



**COUNSELING BORROWERS  
ON PAY AS YOU EARN  
AND INCOME-DRIVEN PLANS**

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## BORROWERS HAVE MORE OPTIONS



“We know many recent graduates are worried about repaying their student loans as our economy continues to recover, and now it’s easier than ever for student borrowers to lower monthly payments and stay on track.”

– U.S. Secretary of Education Arne Duncan

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## OBJECTIVES



- ✦ Learn about the newest repayment plan  
– Pay As You Earn
- ✦ Discuss the Income-Based Repayment (IBR) and Income-Contingent Repayment (ICR) plans
- ✦ Review a comparison of Pay As You Earn, IBR, and ICR
- ✦ Discuss a borrower case-study
- ✦ Share ways you can counsel borrowers

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## PAY AS YOU EARN PLAN

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## PAY AS YOU EARN OVERVIEW



- ✦ An initiative of the Obama administration
- ✦ Modeled after IBR plan
- ✦ Intended to provide additional relief for borrowers now
- ✦ Available as of December 21, 2012

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## WHO QUALIFIES FOR PAY AS YOU EARN?



### Direct loan borrowers:

- + Stafford, Grad PLUS, or Direct Consolidation loans
- + Perkins loans, if included in a Direct Consolidation loan
- + Excludes:
  - ✦ Parent PLUS loans
  - ✦ Direct Consolidation loans that repaid a Parent PLUS loan
  - ✦ Defaulted loans
  - ✦ Alternative or private loans

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## WHO QUALIFIES FOR PAY AS YOU EARN?



Must meet the definition of a new borrower:

- + No outstanding DL or FFELP balance as of 10/1/2007, or no outstanding balance on the date a borrower receives a new loan after 10/1/07; **and**
- + Receives a **disbursement** of a DL on/after 10/1/2011
- + Must receive a Direct Consolidation loan based on application received on/after 10/1/2011, unless it repays a DL or FFELP loan that was outstanding as of 10/1/2007

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## ELIGIBLE BORROWER EXAMPLE



- ✗ Kayla takes out her first loan on 8/28/2007
- ✗ She gets a second loan on 8/28/2010 and a third loan on 10/28/2011
- ✗ If Kayla pays off her 8/28/2007 loan today, is she eligible for Pay As You Earn?

Eligible = ☐ No

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## ELIGIBLE BORROWER EXAMPLE



- ✗ Kyle takes out his first loan on 8/28/2007
- ✗ He pays off that loan in 2009
- ✗ He gets a second loan on 8/28/2010 and a third on 10/28/2011
- ✗ Is Kyle eligible for Pay As You Earn?

Eligible = ☐ Yes

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## PARTIAL FINANCIAL HARDSHIP DEFINED



- ✖ Borrower must demonstrate a partial financial hardship (PFH)
- ✖ PFH exists when the annual amount on the borrower's eligible loans exceed 10% of the difference between the borrower's AGI and 150% of the poverty guidelines based on borrower's family size
- ✖ Factors:
  - + Adjusted Gross Income (AGI)
  - + Poverty guidelines
  - + Family size
  - + Standard loan payment

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## PARTIAL FINANCIAL HARDSHIP DEFINED



- ✖ Filing status:
  - + Single or married filing separately
    - ✖ Only the borrower's AGI
  - + Married filing jointly
    - ✖ Borrower and spouse's AGI
    - ✖ Borrower and spouse's loan debt

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## DETERMINING PAY AS YOU EARN ELIGIBILITY



Family size = 1

$$\begin{array}{r}
 \$3,000 \text{ Monthly AGI} \\
 - \$1,437 \text{ 150\% of poverty line} \\
 \hline
 \$1,563
 \end{array}$$

10% of \$1,563 = \$156

Standard payment = \$288

Qualify = ☐ Yes

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## PAY AS YOU EARN TERMS – INTEREST SUBSIDY



If monthly payment amount is not enough to pay accrued interest

- + Subsidized Stafford:
  - ✗ ED will not charge the remaining interest for three consecutive years
  - ✗ Interest subsidy eligibility period continues to elapse:
    - ✗ During deferment/forbearance, except during periods of economic hardship deferment
    - ✗ During periods when borrower doesn't qualify for subsidy
    - ✗ If borrower switches from Pay As You Earn to IBR, or vice versa

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## PAY AS YOU EARN TERMS – INTEREST CAPITALIZATION



Interest capitalizes when a borrower:

- + No longer has a PFH
  - ✗ Limited to 10% of original principal at time borrower enters Pay As You Earn
  - ✗ After 10% cap is reached, interest continues to accrue, but is not capitalized while the borrower remains on Pay As You Earn
- + Leaves Pay As You Earn
- + Does not submit income documentation

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## PAY AS YOU EARN TERMS – LEAVING THE PLAN



- ✗ Borrowers who leave Pay As You Earn may change to a different plan, however they can remain in Pay As You Earn even if they:
  - + No longer have a PFH
  - + Do not submit income documentation
- ✗ Payment reverts to the permanent-standard amount

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## PAY AS YOU EARN TERMS – LOAN FORGIVENESS



- ✦ Remaining balance forgiven after 20 years of qualifying repayment, including any:
  - ✦ Payments made under Pay As You Earn or another income-driven plan
  - ✦ Payments made under the standard repayment (or any other plan) that were not less than the standard plan
  - ✦ Periods of economic hardship deferment
- ✦ Loan amount forgiven is taxable income

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## PAY AS YOU EARN – WHO BENEFITS MOST?



