

Public Service Loan Forgiveness and Income-Based Repayment

Gail McLarnon
Kristie Hansen
U.S. Department of Education



College Cost Reduction and Access Act of 2007

- College Cost Reduction and Access Act of 2007 (CCRAA) amended the Higher Education Act (HEA) by adding:
 - Public Service Loan Forgiveness to the Direct Loan Program (HEA section 455(m))
 - Income-based Repayment (IBR) Plan to the Federal Family Education Loan (FFEL) and Direct Loan Programs (HEA section 493C)
- Public Law 110-84
- Enacted September 27, 2007



Negotiated Rulemaking

- Department of Education negotiated proposed regulations on Public Service Loan Forgiveness and IBR in early 2008
- Consensus achieved
- NPRM published July 1, 2008:
www.ifap.ed.gov/fregisters/attachments/FR07012008/FFELRule.pdf
- Final Rule published October 23, 2008:
www.ifap.ed.gov/fregisters/attachments/FR10232008.pdf



Public Service Loan Forgiveness –\$685.219

- Secretary forgives outstanding balance on an eligible Direct Loan if the borrower:
 - Is not in default
 - Makes 120 separate, full monthly payments, within 15 days of the due date, after October 1, 2007 under one or more specified repayment plans
 - Is employed in a public service job at the time loan forgiveness is requested and granted and during the period the borrower makes the required 120 payments



Loans Eligible for Public Service Loan Forgiveness

- Federal Direct Unsubsidized Stafford Loans
- Federal Direct Subsidized Stafford Loans
- Federal Direct PLUS Loans for parents and grad/professional students
- Federal Direct Consolidation Loans



Loans Eligible for Public Service Loan Forgiveness

- Other Federal loans may qualify for public service loan forgiveness if consolidated into a Direct Consolidation Loan, including:
 - FFEL Subsidized/Unsubsidized Stafford Loans
 - FFEL PLUS Loans for parents and grad/professional students
 - FFEL Consolidation Loans (excluding joint spousal consolidation loans)
 - Federal Perkins Loans
 - Certain Health Professions and Nursing Loans



Repayment Plans Under Which 120 Payments Must be Made

- Income-based repayment plan (not available for parent PLUS loans)
- Income-contingent repayment plan (except parent PLUS borrower)
- 10-year Standard repayment plan
- Any other repayment plan if monthly payment is not less than that paid under Direct Loan standard repayment plan

Eligible Public Service Jobs for Loan Forgiveness

- Employment, in any position, by a public service organization
- Service in a position in Americorps or the Peace Corps
- Employment or service must meet the definition of “full-time”

Definition of Public Service Organization

- A Federal, State, local, or Tribal government organization, agency, or entity
 - A job in government excludes time served as a member of the United States Congress
- A public child or family service agency
- A non-profit organization under section 501(c)(3) of the Internal Revenue Code that is exempt from taxation under section 501(a) of the Internal Revenue Code
- A Tribal college or university

Definition of Public Service Organization (cont.)

- Public service organization is a private organization that provides public services:
 - Emergency management
 - Military service
 - Public safety
 - Law enforcement
 - Public interest law services (legal advocacy may be provided “on behalf of” low-income communities at a nonprofit organization rather than strictly “in” low-income communities at a non-profit organization)

Definition of Public Service Organization (cont.)

- Public service organization is a private organization that provides public services:
 - Early childhood education (including licensed or regulated health care, Head Start, and state-funded pre-kindergarten)
 - Public service for individuals with disabilities and the elderly
 - Public health (including nurses, nurse practitioners, nurses in a clinical setting, and full-time professionals engaged in health care practitioner and health care support occupations)

Definition of Public Service Organization (cont.)

- Public Service Organization is a private organization that provides public services:
 - Public Education
 - Public Library Services
 - School Library and other school-based services

Definition of Public Service Organization (cont.)

- A private organization is not:
 - A for-profit business
 - A labor union
 - A partisan political organization or
 - An organization engaged in religious activities unless activities are unrelated to religious instruction, worship services, or any form of proselytizing

Eligible Public Service Jobs for Loan Forgiveness

- Americorps position means:
 - A position approved by the Corporation for National and Community Service under section 123 of the National and Community Service Act of 1990
- Peace Corps position means:
 - A full-time assignment under the Peace Corps Act as provided for under 22 U.S.C. 2504

Treatment of Lump Sum Payments from Americorps or Peace Corps

- If a borrower makes a lump sum payment using all or part of an Americorps service award or Peace Corps transition payment, qualifying payments equal lesser of:
 - # of payments resulting after dividing the amount of lump sum by monthly payment amount required under appropriate repayment plan or
 - Twelve payments

Definition of “Full-time” for Qualifying Employment

- Full-time means working in qualifying employment in one or more jobs for the greater of:
 - An annual average of at least 30 hours weekly, or
 - For a contractual or employment period of at least 8 months, an average of 30 hours per week; or
 - Unless the qualifying employment is with two or more employers, the number of hours the employer considers full-time.

