

Income Based Repayment

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The new Income Based Repayment (IBR) plan, which became effective on July 1, 2009, was authorized by a provision of the College Cost Reduction and Access Act (CCRAA) which was signed into law on September 27, 2007. The U.S. Department of Education issued final regulations for this repayment plan on October 23, 2008. The final regulations also have an effective date of July 1, 2009.

Who is eligible?

All borrowers are eligible, provided they have an outstanding balance on an eligible loan and are experiencing a period of partial financial hardship (PFH) as defined in regulations.

How does a borrower know which loans are eligible?

All Federal Family Education Loan Program (FFELP) and Direct loans are eligible, except for a defaulted loan, a Parent PLUS loan, or a Consolidation loan which has paid a Parent PLUS loan.

How does a borrower qualify?

Borrowers may apply for an IBR plan at any time during their repayment period. However, a borrower qualifies to enter the IBR program only if the borrower has a PFH. The lender must determine if the borrower has a PFH for the borrower's initial year in IBR and for each subsequent year that the borrower remains in IBR. A PFH exists in the borrower's annual payment amount, calculated under a standard 10-year repayment period on all eligible and outstanding FFELP and Direct loans when the borrower initially entered repayment on each loan (known as the standard-standard repayment), exceeds 15% of the difference between the borrower's adjusted gross income (AGI) and 150% of the poverty line for the borrower's family size.

To establish eligibility, a borrower self-certifies his/her family size. Family size is defined to include the borrower, the borrower's spouse, and the borrower's children, if the children receive more than half of their support from the borrower. Family size also includes the borrower's unborn children who will be born during the year that the borrower certifies family size. Other individuals may also be included in family size if, at the time the borrower certifies family size, the other individuals live with the borrower and receive more than half their support from the borrower and will continue to receive support from the borrower for the year that the borrower certifies family size. Support is defined as money, gifts, loans, housing, food, clothes, car, medical and dental care, and payment of college costs.

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In order to determine the borrower's AGI, the lender must collect, from the borrower, either a signed copy of the borrower's most recent federal tax return or the tax transcript information from the Internal Revenue Service (IRS). If the lender questions the accuracy of the signed copy of the tax return submitted by the borrower, the lender must require the borrower to provide the lender with a signed consent form (IRS Form 4506-T) or the tax transcript. A tax transcript is obtained by the borrower submitting the IRS Form 4506-T directly to the IRS or submitting the Form to the lender for submission to the IRS. For a married borrower who files separately, AGI includes only the borrower's income.

After the lender determines that the borrower has a PFH, the lender establishes the borrower's aggregate monthly loan payments at 15% of the amount by which the borrower's AGI exceeds 150% of the poverty line income applicable to the borrower's family size and then divided by 12. For the borrower in the example, the initial PFH annual payment amount in IBR was calculated in Step 4 at \$1,697.25. The monthly payment amount is $\$1,697.25/12$ or \$141.44.

If a lender does not hold all of a borrower's eligible loans, the borrower's monthly IBR payment amount is multiplied by the percentage of the borrower's total outstanding principal amount of eligible loans that are held by the lender making the determination of eligibility. For this calculation, the lender may access NSLDS to determine the outstanding principal amount of the borrower's eligible loans that are held by other lenders. If the result of this calculation is less than \$5.00 at the lender level, then the borrower's monthly IBR payment amount is \$0. If the result of the calculation is equal to or greater than \$5.00 but less than \$10.00 at the lender level, then the borrower's monthly IBR payment amount is \$10.00.

If a borrower selects IBR, the lender must, unless the borrower requests otherwise, require that all eligible loans owned by the borrower to that lender be repaid under IBR. If the borrower has multiple lenders and wants to repay all eligible loans under the IBR plan, the borrower must request IBR from each lender.



PFH Eligibility and Payment Amount Calculation Example:

A borrower has an AGI of \$50,000, a family size of 5 and has total loans of \$25,000.

Step 1: Obtain the U.S. Department of Health and Human Services (DHHS) poverty guideline for the borrower's family size, in this example, is \$25,790.00

Step 2: Multiply the DHHS poverty guideline by 150% or $\$25,790 \times 1.5 = \$38,685$.

Step 3: Subtract the result in step 2 from the borrower's AGI or $\$50,000 - \$38,685 = \$11,315$.

Step 4: Calculate the borrower's initial annual PFH payment amount in IBR by multiplying the result of step 3 by 15% or $\$11,315 \times .15 = \$1,697.25$.

Step 5: Determine the annual payment amount on the total of the borrower's loans based on a standard 10-year repayment schedule and the applicable interest rate calculated when the loans first entered repayment. In this example, the borrower's total loan amount is \$25,000 at an interest rate of 6.8% which results in an annual payment amount of \$3,452.40.

Step 6: Since the annual payment amount in Step 5, i.e. \$3,452.40, is greater than the initial annual PFH payment amount in Step 4, i.e. \$1,697.25, the borrower has a PFH.



What if a borrower's economic situation improves?

The lender must request family size and AGI information from the borrower on an annual basis to determine if the borrower continues to have a PFH. The PFH payment amount may change annually. If a borrower no longer has a PFH, or does not provide the required information to the lender, the IBR payment amount is recalculated by the lender based on the borrower's outstanding loan balance as of the date that the borrower entered IBR, calculated over a 10 year repayment period (known as the permanent-standard repayment). This payment amount is the maximum amount the borrower will be required to pay while in the IBR plan. The borrower remains on permanent-standard repayment in IBR until the borrower's loans are paid in full, the borrower re-establishes PFH eligibility, the borrower elects to leave IBR, or the borrower meets the requirements for loan forgiveness. If a borrower chooses to leave IBR, a lender recalculates the borrower's monthly payment amount using a standard repayment schedule for the time remaining on a 10-year repayment period based on the borrower's outstanding loan balance at the time the borrower elects to leave IBR (known as the expedited-standard repayment). For a Consolidation loan, the monthly payment amount is recalculated when a borrower chooses to leave IBR based on the time remaining up to a maximum of 30 years.

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