Type of student who would benefit most from Pay As You Earn

- ✦ Direct loan borrowers who:
  - ✦ Recently graduated or will soon
  - ✦ Owe more than they earn annually
  - ✦ Are pursuing careers in public sector
  - ✦ Are teachers with higher debt levels
  - ✦ Are medical residents
  - ✦ Are unemployed

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## INCOME-BASED REPAYMENT PLAN

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## IBR OVERVIEW



- ✦ Introduced by the College Cost Reduction and Access Act (CCRAA) of 2009
- ✦ Designed to help borrowers with unmanageable payments relative to income
  - ✦ Available for borrowers on or after July 1, 2009

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## WHO QUALIFIES FOR IBR



Direct and FFELP loan borrowers:

- ✦ Stafford, Grad PLUS, or Federal Consolidation loans
- ✦ Perkins loans, if included in a FFELP or Direct Consolidation loan
- ✦ Excludes:
  - ✦ Parent PLUS loans
  - ✦ Direct Consolidation loans that repaid a Parent PLUS loan
  - ✦ Defaulted loans
  - ✦ Alternative or private loans

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## PARTIAL FINANCIAL HARDSHIP DEFINED



- ✦ Must demonstrate a partial financial hardship (PFH)
- ✦ PFH exists when the annual amount on the borrower's eligible loans exceed 15% of the difference between the borrower's AGI and 150% of the poverty guidelines based on borrower's family size
- ✦ Factors:
  - ✦ Adjusted Gross Income (AGI)
  - ✦ Poverty guidelines
  - ✦ Family size
  - ✦ Standard loan payment

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## PARTIAL FINANCIAL HARDSHIP DEFINED



### Filing status:

- + Single or married filing separately
  - ✗ Only the borrower's AGI
- + Married filing jointly
  - ✗ Borrower and spouse's AGI
  - ✗ Borrower and spouse's loan debt

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## DETERMINING IBR ELIGIBILITY



Family size = 1

\$3,000 Monthly AGI  
 - \$1,437 150% of poverty line

**\$1,563**

15% of \$1,563 = \$235

Standard payment = \$288

Qualify =  Yes

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## IBR TERMS – INTEREST SUBSIDY



If monthly payment amount is not enough to pay accrued interest

- + Subsidized Stafford
  - ✗ ED will not charge the remaining interest for three consecutive years
  - ✗ Interest subsidy eligibility period continues to elapse:
    - ★ During deferment/forbearance, except during periods of economic hardship deferment
    - ★ During periods when borrower doesn't qualify for subsidy
    - ★ If borrower switches from IBR to Pay As You Earn, or vice versa

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## IBR TERMS – INTEREST CAPITALIZATION



Interest capitalizes when a borrower:

- + No longer has a PFH
- + Leaves IBR
- + Does not submit income documentation

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## IBR TERMS – LEAVING THE PLAN



- ✖ Borrowers who request to leave IBR will have an expedited-standard repayment
  - + Can change to a different repayment plan after one month
  - + Can request a reduced-payment forbearance
- ✖ However, they can remain in IBR even if they:
  - + No longer have a PFH
  - + Do not submit income documentation
  - + Payment reverts to the permanent-standard amount

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## IBR TERMS – LOAN FORGIVENESS



- ✖ Remaining balance forgiven after 25 years of qualifying repayment, including any:
  - + Payments made under IBR or another income-driven plan
  - + Payments made under the standard repayment (or any other plan) that were not less than the standard plan
  - + Periods of economic hardship deferment
- ✖ Loan amount forgiven is taxable income

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## IBR – WHO BENEFITS MOST



Type of student who would benefit most from IBR

- + FFELP or Direct Loan borrowers who:
  - ✗ Owe more than they earn annually
  - ✗ Are pursuing careers in public sector
  - ✗ Are teachers with higher debt levels
  - ✗ Are medical residents
  - ✗ Are unemployed

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## IBR CHANGES



SAFRA/HCERA of 2010 will bring changes to Income-Based Repayment:

