



## **ECMC Webinar Series:**

### **Income-Based Repayment (IBR) For Schools Follow-up Q & A**

## **General IBR Eligibility**

### **Q: How will students request IBR? Will there be an IBR form and, if so, when will it be available?**

A: After July 1, 2009, students interested in IBR should contact their lenders for information on each lender's process to request IBR. As part of the process for requesting IBR, students will be required to authorize the release of IRS information, which will be accomplished through an IRS form.

### **Q: Can a student have IBR with more than one servicer?**

A: Yes. The student will need to provide a request and the necessary documentation to each servicer. Assuming that the student demonstrates partial financial hardship, the student's calculated monthly payment applies, in total, to all of the eligible loans being paid under an IBR plan. Each servicer will prorate the total monthly payment based on the loan balances serviced by that agency.

### **Q: If a lender "puts" a borrower's loans to the Department of Education, does that affect the borrower's eligibility for IBR? Are only loans held by lenders eligible for IBR?**

A: No. IBR is available for eligible loans in both the FFEL and Direct Loan programs, including loans that are "put" to the Department of Education.

### **Q: Although income-sensitive and income-contingent repayment plans are still available, in what circumstances could those options be better than IBR?**

A: An IBR plan will typically yield the lowest payment of the three income-related repayment plans. But because IBR requires the borrower to demonstrate partial financial hardship in order to receive a payment based on his/her income, there may be situations in which the borrower doesn't qualify for a payment that is tied to the borrower's income. Also, some borrowers may not meet the initial qualification requirements for IBR. Under either of these circumstances, the borrower may find an income-sensitive or income-contingent repayment plan to be beneficial.

### **Q: We are a Direct Loan school and when I talked to the DL servicer last week, all they told me was IBR will exist on July 1<sup>st</sup> – that was it, nothing further. Will they get training on this program sometime soon for students calling in and asking about the program?**

A: The IBR repayment plan is not available until July 1. Students should wait to contact their lenders and servicers, whether FFEL or DL, about the IBR plan until close to that date. Servicers are actively working to implement this highly complex program and may not be able to provide detailed training to their front-line customer service staff until system programming and processing procedures are in place.

## IBR Payments

### **Q: Please clarify the different standard payments that apply to IBR plans. How are they calculated and how are they used?**

A: Three variations of standard payments are used for different purposes within the IBR repayment plan.

- A “standard-standard” payment is an amount used solely for comparison purposes. It is calculated by amortizing the loan balance upon entering repayment over a 10-year term. The “standard-standard” payment amount is used in the formula for determining whether or not a borrower demonstrates partial financial hardship and for evaluating whether payments made under other repayment plans meet the definition of “qualifying payment” for purposes of IBR forgiveness.
- A “permanent-standard” payment is the alternative payment that may be scheduled under an IBR plan. It is calculated by amortizing the loan balance upon entering IBR over a 10-year term. The “permanent-standard” payment amount is the borrower’s scheduled payment under an IBR plan during years in which the borrower does not demonstrate a partial financial hardship.
- An “expedited-standard” payment is the payment initially scheduled in the event that a borrower chooses to completely leave the IBR plan. It is calculated by amortizing the outstanding loan balance upon leaving IBR over a term equal to the maximum term for the loan type (10 years for Stafford and Grad PLUS loans, 10 – 30 years for Consolidation loans), less the amount of time that the borrower has already been in repayment. Borrowers must be scheduled for an “expedited-standard” payment upon leaving IBR, but a borrower may then select any other repayment plan for which the borrower is eligible.

### **Q: Don’t students have to move their loans to the Direct Loan program in order to be eligible for IBR loan forgiveness?**

A: No. The income-based repayment (IBR) program, including its associated loan forgiveness provision, is available in both the FFEL and Direct Loan programs.

