fixed ⓘ	300 months	\$322 to \$322 	\$0	\$46,645	\$96,645
Extended Graduated ⓘ	300 months	\$250 to \$485 	\$0	\$55,144	\$105,144
Income-Based Repayment (IBR) ⓘ	227 months	\$217 to \$555 	\$0	\$42,040	\$92,040
IBR for New Borrowers ⓘ	240 months	\$145 to \$508 	\$37,029	\$58,475	\$71,446
Pay As You Earn ⓘ	240 months	\$145 to \$508 	\$37,029	\$58,475	\$71,446
Income-Contingent Repayment (ICR) ⓘ	178 months	\$387 to \$471 	\$0	\$26,660	\$76,660

APPLICATION PROCESS

Process Overview



ADOI = “alternative documentation of income;” not AGI.

Spouses

Almost all married borrowers provide spouse's income documentation

Only used by servicer when relevant

Exception for those who are separated or cannot access spouse's income

Spouses

Repayment Plan	Married borrower filing jointly	Married borrower filing separately
ICR	Use joint AGI	Use borrower's AGI
IBR	Use joint AGI	Use borrower's AGI
PAYE	Use joint AGI	Use borrower's AGI
REPAYE	Use joint AGI	Combine AGI of borrower and borrower's spouse

Billy gets Married in Year 5

- Spouse has \$20,000 in income, and \$40,000 in Direct Loans, all of which are unsubsidized, and which has an interest rate of 4.5%
- Billy and his spouse decide to file separately

Effect of Billy's Marriage

PAYE

- Payment decreases from \$260.19 to \$202.61 for year 6
- Spouse's income and loan debt is not included
- Billy's family size increased from 1 to 2

REPAYE

- Payment decreases \$260.19 to \$229.26
- Spouse's income is included in the calculation of Billy's payment
- Spouse's loan debt means that Billy's payment is prorated by 62.09% to account for the spouse's debt
- Billy's family size increased from 1 to 2

In Year 6, Spouse Pays Off

PAYE

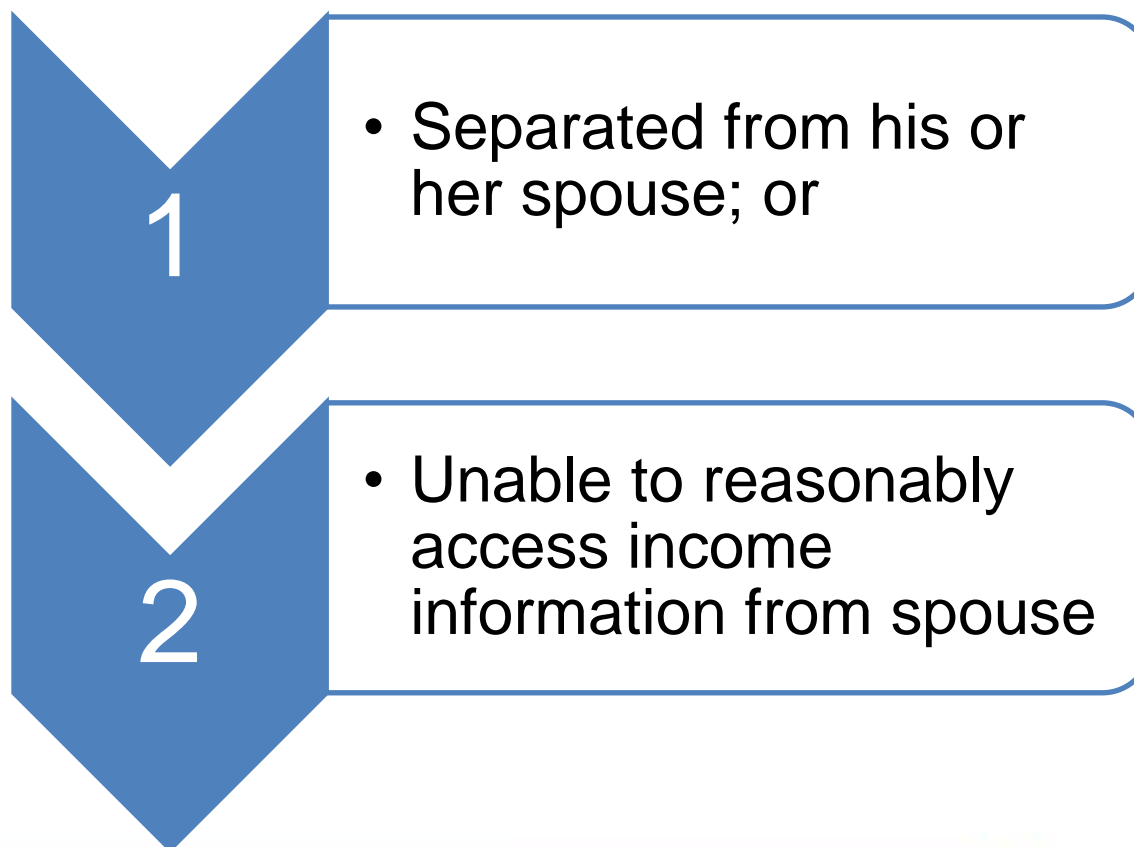
- Payment is not affected because spouse's income and loan debt is not included
- Payment for year 7 is \$218.53
- Billy's family size is still 2