- + Cap monthly payment to 10% of discretionary income (as opposed to 15%)
- + Forgive remaining debt after 20 years of qualifying repayment (as opposed to 25 years)
- + Effective for new Direct Loan borrowers on or after July 1, 2014

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## INCOME-CONTINGENT REPAYMENT PLAN

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## ICR OVERVIEW



- ✗ Created in 1994 for Direct Loan borrowers
- ✗ Similar to IBR:
  - + Repayment term is 25 years
  - + Payments count towards Public Service Loan Forgiveness
  - + Loan forgiveness after 25 years

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## WHO QUALIFIES FOR ICR



### Direct loan borrowers:

- + Stafford, Grad PLUS, or Direct Consolidation loans (except a Direct Consolidation Loan that repaid a Parent PLUS loan prior to 7/1/06)
- + Perkins loans, if included in a Direct Consolidation loan
- + Excludes:
  - ✗ Parent PLUS loans (unless included in a Direct Consolidation loan after 7/1/06)
  - ✗ Defaulted loans
  - ✗ Alternative or private loans

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## DETERMINING ICR PAYMENTS



- ✗ Borrowers do not have to demonstrate a PFH
- ✗ Monthly payments are based on borrower's income, family size, and Direct loan debt
- ✗ Payments are the lesser of:
  - + 12-year standard repayment schedule multiplied by income percentage factor (payment based on loan debt and income)
  - or -
  - + 20% of discretionary income (payment based only on income)

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## ICR TERMS – INTEREST CAPITALIZATION



- ✖ Interest is capitalized during periods of negative amortization:
  - + Unpaid amount will capitalize each year
  - + Interest capitalizes only until principal balance is 10% or greater than original principal from when borrower entered repayment
- ✖ Interest capitalizes at the end of deferment and forbearance

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## ICR TERMS – LOAN FORGIVENESS



- ✖ Remaining balance forgiven after 25 years of qualifying repayment, including any:
  - + Payments made under ICR or another income-driven plan
  - + Payments made under the standard repayment (or any other plan) that were not less than the standard plan
  - + Periods of economic hardship deferment
- ✖ Loan amount forgiven is taxable income

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## ICR – WHO BENEFITS MOST?



Type of student who would benefit most from ICR

- + Direct Loan borrowers who:
  - ✖ May not be eligible for Pay As You Earn or IBR
  - ✖ Are pursuing careers in public sector
  - ✖ Are unemployed

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## APPLYING FOR PAY AS YOU EARN, IBR, AND ICR

## APPLYING FOR PAY AS YOU EARN, IBR, AND ICR



- ✱ Electronic application available
  - + IBR/Pay As You Earn/ICR Repayment Plan Request form
- ✱ Uses IRS Data Retrieval Tool to collect tax information from the most recently completed two tax years
- ✱ Electronically transmits application to federal loan servicer
- ✱ Can be used for initial application or annual reevaluations
- ✱ Available at [studentloans.gov](http://studentloans.gov)
- ✱ Borrower may also apply at [mygreatlakes.org](http://mygreatlakes.org) or other federal servicer sites

### IBR/Pay As You Earn/ICR Request

#### Reason for Request

- ☐ I am requesting a repayment plan based on my income.  
☐ I am submitting annual documentation for the recalculation of my monthly payment amount under my current repayment plan.  
☐ I am requesting that my [loan holder\(s\)](#) (or [processor\(s\)](#)) recalculate my current monthly payment amount because my circumstances have changed.

#### Personal Information

##### Permanent Address

Street Address (One 1):   
 Street Address (One 2):   
 City:   
 State:    
 Zip Code:   
 Country:

##### Contact Information

E-Mail Address:  [More Information](#)  
 Home Number:   
 Work Number:   
 Cell Number:   
 Best Time To Reach You -   To:   Eastern Standard Time (EST)

##### Spouse Information

Select any that apply:

- ☐ I file a joint federal income tax return and my spouse has eligible loans. [More Information](#)  
☐ I have a joint Direct or FFEL Consolidation Loan that I obtained with my spouse. [More Information](#)

If you checked any of the boxes above, your spouse is also required to sign this form. By signing, your spouse is authorizing the loan holder(s) to access information about his or her federal student loans in the National Student Loan Data System (NSLDS). In addition, if the Department is not your loan holder(s) and your loan holder(s) does not service at least one of your spouse's loans, your loan holder will need detailed information about all of your spouse's loans to accurately evaluate your eligibility and payment amount. Your spouse should log into NSLDS at [www.nsls.ed.gov](http://www.nsls.ed.gov) to give your loan holder(s) access to his or her loan information. To obtain the organization code needed for authorization on NSLDS or for other options to provide the loan details needed on your spouse's loans, contact your loan holder(s).

