

# Income-Based Repayment

Presenters:

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# Team FFELP IBR Workgroup



- Consist of over 40 NCHELP and SLSA members
- Representatives from 25 member organizations
- Two calls per week
  - Subcommittee calls in between weekly
- Reviewed Common Manual draft policies

# Team FFELP IBR Workgroup



- Eight (8) Subcommittees
  - LaRS
  - Disclosures
  - Partial Financial Hardship documentation
  - Deferment/Forbearance/Capitalization
  - Forms
  - IRS Reporting
  - Default Claim Filing and Rehabilitation
  - Training

# Course Outline

- What is IBR?
- Eligible Loans
- Key Terms
- Repayment
- Disclosures
- Interest Capitalization & Forbearance
- Tracking
- Forgiveness
- Interest and Special Allowance

# What is IBR?

- IBR is a new repayment plan introduced by the College Cost Reduction and Access Act (CCRAA)
- New repayment plan for borrowers designed to help borrowers experiencing a “partial financial hardship”
- Available to FFELP and DL borrowers beginning July 1, 2009

# Eligible loan types

- Available for:
  - Stafford, SLS, Grad PLUS, and federal Consolidation loans that do not include Parent PLUS loans. Perkins, HPSL, HEAL, and FISL loans are 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, state loans, and other loans not guaranteed by the federal government

# What is partial financial hardship (PFH)?

- Based on income and family size: borrower must provide permission for IRS to disclose AGI "and other tax return information" as well as family size certification
- Occurs when the annual amount due on all of the borrower's eligible loans (as calculated under a standard 10-year repayment plan) exceeds 15% of the difference between the borrower's adjusted gross income (AGI) and 150% of the poverty guideline for the borrower's family size

# Adjusted Gross Income (AGI)

- Borrower who files married/joint: both spouse's AGI are considered in determining payment amount
- Borrower who files married/separate: only the borrower's AGI and debt are considered in determining payment amount

# Family Size

- Must be certified annually
- Includes borrower, spouse, children, unborn children if receiving >50% support, and others who live with the borrower and receive >50% support during that year
- Support includes money, gifts, loans, housing, food, clothes, car medical and dental care and payment of college costs
- Family size defaults to one (1) if borrower does not provide required information

# Standard-Standard

- Payment amount calculated when the borrower initially enters repayment based on a 10-year term, regardless of loan type
- Will need to calculate this amount regardless of whether or not the borrower chooses the standard repayment plan when initially entering repayment
- This amount is used to determine eligibility of any payments made outside of the IBR repayment plan to count towards the 25 years (300 payments) for IBR loan forgiveness

# Permanent-Standard

- Payment amount calculated immediately preceding entering IBR on loan balance outstanding
- Based on a new 10-year term
- This is the maximum payment amount the borrower will ever be required to make, unless the borrower requests to leave the IBR plan

# Expedited-Standard

- Payment amount calculated once a borrower voluntarily elects to leave the IBR plan
- Amount is calculated using the remaining term based on a standard repayment plan, based on loan type (maximum of 10 years for Stafford and GradPLUS, maximum of up to 30 years for Consolidation loans, based on original loan balance)

# Expedited-Standard

- Unlike a deferment or forbearance, the borrower does not regain the months spent in IBR when recalculating terms upon leaving IBR completely
- ED has clarified that a borrower **MUST** enter a standard (expedited) repayment plan when terminating repayment under IBR, however, a borrower is not required to stay in the standard (expedited) 10-year repayment plan

# REPAYMENT

# Disclosures

- Lender must provide borrower with notice that informs of the availability of IBR
  - At time of offering a borrower a loan
  - At time of offering a borrower repayment options
- Information may be provided in a separate notice or as part of the other disclosures
- Notice must inform the borrower of:
  - Eligibility for ISR and may be eligible for IBR, including through loan consolidation
  - Procedures by which the borrower can elect ISR or IBR; and
  - Where and how the borrower may obtain more information concerning ISR and IBR

# Repayment Terms

- Can extend beyond 10 years regardless of the amount of the eligible debt
- Will need to track minimum and maximum payment amounts over life of loan
- Payment application order different than other repayment plans
  - Must apply IBR payments first to interest > then to collection costs > late charges > principal

