Repayment Plans 2.0: Strategies and Insights to Help Borrowers Succeed

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Latest Report

Class of 2015 average student loan debt – $30,100 + 44% of college grads in their 20s are employed in low-wage jobs = Many borrowers struggle to afford their loan payments

Sources: The Institute for College Access & Success, 2016; Forbes, 2015

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Latest Report

- As of July, 6.9 million borrowers hadn't sent in a payment in at least 360 days
- 17% of all borrowers with federal loans are severely delinquent

Source: U.S. Department of Education

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Latest Report

- Number of borrowers enrolled in income-driven repayment plans increased 56% from the same time last year
- However, despite the growth, *"there is room to reach more distressed borrowers"*

Source: U.S. Department of Education

Agenda

1. Share details of the income-driven repayment plans
2. Review the non-income driven repayment plans
3. Discuss strategies for helping borrowers prepare for repayment

Details of the Income-Driven Repayment Plans

Income-Driven Plan Overview

REPAYE	PAYE	IBR	ICR
Revised Pay As You Earn	Pay As You Earn	Income-based Repayment	Income-contingent Repayment
2015	2012	2009	1994

IDR Similarities

Provides borrowers with a monthly payment relative to their income

Borrowers must complete application and submit income documentation each year

Provides forgiveness benefit after 20 or 25 years of qualified repayment

Forgiven amounts are considered taxable income

What is REPAYE?

- REPAYE is modeled on the existing Pay As You Earn repayment plan
- Designed to give borrowers a manageable repayment option relative to their income
- Provides forgiveness benefit 20 or 25 years of repayment
- Made available to borrowers as of 12/17/15

Who Qualifies for REPAYE?

- Borrowers with Direct Loans regardless of when the loan was made
  - FFELP loans are included if repaid by a Direct Consolidation loan
- Excludes borrowers with defaulted loans, Direct Parent PLUS or Federal Parent PLUS, or Direct Consolidation Loans that repaid a Direct or Federal Parent PLUS loans

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How Are Payments Calculated?

- Payments are limited to no more than 10% of the amount by which the borrower's AGI exceeds 150% of the poverty guidelines based on borrower's family size divided by 12
  - Partial financial hardship is not a requirement
  - No 10-year standard payment cap

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How Are Payments Calculated?

Adjusted Gross Income

- For married borrowers filing jointly, AGI includes borrower's and spouse's incomes
- For married borrowers filing separately, AGI is combined unless borrower is:
  - Separated
  - Unable to reasonably access income information

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How Are Payments Calculated?

Family Size

- Number of people in the household that live with the borrower and receive more than half of their support from the borrower
  - Includes borrower, spouse, children, and unborn children if born during the year
  - Spouse is not included if separated or filed separately and borrower is unable to reasonably access spouse's income information

How Are Payments Calculated?

Poverty Guidelines

- Published annually by the Department of Health and Human Services

Interest Subsidy

- If borrower's payment is not enough to pay the accrued interest on their loan
  - ED will not charge the interest for three consecutive years on subsidized loans or the subsidized portion of a Direct Consolidation loan
  - Following three-year period, ED will charge the borrower 50% of remaining accrued interest of subsidized loans or the subsidized portion of a Direct Consolidation loan

Interest Subsidy

- The three-year period:
  - Does not include any periods during which the borrower receives an economic hardship deferment
  - Includes prior payment under the IBR or Pay As You Earn repayment plan
  - Includes any period in which the underlying loans of a Direct Consolidation loan were paid under IBR or Pay As You Earn

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Interest Subsidy

- If borrower's payment is not enough to pay the accrued interest on their loan
  - ED will charge the borrower 50% of the remaining accrued interest for borrowers with unsubsidized, Grad PLUS, or unsubsidized portion of a Direct Consolidation loan

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Loan Forgiveness

- Borrowers who received loans as an undergraduate student or a consolidation loan that repaid only loans the borrower received as an undergraduate may qualify for forgiveness after 20 years of repayment