You may be confusing the IBR forgiveness provisions with those of the Public Service Loan Forgiveness program. The Public Service Loan Forgiveness program is only available to eligible borrowers with Direct Loans who make qualifying payments through the Direct Loan program.

### **Q: The presentation examples only show payments for family sizes up to 3. If the family size is above 3, does the payment change?**

A: For those individuals who demonstrate partial financial hardship, the payment amount calculation uses the poverty line applicable to the borrower’s family size, for whatever family size that may be. As the family size increases, the monthly payment amount generally decreases. The examples used in the presentation were illustrative only, and were not designed to reflect payment amounts for the virtually infinite possible combinations of income, family size, and state of residence.

### **Q: Will borrowers be able to direct additional payments to their unsubsidized loans to avoid negative amortization, even if interest on the subsidized loan is partially or fully subsidized?**

A: Payments made to cover the scheduled payment amount must be prorated across all loans being repaid under IBR. Borrowers interested in making additional payments over and above the scheduled payments should discuss with their respective lenders/servicers any options for directing those extra payments to specific loans. While additional payments are always allowed, servicing systems can vary with respect to capabilities for applying payments to individual loans versus applying them at a bill group or account level.

## **Debt Levels and Partial Financial Hardship (PFH)**

**Q: Is the debt you referenced in the presentation "loan debt" or "total debt" like credit cards, mortgages, car notes, etc?**

A: For purposes of determining partial financial hardship and the "standard-standard" payment, only FFEL and Direct Loans (excluding Parent PLUS and consolidation loans that include one or more Parent PLUS Federal student loans) are considered in the calculations.

However, with respect to "high-debt" individuals who might consider an IBR plan to be beneficial, those with other debts beyond student loans may find IBR useful in reducing their student loan payments (if they qualify for IBR) in order to direct more money toward repaying other debts first.

**Q: Couldn't a student manipulate the system by simply maintaining a high level of debt and continually qualifying for PFH?**

A: Only eligible FFEL and DL loans are considered in calculating PFH, so an individual can only incur a high debt level by qualifying for these two federal loan programs. Other debts the student might have, such as credit cards, mortgages, and car payments, do not affect the partial financial hardship determination. For individuals who request IBR and demonstrate PFH, the required monthly payment amount is based entirely on income and family size, so individuals who are earning solid incomes will begin to pay-down their debts through the payment structure of the IBR repayment plan.

In theory, yes, a person could "manipulate the system" by deliberately choosing a career with an exceptionally low salary in order to pay as little as possible on the loans. But such a person would need to be very dedicated to this low-income decision for 25 years, and make all of the required payments for that period of time, in order to receive loan forgiveness. Additionally, at least under current law, the amount forgiven will be taxable which could create a sizeable lump sum tax liability.

**Q: After being initially approved for IBR, can a borrower later be involuntarily terminated from the IBR program?**

A: Borrowers will be removed from IBR only upon the borrower's request. A borrower who no longer demonstrates PFH or fails to provide the required annual documentation is not terminated from the IBR plan, but will be scheduled for the "permanent-standard" payment amount for the upcoming year.

**Q: If a borrower in IBR no longer has PFH, but cannot afford to have the payment revert to what it would have been on the standard 10 year plan, how is their payment adjusted to extend the length of repayment?**

A: Under an IBR plan, there are no adjustments to the length of the repayment term. The borrower's payment amount is either tied to AGI and the applicable poverty line if a borrower has PFH, or is scheduled as the "permanent-standard" payment amount if the borrower does not demonstrate PFH.

If a borrower chooses to leave the IBR plan, the borrower will receive an "expedited-standard" payment amount. The borrower may then select any other repayment plan for which the borrower is eligible, including extended repayment.