REPAYE

- Payment increases from \$229.26 in year 6 to \$393.53 in year 7.
 - Payment increased 72%, income increased by 5%.
 - It seems unfair when only considering Billy, but the spouse's debt obligation is now satisfied, and that freed up household income that can be devoted to Billy's loans.
- Because spouse no longer has loan debt, Billy's payment is no longer prorated.
- Billy's family size is still 2.

Spouses

A married borrower is not required to provide spouse's AGI if the borrower is:



Spouses & REPAYE

If a spouse's income is excluded from calculation:

- The borrower's spouse is not counted in family size
- If the spouse has eligible loans, the spouse's loans are not considered in the monthly payment amount adjustment

Income Documentation

AGI

- Filed taxes
- No significant change

Alternative

- File taxes
- Significant change

Alternative

- Didn't file taxes

Income Documentation

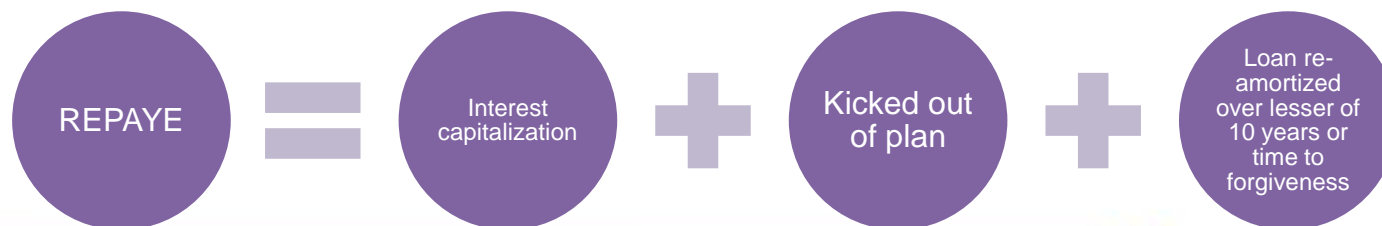
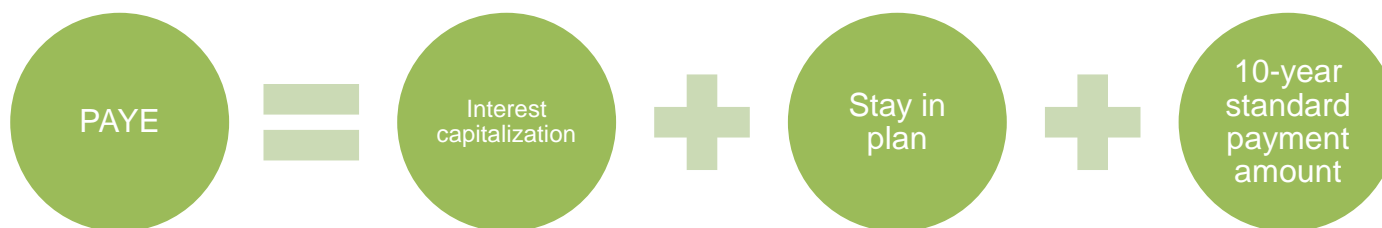
AGI