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Loan Forgiveness

- Borrowers who received loans as an graduate or professional student or a consolidation loan that repaid only loans the borrower received as an graduate or professional student may qualify for forgiveness after 25 years of repayment

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Loan Forgiveness

- ED will determine when a borrower has met the loan forgiveness requirement—borrower will not be required to submit a request
  - Forgiven amount is considered taxable income

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Pay As You Earn

- Direct borrowers (excludes parent PLUS or Direct Consolidation loan that repaid a parent PLUS loan)
- Must meet new borrower definition
  - No outstanding DL or FFEL 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 – or –
  - Receives a Direct Consolidation loan based on application received on/after 10/1/2011

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Pay As You Earn

- Borrowers must demonstrate a partial financial hardship
- Payments are capped at 10% of discretionary income

Partial Financial Hardship Factors
Adjusted Gross Income (AGI)
Poverty guidelines
Family size
Standard loan payment

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Pay As You Earn

- If monthly payment amount is not enough to pay accrued interest on subsidized loan, ED will not charge the remaining interest for three consecutive years
- If monthly payment doesn't cover all interest, unpaid interest is capitalized when borrower no longer has PFH or leaves plan
  – Limited to 10% of the original principal balance at the time borrower entered Pay As You Earn

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Pay As You Earn

- Remaining balance after 20 years of repayment will be forgiven
  – Forgiven amount is considered taxable income

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Income-Based Repayment

- Direct loan borrowers (excludes parent PLUS or Direct consolidation loan that repaid a parent PLUS loan) on/after 7/1/14
- Direct and FFELP loan borrowers (excludes parent PLUS or Direct or Federal consolidation loans that repaid a parent PLUS loan) prior to 7/1/14

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Income-Based Repayment

- Borrowers must demonstrate a partial financial hardship
- Payments are capped at 15% of discretionary income (for borrowers prior to 7/1/14)
- Payments are capped at 10% of discretionary income (for borrowers on/after 7/1/14)

Partial Financial Hardship Factors
Adjusted Gross Income (AGI)
Poverty guidelines
Family size
Standard loan payment

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Income-Based Repayment

- If monthly payment amount is not enough to pay accrued interest on subsidized loan, ED will not charge the remaining interest for three consecutive years
- If monthly payment doesn't cover all interest, unpaid interest is capitalized when borrower no longer has a PFH or leaves IBR

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Income-Based Repayment

For borrowers **on/after** 7/1/14: remaining balance after 20 years of repayment will be forgiven	For borrowers **prior** to 7/1/14: remaining balance after 25 years of repayment will be forgiven

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Income-Contingent Repayment

- Direct borrowers
  - Includes Parent PLUS loans, if included in a Direct Consolidation loan on/after 7/1/06
  - Includes FFELP loans, if included in a Direct Consolidation loan

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Income-Contingent Repayment

- Borrowers do not have to demonstrate a partial financial hardship
- Monthly payments are the lesser of:
  - The amount they would pay if they repaid their loan in 12 years multiplied by an income percentage factor that varies with their annual income – or –
  - 20% of their monthly discretionary income

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Income-Contingent Repayment

- Remaining balance after 25 years of repayment will be forgiven
  - Forgiven amount is considered taxable income

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IDR Pros and Cons

Pros

- May provide borrowers with a more affordable monthly payment
- Some principal and interest could be forgiven

Cons

- Must reapply each year
- Borrowers could pay more interest over time
- Forgiven amount is considered taxable income

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Non-Income Driven Repayment Plans

Non-income-Driven Plans

- Standard
- Graduated
- Extended

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Standard Repayment

- Available for Direct and FFEL loan borrowers
- Borrower makes equal monthly payments over 10 years

Pros

- Borrowers pay off with the least amount of interest

Cons

- Monthly payment may not be affordable for those with higher debt

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Graduated Repayment

- Available for Direct and FFEL loan borrowers
- Provides lower payments initially and amount increases over the 10 year period

Pros

- Could provide borrowers with a more management payment at the beginning of their term