Definition of “Full-time” for Qualifying Employment

- Definition of full-time (cont.):
 - Vacation or leave time provided by the employer or leave taken for a condition that is a qualifying reason for leave under the Family and Medical Leave Act is not considered in determining the average hours worked on an annual or contract basis.

Public Service Loan Forgiveness Process

- Borrower requests loan forgiveness after making 120 qualifying payments
- Generally, borrowers repaying under IBR or ICR will have outstanding balances left to forgive after 120 qualifying payments
- ED will determine borrower's eligibility and notify borrower accordingly
- In the interim, ED will:
 - Develop a forgiveness application form
 - Develop a process to review, maintain and track borrower's employment and payments

INCOME-BASED REPAYMENT

§682.215 FFEL
§685.221 Direct Loans

Income-Based Repayment

- New repayment plan that began July 1, 2009 for FFEL and Direct loan borrowers
- Caps monthly payments on eligible loans to an affordable amount, based on income and family size

Loans Eligible for IBR

- FFEL or Direct
 - Stafford loans
 - Subsidized and Unsubsidized
 - Grad PLUS loans; not Parent PLUS
 - Consolidation loans, except consolidation loans that paid off Parent PLUS loan
- Loans must not be in default

Borrower Eligibility

- Determined by comparing monthly payment for all eligible loans under 10-year Standard repayment plan to the calculated IBR payment
- If IBR amount is less than Standard repayment, borrower is eligible (deemed to have “partial financial hardship”) and may choose to make IBR payment

Calculating the IBR payment

- Annual IBR payment is 15% of the difference between borrower’s income and 150% of the HHS Poverty Guidelines, adjusted for family size and state of residence

Calculating the IBR payment Borrower’s Income

- Adjusted Gross Income (AGI), as reported to IRS
- If married and filed joint return, combined AGI is used as borrower’s AGI for IBR calculation

Calculating the IBR Payment Borrower's Income (cont.)

- Other documented proof of current income may be accepted if AGI is not available or AGI reported to IRS does not reasonably reflect current income

Calculating the IBR Payment HHS Poverty Guidelines

- Income amounts based on family size and state of residence
- Published annually in Federal Register
- Posted on IFAP as an Electronic Announcement

Calculating the IBR Payment Family size

- Borrower and borrower's spouse
- Borrower's children who receive more than half their support from borrower
 - includes children expected to be born in year of certification
- Other individuals who live with, and receive more than half their support from the borrower

Calculating the IBR Payment Sample Maximum Payments

		Family Size					
		1	2	3	4	5	6
Annual Income	10,000	\$0	\$0	\$0	\$0	\$0	\$0
	20,000	\$47	\$0	\$0	\$0	\$0	\$0
	30,000	\$172	\$102	\$32	\$0	\$0	\$0
	40,000	\$297	\$227	\$157	\$87	\$16	\$0
	50,000	\$442	\$352	\$282	\$212	\$141	\$71

Calculating the IBR Payment Special Rules

- If calculated IBR amount is less than \$5.00, monthly payment is \$0.00
- If calculated IBR amount is equal to or greater than \$5.00 but less than \$10.00, monthly payment is \$10.00

Calculating the 10-year Standard Repayment

- Based on 10-year repayment of aggregate amount of IBR-eligible loans outstanding at point of entering repayment

Comparison of IBR and Standard Repayment Amount

- If monthly amount calculated under 10-year Standard repayment plan is LESS than IBR monthly amount, borrower is not eligible for IBR
- If monthly amount calculated under 10-year Standard repayment plan is MORE than IBR monthly amount, borrower is eligible and may choose to repay under IBR

Example 1: Eligible for IBR

AGI: \$50,000
Family size: 4
State of residence: California
Eligible student loan debt: \$20,000
Interest rate: 6.8%
10-year Standard repayment: \$230
IBR repayment: \$212

Example 2: Not Eligible for IBR

AGI: \$30,000
Family size: 1
State of residence: New York
Eligible student loan debt: \$10,000
Interest rate: 6.8%
10-year Standard repayment: \$115
IBR repayment: \$172

Online help

- Calculator available to estimate amount of IBR payment and borrower eligibility: www.studentaid.ed.gov
- NSLDS available to borrower to obtain complete Federal student loan information - www.NSLDS.ed.gov
- Websites of individual loan holders

IBR Process

- Borrower must annually provide the loan holder with information needed to determine eligibility and calculate IBR payment amount
- Proof of AGI
 - Borrower authorizes IRS verification of AGI
 - Alternative documentation required if AGI does not reflect current income

IBR Process (cont.)