- Electronic Application
- Tax Return
- Tax Return Transcript

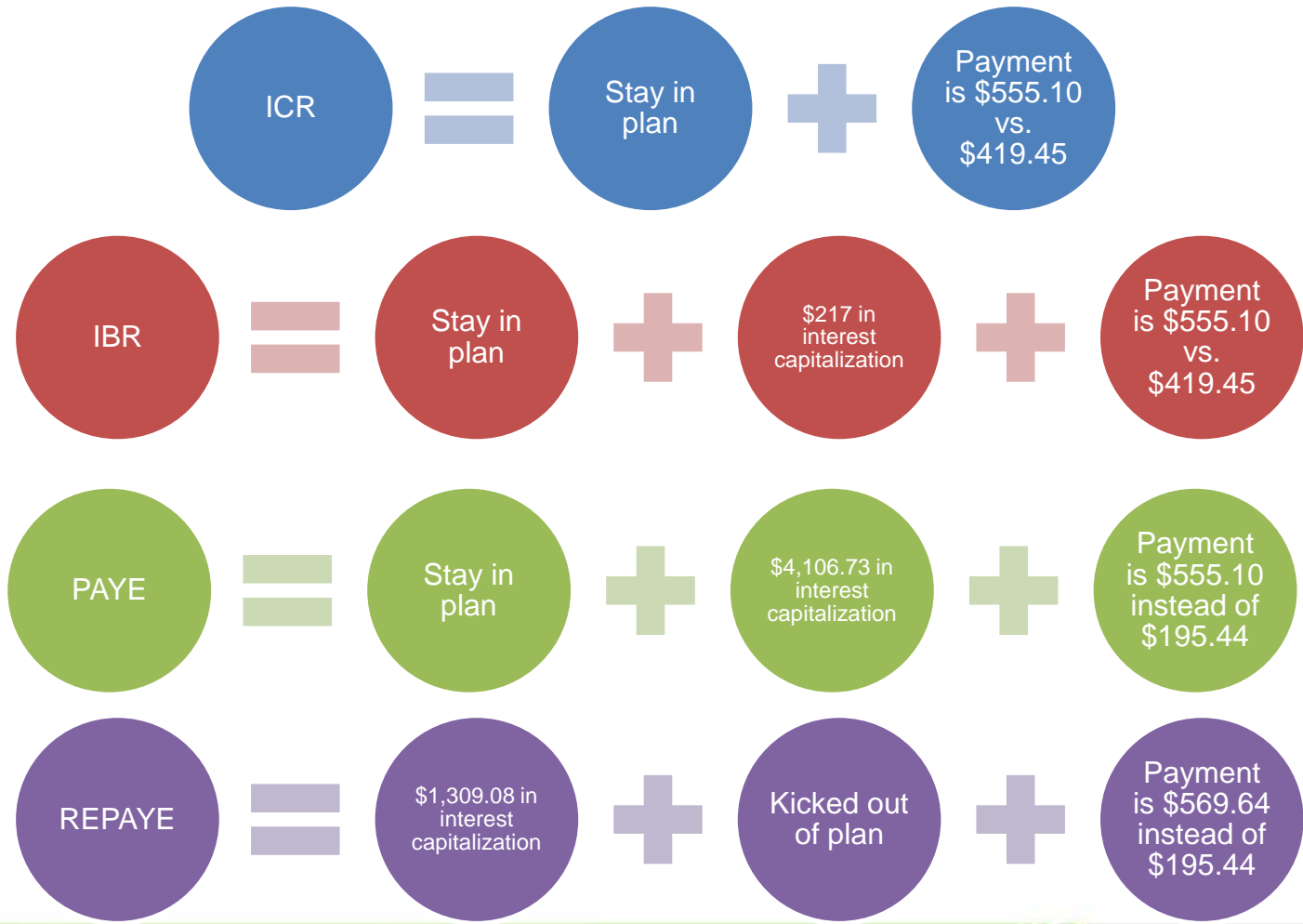
Alternative

- Pay stubs, unemployment benefits, etc.
- Self-certification of zero income
- Provide electronically only if zero income

Failing to Recertify



Billy Doesn't Recertify – Year 4



OUTREACH EFFORTS

E-mail campaign (REPAYE)

- Messaging:
 - There's a new IDR plan (REPAYE) where all DL student borrowers can set payments as 10% of discretionary income.
- Timing: March – April

E-mail campaign (REPAYE)

- Cohort:
 - In delinquency
 - In hardship deferment
 - In discretionary forbearance
 - Expressed interest in IDR during exit counseling, not in IDR
 - Started but did not finish IDR application or had IDR application rejected

E-mail campaign (Grace)

- Messaging:
 - Depends on cohort
 - Focuses on making an informed choice
 - Varying levels of emphasis on IDR
- Timing: June

E-mail campaign (REPAYE)

- Cohort:
 - Borrower has FFELP or a mix of DL and FFELP loans
 - Expressed interest in IDR Plan during exit counseling
 - At risk borrower (for example, borrower did not complete program of study)
 - High-balance borrower (\$25,000 or over)
 - Low-balance borrower (under \$25,000)

RESOURCES

Resources

- StudentAid.gov/IDR – Information
- StudentLoans.gov – Application
- StudentAid.gov/repayment-estimator – Calculator
- StudentLoans.gov/repay – 5 steps or less to a student loan solution
- <http://go.usa.gov/cu8aV> - Blog on choosing IDR plans

StudentLoans.gov/repay

Federal Student Aid
An OFFICE of the U.S. DEPARTMENT of EDUCATION

Pick a student loan repayment option in 5 steps or less:

I have federal loans. ▼

I took out loans before 2011. ▼

I do not work for the government or a non-profit. ▼

I have not missed a payment because I couldn't afford it. ▼

I want to lower my monthly payment. ▼

You should consider:

**LOAN CONSOLIDATION and INCOME-DRIVEN
REPAYMENT**

QUESTIONS?



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