**Q: If a borrower no longer has a partial financial hardship, can the borrower instead select an extended repayment plan?**

A: An extended repayment term is not available within the IBR repayment plan itself. A borrower could, though, choose to leave IBR. Upon exiting IBR, the borrower will be scheduled for an “expedited-standard” payment, after which the borrower may select extended repayment or any other repayment plan for which the borrower is eligible. If the borrower requests and qualifies for extended repayment, the remaining repayment term is calculated by deducting the amount of time that the borrower has already been in repayment, including time in IBR, from the 25 year term applicable to extended repayment plans.

## **IBR Income Information**

**Q: How do you determine the adjusted gross income (AGI) for a student who has not filed taxes for the past 4 years, or for other individuals who are not required to file taxes?**

A: Regulations state that a lender may use alternate documentation if the borrower’s AGI is not available or if the lender believes that the reported AGI does not reasonably reflect the borrower’s current income. [682.215(e)(1)(i)(B) & 685.221(e)(1)(i)(B)] In these situations, the student should contact the lender or servicer to discuss alternatives for providing income documentation.

**Q: Can a borrower's income be adjusted on an IBR application when the current year's income is significantly less than the prior year?**

A: In general, the prior year’s AGI, as reported to the IRS, will be used to calculate the IBR payment. Because prior year income is used, in some years the borrower may be taking advantage of low payments based on a prior-year, lower income even though the current year income is higher. Similarly, a borrower might be required to make somewhat higher payments in the current year based on a prior-year, higher income. However, in limited circumstances where the lender believes that the reported AGI does not reasonably reflect the borrower’s current income, lenders may be able to use alternative documentation.

**Q: How often can borrowers request a re-evaluation of salary? How often can lenders request this of the student?**

A: Generally speaking, the payment re-evaluation will be conducted on an annual basis, using the most recent AGI data available from the IRS. As noted in question 15, alternative documentation may be considered in limited circumstances.

**Q: Is spousal income excluded in determining PFH and the IBR payment amount if the borrower and spouse file separate IRS returns?**

A: Correct, spousal income is not used in cases where the borrower and spouse file their taxes as “married filing separately”.

Remember, the income used will, in most cases, be the most recent AGI available from the IRS. If the AGI on record with the IRS includes spousal income, the spousal income will be considered for IBR. If spousal income is not included in the IRS record, spousal income is not considered for IBR calculations.

**Q: If a borrower filed this year's taxes jointly with his spouse, but wants to change this, are they simply out of luck until next year? Can they re-file if they find the benefits to be better by filing separately?**

A: According to the 2009 IRS Form 1040X (Amended U.S. Individual Tax Return), a person cannot change from joint to separate returns after the due date. However, borrowers with questions related to modifying a tax-filing status need to contact a qualified tax professional to determine the feasibility of this option, the overall impact on tax liability, and (if allowed) the process for making changes.

**Q: If a borrower is under IBR but no longer has PFH, does the borrower still have to provide information annually?**

A: All borrowers participating in an IBR plan will be asked to provide the annual documentation, including the release of IRS tax information and certification of family size. Even though a borrower may not demonstrate PFH one year, the borrower may have changes in income or family size that will again create a PFH situation in a subsequent year.

**Q: What happens if a borrower does not provide the required annual documentation, does a lender move the borrower out of IBR and schedule a standard payment?**

A: Once a borrower has been initially approved for an IBR plan, the failure to provide required annual documentation will not cause the borrower to be dropped from IBR. Instead, the borrower will be treated the same as a borrower who does not demonstrate PFH – the lender will schedule the borrower for the “permanent-standard” payment for the upcoming year.

**Q: Say a student has \$85,000 AGI for 2008 taxes, but became unemployed in January 2009. Is IBR an option, or is there another program that should be considered?**

A: There is no income “cap” applicable to qualifying for the IBR plan. Instead, to be initially accepted into an IBR plan, the borrower must demonstrate partial financial hardship based on the combination of income, applicable poverty line, and debt-level at the time the loans entered repayment (“standard-standard” payment). At an income level of \$85,000 and family size of one, the borrower would demonstrate partial financial hardship with a “standard-standard” payment amount of approximately \$875 (which would require a loan balance upon entering repayment of \$76,000 at 6.8%).