# Determining PFH

- Eligibility verification occurs initially and each subsequent year
- Eligibility and minimum monthly payment is re-evaluated annually
- If borrower selects IBR but fails to submit documentation, holder required to place in standard repayment
- Borrower can elect to remain in IBR even if/when no longer meets hardship requirement

# Payment Amount Calculation

- $15\% [AGI - (150\% \text{ Poverty line applicable to family size})]$  divided by 12
- Calculated payment amount less than \$5 = \$0 payment amount due
- Calculated payment amount between \$5 - \$10 = \$10 payment amount due

# Payment Calculations –Multiple Loans/holders



- The borrower must contact each loan holder separately to request IBR
- The loan holder must include all eligible loans held by them in the IBR plan, unless the borrower requests otherwise
- Each loan holder must include the loan amounts of all eligible loans held by other lenders in the payment calculations, then prorate based on the principal amount held by that loan holder
- After prorating, the loan holder would apply, if needed, the \$5 and \$10 payment rules to the loans held by that loan holder
- The Department approved the use of NSLDS by lenders to determine the amount owed on eligible loans held by other loan holders

# Recalculation of Payment Amount



- Can occur 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 they entered IBR (permanent-standard amount)
- Repayment period may still exceed 10 years when they no longer qualify for PFH or do not renew their IBR (permanent-standard)
- Repayment period is limited to 10 years if borrower chooses to leave IBR completely (expedited-standard)

# Zero Payments

- Credit bureau reporting = Cannot become delinquent for a \$0 installment amount, therefore would not report delinquency
- Cannot be paid-ahead

# Paying Ahead

- Borrower permitted to pay ahead but forgiveness may not occur until reach 25<sup>th</sup> year
- Cannot pay ahead \$0 monthly payment amount

# Interest Capitalization and Forbearance

# New Forbearance Guidelines

Administrative Forbearance is authorized:

- To resolve any delinquency prior to the granting of a new repayment plan (cap permitted);
- For up to 60 days while the lender confirms eligibility for forgiveness; and
- For the guarantor's forgiveness review period, in the event of a denied claim

# Interest Capitalization

## Interest must be capitalized:

- When borrower leaves PFH voluntarily or no longer has a PFH
- When borrower leaves IBR to go to Expedited-Standard
- When guarantor denies forgiveness (lender has the option to capitalize in this case)

# Tracking

# Payment Tracking

Need to “bank” each month in which the borrower:

- Makes a payment under a PFH plan, including a payment amount of \$0
- Makes payments totaling at least the lesser of the Standard-Standard payment amount or the Permanent-Standard payment amount
- Used Economic Hardship Deferment

# Payment Tracking

## ISSUES

- Months must be tracked beginning in July 2009 in all cases
- May need to re-evaluate months already tracked, once the “Permanent-Standard” payment amount is established

# Payment Tracking

## **OTHER ISSUES (continued)**

- After banking a total of 300 qualifying months, if the borrower's account is not yet paid in full, lender/servicer must file a claim for forgiveness

# Payment tracking

## EXCEPTIONS

- If borrower chooses to leave IBR altogether and use the expedited-standard payment amount, any payment they make under that plan must be at least the lesser of standard-standard and permanent-standard

# Payment tracking

## **OTHER ISSUES (continued)**

- If taking on a Rehab Loan, must obtain qualifying months already achieved from the guarantor and continue tracking from there
- Payments collected by the original lender/servicer from July 2009, through the date of default may count toward the 25 years

# Payment tracking

## **OTHER ISSUES (continued)**

- If borrower chooses to consolidate a loan on which the “25-year clock” had already started, the clock will re-start on the Consolidation loan

# Payment tracking

## OTHER ISSUES (continued)

- Borrower cannot achieve early forgiveness by, for example, doubling up on payments. 300 months must elapse regardless.
- No forgiveness will be granted prior to July 1, 2034

# Payment tracking

## **OTHER ISSUES (continued)**

- Pre-payments made prior to July 1, 2009, even if they satisfy installments due after that date (i.e., prepayments), do not count toward the 25-year requirement

# Forgiveness

# Conditions for Forgiveness



- Borrower must have received a partial financial hardship 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

# What counts as an eligible payment?

All payments made on or after July 1, 2009, could potentially be eligible if they fall into one of the eligible categories:

- Partial financial hardship payments made under IBR, including \$0 payment amounts
- Payments made at the permanent-standard amount
- Any payment made that was not less than the standard-standard payment amount
- Each month the borrower is granted an Economic Hardship Deferment on or after July 1, 2009

# What does NOT count as an eligible payment?



- Payments made while in default
- Payments made during rehabilitation
- Payments made in an amount less than the standard-standard or permanent-standard amount
- Payments made prior to July 1, 2009

# Counting 25 years

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

# Processing and Payment

- Loan holder must request payment from guarantor no later than 60 days from date holder determines eligibility
- Within 45 days, the guarantor must determine eligibility and either pay the loan holder or return the request to the loan holder
- Loan holder must notify borrower of guarantor's determination within 30 days
- Loan holder must also provide the borrower with general information on what it believes is the current tax treatment of such forgiveness amounts and is encouraged to refer borrowers to the IRS for further information
- If request is denied, lender may grant forbearance from the date the borrower's repayment obligation was suspended until a new payment due date is established

# Processing and Payment

- The Department will pay outstanding principal and accrued interest for eligible borrowers
- If the guarantor pays more than the outstanding balance on the eligible loans, the loan holder must return any excess amounts to the guarantor
- Once forgiven, the loan holder must promptly return any payment received to the sender

# Interest and Special Allowance

# Interest Accrual

# Interest Accrual

- Interest accrues as normal
- Subject to negative amortization - borrower's payment amount under a Partial Financial Hardship (PFH) may be less than the accrued interest
- **What to do with the difference?**

# Interest Accrual

- If the portion of the scheduled monthly PFH payment amount attributable to the subsidized loans is less than the monthly accrued interest on those loans, the Department will pay the difference, for up to three years

# Interest Accrual

- On the unsubsidized loans, and on all loans after three years, accrued interest will simply build up and, in certain circumstances, capitalize

## 3-year Interest Subsidy

Interest subsidy applies:

- Only while the borrower is on IBR
- To both subsidized Stafford loans and the subsidized portion of Consolidation loans

## 3-year Interest Subsidy

- Three-year period begins when the borrower is first placed on the IBR plan
- Applies at the **loan level**, so loans that enter IBR at different times will each get the full three years

## 3-year Interest Subsidy

- 3-year period continues unabated, even if the borrower exits PFH or consolidates their loan after having already entered PFH
- Only one exception: Periods of Economic Hardship Deferment

## 3-year Interest Subsidy

### What if PFH ended during the quarter?

- Do not include in the cap the unpaid interest during PFH (on the subsidized loans) as would for deferment
- Determine what the borrower paid toward the PFH payments and see if that was less than the total accrued interest for the PFH period
- If so, bill the Department for the difference

# 3-year Interest Subsidy

## **BILLING MECHANISM:**

- Quarterly, as part of the LaRS process

# 3-year Interest Subsidy

## OTHER ISSUES

- The interest subsidy is not contingent upon the borrower actually making a payment, even if the monthly payment amount under PFH is greater than \$0.00

# Stoppage of Interest Accrual

Federal interest subsidies stop:

- On 61<sup>st</sup> day after lender/servicer determines that the borrower has qualified for forgiveness

# Special Allowance

# Special Allowance

- During periods of PFH, lenders/servicers can bill the Department for Special Allowance not only on the average daily principal balance, but on the accrued interest as well
- Includes accrued interest billed to the Department during the first three years of IBR

# Special Allowance

- Special Allowance is billed based on the **average daily accrued interest** amount
- Average daily accrued interest is computed by totaling up the unpaid interest for each day of the quarter on which the borrower was in a PFH and divide this total by the number of days in the quarter
- Round resulting value to the nearest whole dollar

# Special Allowance

- When paying Special Allowance on the average daily accrued interest, the Department will use the same formula applicable to the loan itself, but with an interest rate of 0%

# Special Allowance

## REPORTING MECHANISM:

- New SAP Codes?

**OR**

- Same SAP code as the Average Daily Balance, but with an interest rate of .00?

**Dear Partner Letter anticipated**

# Special Allowance

- Average Daily Accrued Interest, like the Average Daily Balance, is subject to retroactive account adjustments
- For example, if you apply a payment retroactive to a date in the previous quarter, you would need to adjust the average daily accrued interest for that quarter accordingly and report a billing decrease on the next LaRS report

# Team FFELP IBR Workgroup



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# Questions?