### APPLYING FOR PAY AS YOU EARN, IBR, AND ICR



- ✘ Borrower must submit income documentation
- ✘ May submit AGI documentation through:
  - + Electronic application
  - + Paper copy 1040, 1040A, or EZ
    - ✘ Signed or unsigned (new)
  - + IRS Tax Return Transcript

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### APPLYING FOR PAY AS YOU EARN, IBR, AND ICR



- ✘ If AGI is not available or does not reflect current income, borrower can submit alternative documentation of income (ADOI)
- ✘ Borrower must provide documentation of all taxable income
  - + Example: pay stubs, unemployment benefits

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### BORROWER CASE STUDY

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## BORROWER CASE STUDY



Elena is a graphic designer who lives in Florida

- + Single
- + Family size – 1
- + AGI – \$35,000
- + Federal loan debt – \$50,000 (\$23,000 of which is subsidized), all of which has a 6.8% interest rate

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## BORROWER CASE STUDY



Under ICR\*:

- + Initial monthly payment – \$397
- + Final monthly payment – \$535
- + Pay off her loans in 164 months (13 years, 8 months), and therefore receive no forgiveness
- + Pay a total of \$78,444 on her \$50,000 loan debt compared to \$69,037 under the 10-year Standard Repayment Plan

*\*Assumes a 5% increase in Elena's income each year and a 3% annual increase in the poverty guidelines*

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## BORROWER CASE STUDY



Under IBR\*:

- + Initial monthly payment – \$228
- + Final monthly payment – \$575
- + Receive \$653 in interest subsidy during the first three consecutive years of IBR repayment
- + Payments are no longer based on income in her 16<sup>th</sup> year of IBR
- + Pay off her loan at the beginning of her 21<sup>st</sup> year of IBR (therefore receive no loan forgiveness)

*\*Assumes a 5% increase in Elena's income each year and a 3% annual increase in the poverty guidelines*

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## BORROWER CASE STUDY



### Under IBR\*:

- + Pay a total of \$101,673 on her \$50,000 loan debt, compared to \$69,037 under the 10-year Standard Repayment Plan

*\*Assumes a 5% increase in Elena's income each year and a 3% annual increase in the poverty guidelines*

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## BORROWER CASE STUDY



### Under Pay As You Earn\*:

- + Initial monthly payment – \$152
- + Final monthly payment – \$492
- + Receive \$1,999 in interest subsidy, during all of the first three consecutive years of Pay As You Earn repayment
- + Always have a payment that is based on her income

*\*Assumes a 5% increase in Elena's income each year and a 3% annual increase in the poverty guidelines*

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## BORROWER CASE STUDY



### Under Pay As You Earn\*:

- + Forgiveness amount – \$44,979
- + Total paid – \$70,709 on her \$50,000 loan debt, compared to \$69,037 under the 10-year Standard Repayment Plan

*\*Assumes a 5% increase in Elena's income each year and a 3% annual increase in the poverty guidelines*

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## BORROWER CASE STUDY

Comparison of Elena's income-driven repayment options



	Pay As You Earn	IBR	ICR
Initial payment	\$152	\$228	\$397
Final payment	\$492	\$575	\$535
Time in repayment	20 years	20 years, 2 months	13 years, 8 months
Total paid	\$70,709	\$101,673	\$78,444
Forgiven amount	\$44,979	\$0	\$0

*\*Assumes a 5% increase in Elena's income each year and a 3% annual increase in the poverty guidelines*

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## COUNSELING BORROWERS ON PAY AS YOU EARN, IBR, AND ICR

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## COUNSELING BORROWERS

What borrowers should do to prepare for repayment:

- 
- + Use NSLDS to determine how much they owe and to whom
  - + Compare payment amounts under the different plans
  - + Determine how much they can afford
  - + Know the amount of accumulated interest for each plan
  - + Know eligibility for the repayment plans and the loan forgiveness programs

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## COUNSELING BORROWERS



By setting up an online account with their servicer they can:

- + Determine how much they owe
- + Compare payment amounts under the different plans
- + Learn how much interest will accumulate for each plan
- + Determine whether they are eligible for the income-driven repayment plans
- + Select their repayment plan

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## COUNSELING BORROWERS



Remind them that they:

- + Will be placed in the standard plan, if they do not chose a different one during their grace period
- + Can change their plan
- + Can change their due date
- + Can postpone with a deferment/ forbearance if they have difficulty making a payment
- + Will pay more in interest with longer repayment periods

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## COUNSELING BORROWERS



Identify students who may benefit most from income-driven repayment plans:

- + Students in academic programs with larger debt and lower incomes
- + Students who have withdrawn without completing their degree
- + Any former students having trouble making their payments

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## CONCLUSION



- ✦ Help your students become more informed consumers
  - Explain loan repayment options
  - Promote loan forgiveness programs
- ✦ Utilize available resources from Great Lakes, other servicers and the U.S. Department of Education

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**THANKS FOR ATTENDING!**

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