For borrowers in this situation, an IBR schedule is one option to consider but may not always be the best solution. In the given example, the borrower’s monthly IBR payment would be approximately \$860. If the borrower is seeking a lower payment, an extended repayment plan may provide a lower payment. [A \$76,000 loan at 6.8% would have a payment of about \$530.] Additionally, individuals seeking payment relief can also consider their deferment and forbearance options. In this example, the borrower may want to start by reviewing unemployment deferment criteria.

## **Partial Interest Subsidy & 36-Month “Clock”**

**Q: If a borrower has an IBR payment that is low enough that the borrower receives a partial interest subsidy for the first year, but not in years 2 and 3, would the borrower receive the remaining 24 months of partial interest subsidy if the borrower later receives a payment that is again less than accruing interest?**

A: No. The 36-month partial interest subsidy “clock” available under IBR begins upon approval for an IBR repayment plan and runs regardless of whether the borrower actually receives the benefit.

**Q: If a borrower begins to repay loans under an IBR schedule but later returns to school, is the borrower still eligible for the partial interest subsidy when returning to active repayment?**

A: The 36-month partial interest subsidy “clock” does not stop as a result of a school deferment. The only deferment that suspends this “clock” is the economic hardship deferment. If, for example, a loan has been repaid under an IBR schedule for 14 months then the student returns to school for 18 months, the student has only 4 months of partial interest subsidy remaining (assuming, of course, that the borrower is otherwise eligible for the partial interest subsidy).

Note that in this example, we are only addressing the partial interest subsidy under the IBR plan. While the student is enrolled in school, the student can apply for a school deferment and, if eligible, the student will receive full interest subsidy (on subsidized loans) during the deferment period.

**Q: Can borrowers choose when to start the partial interest subsidy? Or is it automatic when you enter the IBR plan?**

A: The 36-month partial interest subsidy “clock” available under IBR begins upon approval of an IBR plan. The “clock” runs regardless of whether or not the borrower receives any benefit of partial subsidy. Borrowers cannot select when the “clock” begins, other than by choosing when to apply for entering into an IBR repayment plan.

## **IBR and Deferments**

**Q: Can a borrower leave IBR and return to school on a full-time basis and receive a school deferment?**

A: Yes, a borrower can return to school on a full-time basis and receive a school deferment. In this respect, IBR is no different than any other repayment plan.

**Q: Slide 15 seems to indicate that months on economic hardship deferment would count as qualifying payments. Is this true? If so, what is the source for this information?**

A: To qualify for loan forgiveness, the borrower must have qualifying activities during a 25 year period. Those activities are being loosely referred to and tracked as “qualifying payments”. One of the activities deemed to be a “payment” for these purposes is each month (after July 1, 2009) of economic hardship deferment. See 682.215(f)(1)(v) and 685.221(f)(1)(vi).

**Q: If a borrower is granted an economic hardship beginning June 2009 (before IBR is available), can the 11 months after July 1st count towards the eligible payments towards loan forgiveness?**

A: Yes, monthly payments on or after July 1, 2009 that are covered by an economic hardship deferment will count as an eligible “payment” for purposes of IBR forgiveness. To receive loan forgiveness under the IBR program, the borrower must also (at some point) demonstrate partial financial hardship and meet other IBR forgiveness criteria.

**Q: Should a graduating medical student use economic hardship deferment while in residency and then apply for IBR?**

A: Eligibility criteria for the economic hardship deferment is changing as of July 1, 2009 for deferment periods that begin on or after that date. Once the new criteria is in effect, most medical residents will no longer qualify for economic hardship as their stipends will exceed the income thresholds for eligibility. Residents may consider IBR as one option for managing their debts during their residency program.

For those medical residents who prefer to postpone all payments during residency, the internship/residency forbearance remains available. This forbearance must be renewed annually and offers no interest subsidy, but it is available for the duration of the medical residency program.