Cons

- Payments will be higher near the end of the term

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Extended Repayment

- Available for Direct and FFEL loan borrowers
- Must have loan debt of $30,000 in Direct or FFEL
- Payments can be fixed or graduated
- Repayment period is up to 25 years

Pros

- Could provide borrowers with a lower monthly payment

Cons

- Longer repayment term means more interest paid

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Strategies for Repayment

Determine Affordability

- Develop a budget
  - Fixed and flexible expenses
  - Estimated or actual monthly salary
- Determine how much they can afford each month

FIXED
Housing
Transportation
Insurance

FLEXIBLE
Personal
Clothing
Entertainment
Miscellaneous

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Compare Repayment Plans

- Use the Repayment Estimator at studentloans.gov to compare each plan
- Login using FSA ID
  - Monthly payment
  - Repayment plan eligibility
  - Total interest paid
  - Total cost of plan

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Repayment Estimator

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Bennie's Loans

Salary – $44,000
Loan debt – $28,000 Direct Unsubsidized Loan
Family size – 1

Plan	Monthly Payment	Total Interest	Total Paid	Forgiveness	Term
Standard	$282	$5,859	$33,895	$0	120
Graduated	$158-$473	$7,307	$35,307	$0	120
IBR*	$0	$0	$0	$0	$0
PAYE	$218-$282	$6,650	$34,650	$0	130
REPAYE**	$218-$387	$6,335	$34,335	$0	117
ICR	$218-$244	$7,747	$35,747	$0	153

3.9% interest rate unsubsidized loan; *IBR before7/1/14; **REPAYE for undergraduate loan

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Which repayment plan would work best for Bennie?

a) Standard
b) Graduated
c) IBR
d) PAYE
e) REPAYE
f) ICR

Bella's Loans

Salary – $75,000
Loan debt – $98,000 Direct Grad PLUS Loans
Family size – 2

Plan	Monthly Payment	Total Interest	Total Paid	Forgiveness	Term
Standard	$988	$20,506	$118,506	$0	120
Graduated	$552-$1,656	$25,576	$123,576	$0	120
Extended	$512	$55,565	$153,565	$0	300
IBR*	$637-$988	$27,667	$125,667	$0	146
PAYE	$425-$988	$42,579	$140,579	$0	202
REPAYE**	$425-$1,075	$42,551	$140,551	$0	201
ICR	$924-$1,038	$21,213	$119,213	$0	122

3.9% interest rate unsubsidized loan; *IBR prior to 7/1/14; **REPAYE for graduate loan

Which repayment plan would work best for Bella?

a) Standard
b) Graduated
c) IBR
d) PAYE
e) REPAYE
f) ICR

Bonita's Loans

Salary – $31,000
Loan debt – $34,000 Direct Unsubsidized Loans
Family size – 2

Plan	Monthly Payment	Total Interest	Total Paid	Forgiveness	Term
Standard	$343	$7,114	$41,114	$0	120
Graduated	$192-$575	$8,873	$42,873	$0	120
Extended	$178	$19,278	$53,278	$0	300
IBR*	$87-$343	$18,146	$52,146	$0	225
PAYE	$58-$343	$8,416	$42,416	$15,664	240
REPAYE**	$58-$452	$23,555	$57,555	$0	279
ICR	$221-$269	$11,819	$45,819	$0	187

3.9% interest rate unsubsidized loan; *IBR prior to 7/1/14; **REPAYE for graduate loan

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Q.

Which repayment plan would work best for Bonita?

a) Standard
b) Graduated
c) IBR
d) PAYE
e) REPAYE
f) ICR

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Get Connected

- Sign up for an online account with their servicer
  - Mygreatlakes.org for Great Lakes borrowers
  - Download mobile app
- Select automatic payments

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Counsel 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

Counsel Borrowers

Identify students who may need additional repayment counseling:

- 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

Share Resources

- Mygreatlakes.org
- Nseds.com
- Studentloans.gov
- Annualcreditreport.com
- Bankrate.com

Thanks for Attending

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