- If borrower requests IBR from loan holder, all loans held by that entity must be repaid under IBR unless borrower requests otherwise
- If there are multiple loan holders, the borrower must apply to each loan holder to qualify on all loans
- Loan holders pro-rate payment amounts

Subsequent Years

- Borrower may continue if still eligible for reduced payment based on annual recalculation
 - Amount of IBR payment may change

Subsequent years (cont.)

- If borrower no longer eligible for IBR reduced payment or chooses to stop making reduced payments under IBR
 - May stay in IBR program with maximum monthly payment recalculated on 10-year Standard repayment of amount owed at point borrower initially started IBR
 - Repayment period may exceed 10 years

Subsequent years (cont.)

- Any borrower who leaves IBR plan will be placed on Standard repayment
 - For non-consolidation borrowers, payment recalculated under 10-year Standard plan, based on time remaining and amount outstanding at the point the borrower discontinued payments under IBR

Subsequent Years (cont.)

- Any borrower who leaves IBR plan (cont.)
 - For a consolidation loan, payment is recalculated based on
 - repayment period remaining in period originally set for consolidation repayment (up to 30 years),
 - balance owed on consolidation loan and other student loans at time borrower discontinued paying under IBR

Subsequent Years (cont.)

- Interest capitalization
 - Interest is capitalized if borrower is no longer eligible for reduced IBR payment or if borrower chooses to leave IBR

Interest Subsidy

- If reduced IBR payment does not cover full amount of interest that accrues each month on borrower's subsidized Stafford loans (or subsidized portion of consolidation loans), Secretary pays remaining interest for borrower for period up to 3 consecutive years from repayment period start date.

Loan Forgiveness

- Amount of accrued interest and principal remaining after borrower makes the equivalent of 25 years of payments through combination of eligible monthly payments and Economic Hardship deferment is forgiven.
- Eligible payments counted towards total of 25 years:
 - Monthly reduced payments under IBR calculation

Loan Forgiveness (cont.)

- Eligible Payments (cont.)
 - Monthly reduced payments capped at maximum payment under 10-year repayment based on repayment of loans outstanding at time entered IBR
 - Monthly payments under ICR (DL)
 - Monthly payments under any repayment plan if amount is not less than 10-year Standard repayment based on loans outstanding at initial repayment of loans

Changes in Regulations

- Proposed change to calculation of 10-year Standard repayment for purposes of determining IBR eligibility would be based on the greater of the amount due at the time
 - Borrower initially entered repayment or
 - Borrower elected repayment under IBR
- Proposed change concerning borrowers filing joint tax return would take into account the combined amount of borrower and spouse's eligible loan debt

Advantages of IBR

- Affordable payments (including \$0)
- If borrower's calculated IBR payment does not cover the monthly accrued interest, the remaining interest is paid for borrower for three years on subsidized loans
- Remaining principal and interest forgiven after 25 years of payments
- IBR payments count for Public Service Loan Forgiveness

IBR Disadvantages

- More interest paid over time
- Repayment period more than 10 years
- Annual submission of information on income and family size to prove continued eligibility for reduced payments under IBR

Next..

- ED staff
 - Working with IRS on web-based verification of AGI and tax treatment of cancelled debt
 - Providing answers to new questions
 - Evaluating initial use and experience of consumers
- Watch www.studentaid.ed.gov for updates

QUESTIONS??

Contact Information

- Gail McLarnon
 - (202) 219-7048
 - gail.mclarnon@ed.gov
- Kristie Hansen
 - (202) 377-3309
 - kristie.hansen@ed.gov

Emergency Preparation

- Federal Student Aid is committed to helping FAAs and schools impacted by a disaster
- Preparation is the Key!
- Update your existing officials in Section A of the E-App and provide ALTERNATE contact information in Section K, Question 69
- Staff are in the Resource Room (007AB) to assist you with updating your contact information. Please come see us!