

An Introduction to Income-Based Repayment for Schools



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Course Outline

- What is IBR?
- Eligible Loans
- Disclosures & Counseling
- Key Terms
- Repayment
- Interest Capitalization & Forbearance
- Interest Accrual
- Tracking
- Forgiveness

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, FISL, SLS, Grad PLUS, ALAS and federal Consolidation loans that do not include Parent PLUS loans. Perkins, HPSL, and HEAL 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

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

Exit Counseling

- Must inform the borrower of repayment plans available, including IBR
 - Include a description of the features of the IBR plan
 - Sample information showing average anticipated monthly payments
 - Difference in interest paid and total payments under IBR plan

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
- Subject to \$50 minimum monthly payment

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 months spent in IBR are not excluded when recalculating terms upon leaving IBR completely
- ED has clarified that a borrower **MUST** enter an expedited-standard repayment plan when terminating repayment under IBR, however, a borrower is not required to stay in the expedited-standard repayment plan

REPAYMENT

How Borrowers Can Request IBR

- The industry has developed a Common Application for borrowers to complete and self-certify (with family size included)
- Borrower will also need to complete and return IRS form 4506-T authorizing the lender to request the borrower's AGI from the IRS
- Both the application and the 4506-T form will be sent to the borrower annually to re-certify that the borrower is still in a PFH

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 PFH hardship requirement

Determining PFH

- Example of PFH eligibility:

- Borrower lives in PA and has only one family member
- Standard-Standard payment was calculated at \$200.00
- 150% of the Poverty Line = \$16,254 (annual amount)
- AGI = \$20,000
- $\$20,000 \text{ (AGI)} - \$16,245 \text{ (150\% poverty line)} = \$3,755$
- $15\% \text{ of (AGI - Poverty line)} = \563.25

Q: Does the borrower's annual loan payments exceed 15% of their AGI after subtracting 150% of the Poverty Guideline?

A: Yes (Standard-Standard > calculated PFH)

To determine the monthly payment amount under PFH/IBR, divide \$563.25 by 12, which equals \$46.94

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

Payment Amount Calculation

- 15% [AGI – (150% Poverty guideline applicable to family size)] divided by 12
- Calculated payment amount less than \$5 = \$0 payment amount due
- Calculated payment amount equal to or greater than \$5 and less than or equal to \$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 remaining term 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
- Months in which the payment is \$0 should be reported to credit reporting agencies as “deferred” or “repayment”
 - If reporting as in repayment report a scheduled monthly payment of \$0

Paying Ahead

- Borrower permitted to pay ahead but forgiveness may not occur until reach 25th 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

Interest Capitalization

Interest may be capitalized:

- When administrative forbearance granted for delinquency at repayment plan change
- When guarantor denies forgiveness (lender has the option to capitalize in this case if claim not denied due to lender error)

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

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

Tracking

Payment Tracking

Need to “bank” each month in which the borrower, on or after July 1, 2009:

- Makes a payment under a PFH plan, including a payment amount of \$0
- Makes a payment under IBR, but outside of PHF, totaling at least the Permanent-Standard payment amount
- Makes payments outside of IBR totaling at least the Standard-Standard payment amount; or
- Uses Economic Hardship Deferment

Payment Tracking

ISSUES

- Months must be tracked beginning in July 2009 in all cases
- Months of payments under IBR: Either the PFH payment amount or the permanent-standard payment amount must be tracked

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 standard-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. 25 years must elapse, and the borrower must satisfy 300 qualifying payments.
- 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, including Economic Hardship Deferment months
- 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 outside of IBR in an amount less than the standard-standard
- Payments made under the IBR umbrella (but outside of PFH) in an amount less than permanent-standard
- 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
- For a borrower 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

Processing and Payment

- 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

Additional Resources

NCHELP Web site - IBR Initiatives

<http://www.nchelp.org/pages/page.cfm?id=143>

Questions?