## **Loan Forgiveness and Taxability**

**Q: For the taxable piece of IBR loan forgiveness, will the lender be providing some sort of report or tax document to use for tax filing purposes?**

A: It is expected that some form of reporting will be required when forgiveness is granted, if the law at that time still stipulates that the forgiven amounts are taxable. However, since the first loan forgiveness under IBR is not expected to occur until July, 2034, it is premature to speculate at this point what documentation might be required.

**Q: It appears from our standpoint (as a medical school financial aid office) that IBR is not a repayment strategy given the high incomes for physicians after a 3-5 year residency. Perhaps IBR may be more of a consideration for a student that was dismissed or withdrew?**

A: For residents seeking a method of managing payments during their residency program, IBR offers one option of making payments that may be more affordable on a residency stipend, in comparison to the payment amounts that will typically be required under other repayment plans. Due to average residency stipends and average subsidized debt levels, many residents may also qualify for a partial interest subsidy if IBR is used during residency.

After residency, use of IBR will depend on the individual physician. You are correct that many physicians will have sufficient incomes to repay their loans outside the IBR plan. However, those with Direct Loans who are entering public health fields and who potentially may be eligible for the Public Service Loan Forgiveness program may choose to pay under an IBR plan in an effort to maximize the forgiveness benefit. In addition, other physicians with high debts who are considering lower-paying fields, such as private practices in rural areas, may find IBR to be a useful tool in keeping their payments affordable when their incomes are lower.

**Q: If a student is going into public service, can they initially go into income-contingent repayment (ICR) and then switch to an IBR plan, or vice versa, with all payments in both counting toward the 120 required payments for the Public Service Loan Forgiveness Program?**

A: If a Direct Loan borrower is entering public service with the intention of qualifying for Public Service Loan Forgiveness program, eligible payments under both IBR and ICR can be counted as qualifying payments. It would not be necessary for an otherwise eligible borrower to switch between ICR and IBR to receive the forgiveness benefit, although the borrower may do this if it is advantageous to do so.

Note, too, that because the ICR plan offers a forgiveness option similar to IBR, all ICR payments, including those made prior to July 1, 2009, may be counted toward IBR loan forgiveness. Direct Loan borrowers performing qualifying public service and whose loans are in repayment prior to July 1, 2009 could begin paying under an ICR plan so that their monthly payments are counted toward forgiveness.

**Q: Is there any information on the 10 year forgiveness for teachers and those students working in "needy" areas?**

A: As of the publication date of this Q&A document, only the Public Service Loan Forgiveness program (Direct Loans only) and the Teacher Loan Forgiveness program (FFEL and Direct loans) are funded.

Although the Higher Education Opportunity Act enacted August 14, 2008 created the Loan Forgiveness for Service in Areas of National Need program and the Loan Repayment for Civil Legal Assistance Attorneys program, neither of these new programs are currently funded.

**Q: Can you explain the difference in loan forgiveness between the Public Service Loan Forgiveness program and the IBR repayment plan?**

A: Under both programs, the forgiveness amount is the remaining loan balance following the making of the required payments and meeting other eligibility criteria.

The income-based repayment plan is available for eligible FFEL and Direct Loans. To qualify for loan forgiveness, the borrower must make 25 years of qualifying payments. There is no service component. The forgiveness award is considered taxable under current IRS rules.

The Public Service Loan Forgiveness program is available only for eligible Direct Loans. To qualify for loan forgiveness, the borrower must make 10 years of qualifying payments while also performing eligible service. Because the forgiveness "award" is considered an exchange for service performed, the forgiveness award is not considered to be taxable under current IRS rules.

**Q: Where can I find more information on the DL Public Service Loan Forgiveness program?**

A: The Direct Loan website has more details on this program, or you can search the phrase "public service loan forgiveness" on the Department of Education's IFAP website.