

# Income-Based Repayment (\$682.215 and \$685.221)



## Who is eligible for IBR?

A Federal Family Education Loan Program or Federal Direct Loan Program borrower whose loan is in repayment or enters repayment and who has a partial financial hardship is eligible for income-based repayment. Parent PLUS Loans and Consolidation Loans used to pay parent PLUS Loans are not eligible for IBR.

## How do borrowers learn about and apply for IBR?

Borrowers must contact their FFELP lender(s) or servicer(s) or the servicer(s) of their Direct Loans or FFEL loans held by the Department of Education to apply for IBR. Loan and servicer information is available from the National Student Loan Data System. Loan holders can provide counseling about the best repayment options and the application process for each.

## How do borrowers select IBR?

Borrowers who choose to repay under IBR must apply annually by:

- ♦ Providing written consent for the holder to obtain the borrower's adjusted gross income information directly from the Internal Revenue Service, or providing alternative proof of AGI if requested by the holder.
- ♦ Certifying the borrower's family size. If the borrower does not certify the family size, the family size defaults to "1".

**Note:** If the borrower fails to provide the necessary information, or chooses to discontinue repayment under IBR, the holder will calculate a standard (level) repayment plan for the borrower based on the borrower's remaining months in a standard 120-month repayment schedule.

## What is the borrower's payment amount?

The borrower's monthly payment may not exceed 15 percent of the amount by which the borrower's AGI exceeds 150 percent of the applicable poverty guideline, divided by 12. [Provisions that reduce the borrower's payment amount to 10% of the AGI become effective July 1, 2014, and will be available only to new borrowers on or after that date.]

- ♦ If the borrower's calculated monthly payment is less than \$5, the monthly payment is set to \$0; if the borrower's calculated monthly payment is less than \$10 but equal to or greater than \$5, the monthly payment is set to \$10.
- ♦ The repayment period for IBR may exceed 10 years.
- ♦ The holder may capitalize unpaid interest when the borrower leaves IBR or no longer has a partial financial hardship. In either of these circumstances, the holder will recalculate the borrower's monthly payment amount.
- ♦ If the borrower's calculated monthly payment does not cover accruing interest on the borrower's subsidized Stafford loan(s) (or the subsidized portion of the borrower's Consolidation loan), the U.S. Department of Education will pay the unpaid interest on those loans for no more than three consecutive years from the date the borrower enters repayment on each loan. The three-year period does not include any period of economic hardship deferment.
- ♦ If the borrower's monthly payment does not cover the principal amount due, payment of principal is deferred until the borrower leaves IBR or no longer has a partial financial hardship.
- ♦ If the borrower qualifies for IBR, the holder will require the borrower to repay all eligible loans under IBR unless the borrower expressly chooses not to do so.
- ♦ If the borrower has multiple loans with multiple holders and chooses to repay any or all loans under IBR, the borrower must request IBR from each holder. Each holder must adjust the monthly payment amount for the loans it holds by multiplying the monthly IBR payment amount by the prorata percentage of the borrower's loans it holds.
- ♦ In the case of a married borrower who files taxes jointly with a spouse, if both the borrower and the spouse have eligible loans and both apply for IBR, the holder(s) will adjust the monthly payment amount for each borrower by multiplying the calculated payment amount by each borrower's percentage of the couple's total eligible loan debt. If the borrowers have multiple lenders or servicers, each holder adjusts the monthly IBR payment amount by multiplying that amount by the percentage of the total outstanding principal amount of eligible loans it holds.

## When does the borrower qualify for loan forgiveness?

Borrowers who participate in IBR may be eligible for forgiveness of any outstanding loan balance that remains after being in repayment for 25 years and making 300 payments. [Provisions that reduce the time frame for loan forgiveness to 20 years are effective only for new borrowers on or after July 1, 2014.] Payments made on defaulted loans do not count in the 25-year period. Also, if the borrower later chooses to consolidate the loans, the 25-year clock 'restarts' and any qualifying payments or periods of economic hardship deferment that occurred prior to the consolidation will not be counted toward the 25-year period. To qualify for loan forgiveness, the borrower must meet at least one of the following conditions during the repayment period:

- ♦ Made reduced monthly payments under a partial financial hardship.
- ♦ Made reduced monthly payments after the borrower no longer had a partial financial hardship or ceased making IBR payments.
- ♦ Made monthly payments under any repayment plan that were not less than an amount required for a standard 10-year repayment plan.
- ♦ Made monthly payments under a standard 10-year repayment plan based on the borrower's outstanding amount at the time the borrower first chose IBR.
- ♦ Received an economic hardship deferment on the borrower's eligible FFELP loans.

**Note:** If the borrower qualifies for loan forgiveness, the amount forgiven may affect the borrower's taxable income for the tax year in which forgiveness occurs.

## IBR Glossary

**AGI** is the borrower's adjusted gross income as reported to the IRS. If the borrower files separately from a spouse, this amount represents only the borrower's income; if the borrower files jointly with a spouse, this amount includes the combined income of both borrower and the spouse.

**Eligible loan** is any non-defaulted FFELP or Direct Loan, other than a parent PLUS loan or a Consolidation loan that paid a parent PLUS loan. If any portion of a Consolidation loan paid a parent PLUS loan, the entire Consolidation loan is ineligible for IBR.

**Expedited-standard payment amount** is the payment amount that is calculated for a borrower who voluntarily chooses to leave IBR. This amount is calculated using the remaining repayment term based on a standard repayment plan.

**Family size** includes:

- ♦ The borrower.
- ♦ The borrower's spouse.
- ♦ The borrower's children (including children who will be born during the certified year), if the children receive more than half of their support from the borrower.
- ♦ Other individuals who live with the borrower, receive more than half of their support from the borrower and will continue to do so for the certified year. (Support includes housing, food, money, loans, gifts, medical/dental care, clothes and payment of college costs.)

**Partial financial hardship for an unmarried borrower (or a married borrower who files taxes separately from a spouse)** exists when the annual amount due on a borrower's eligible loans, as calculated under the standard 10-year (level) repayment plan, using the greater of the amount due at the time the borrower initially entered repayment or at the time the borrower elects the income-based repayment, exceeds 15 percent of the difference between the borrower's adjusted gross income (AGI) and 150 percent of the poverty income for the borrower's family size.

**Partial financial hardship for a married borrower who files jointly with a spouse** exists when the annual amount due on the borrower's and spouse's eligible loans, as calculated under the standard 10-year (level) repayment plan, using the greater of the amount due at the time the loans initially entered repayment or at the time the borrower or spouse elects the income-based repayment plan, exceeds 15 percent of the difference between the borrower's AGI and 150 percent of the poverty income for the borrower's family size.

**Permanent-standard payment amount** is the payment amount calculated using the borrower's loan balance at the time the borrower initially enters IBR, and is based on a new 10-year term and the \$50 minimum. This establishes the maximum payment amount the borrower would be required to make, unless the borrower chooses to leave the IBR plan.

**Poverty income** is the amount published annually by the U.S. Department of Health and Human Services. The guideline is categorized by state and family size. If the borrower is not a resident of a state, the guideline for the 48 contiguous states that is applicable to the borrower's family size must be used. See <http://aspe.hhs.gov/poverty/08poverty.shtml>.

**Standard-standard payment amount** is the payment amount that must be calculated for all borrowers who are initially entering repayment, based on the standard 10-year term and \$50 minimum. This amount will be used to determine if any payments made outside of IBR can be counted toward the 25 years required for loan forgiveness.