



VSAC

Fall Training Day

Income Based Repayment (IBR)

October 16, 2009

Training Session Outline

- What is IBR?
- How does IBR work?
- What have we learned?
- Counseling points
- Statistics
- Questions?



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What is IBR?

- IBR is a long-term structured repayment option designed to make repaying education loans easier for students experiencing financial difficulty who have low income relative to all eligible debt regardless of loan holder or servicer.
- Available to FFELP and DL borrowers since July 1, 2009



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What is IBR? (cont)

- Borrowers can qualify for 12-month periods of reduced loan payments based on income and family size
- When not eligible for reduced payments, monthly payment levels are fixed based on outstanding loan balances at the time of entering IBR.



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What is IBR?

- Interest subsidy may be available on subsidized loans
- Has a forgiveness provision for borrowers who have made 25 years of qualifying payments



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Eligible loan types

Available for the following loans in repayment:

- Stafford (Subsidized and Unsubsidized)
- SLS
- Grad PLUS
- Federal Consolidation loans that do not include Parent PLUS loans
- Federal Spousal Consolidation loans that do not include Parent PLUS loans
- Perkins, HPSL, HEAL, and FISL loans are eligible if included in a FFELP or DL consolidation.

Not available for:

- Parent PLUS loans
- Consolidation loans that include Parent PLUS loans
- Private (or “alternative”) student loans, state loans, and other loans not guaranteed by the federal government



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How does IBR work?

- Qualification
- Payments while in IBR
- Interest Subsidy
- Forgiveness



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Qualification

- To initially qualify for IBR, you must have a partial financial hardship (PFH).
- A PFH exists when 15% of the difference between your adjusted gross income (AGI) and 150% of the poverty line (PL) for your family size is less than the annual amount due on all your eligible loans, based on a standard 10-year repayment term.



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Qualification Example

- Adjusted Gross Income = \$32,000
- 150% PL, family of two = \$21,855
- Annual installment due = \$ 1,800

$$((\$32,000 - \$21,855) \times 15\%) = \$1521.75 < \$1800$$

****Borrower Qualifies****



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Qualification Documentation

- AGI is determined from most recently filed federal tax return.
- If taxes were not filed or are not reflective of current income, documentation supporting current income may be provided.
- IBR application must be provided initially and for all future requests for reduced payments.



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Qualifying Loan Debt

- All eligible debt held by the borrower, regardless of lender and servicer, is included in determining IBR eligibility and annual re-qualification for reduced payments (PFH).



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Payments while in IBR

- Reduced Payments while in PFH
- Permanent-Standard Payments



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Reduced Payments

- Reduced payments while in PFH:
 - Based on AGI, family size, and poverty line.
 - Can be \$0.
 - Must re-qualify for future periods of reduced payments.



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Reduced Payment Examples

\$0 Payment:

Adjusted Gross Income = \$20,000

150% PL, family of two = \$21,855

$((\$20,000 - \$21,855) \times 15\%) / 12 = \underline{\$0}$ monthly payment

Non-\$0 Payment:

Adjusted Gross Income = \$25,000

150% PL, family of two = \$21,855

$((\$25,000 - 21,855) \times 15\%) / 12 = \underline{\$39.31}$ monthly payment



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Permanent-Standard

- Borrowers can remain in IBR even when their income is too high to re-qualify for reduced payments.
- The Permanent-Standard is the monthly installment amount required while not in periods of reduced payments but still under the IBR umbrella.
- Established at the time borrower initially qualifies for IBR based on current outstanding loan balance on a 10-year repayment term.
- This is the highest amount a borrower will be required to pay when not in a period of reduced payments and still in IBR.



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Permanent-Standard Examples

Stafford Loan – Example #1

Loan balance at time of conversion = \$10,000

Current pmt based on 10-year term = **\$116**

Loan balance upon entering IBR = \$8,000

Permanent-Standard payment: **\$93**

Stafford Loan – Example #2

Loan balance at time of conversion = \$10,000

Current pmt based on Graduated Repayment = **\$77**

Loan balance upon entering IBR = \$9,500

Permanent-Standard payment: **\$110**



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Permanent-Standard Examples

Consolidation Loan

Loan balance at time of conversion = \$50,000

Current pmt based on 30-year term = **\$326**

Loan balance upon entering IBR = \$45,000

Permanent-Standard payment = **\$518**



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Exiting IBR

- Expedited-Standard payment is the new monthly installment amount established when a borrower voluntarily elects to leave the IBR program.
- Based on current outstanding loan balance when exiting and months remaining in the original loan term.
- The borrower's payment could be much larger if they decide to exit IBR.



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Interest Subsidy

- Interest accrues normally
- Borrower's payment under a PFH may be less than the accrued interest. In this situation the government will pay the remaining interest on the subsidized portion of the balance for the first 3 years of IBR.



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Interest Subsidy (cont)

- On unsubsidized loans, and on all loans after three years, interest will simply accrue and, in certain circumstances, capitalize.
- Interest would capitalize:
 - Any time the borrower no longer has a PFH.
 - When the borrower leaves IBR.
 - Normal capping rules apply for periods of forbearance and deferment while in IBR.



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Forgiveness

- IBR may provide up to 25 years to pay loans in full and any remaining loan balance may be forgiven after 25 years have elapsed.
- Forgiveness may be granted after July 1, 2034.
- Borrower must have made 300 eligible payments.
- Borrower cannot achieve early forgiveness by, for example, doubling up on payments.
- Any loan amount forgiven may be taxable.



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What have we learned?

- IBR is not the golden egg.
- IBR policy continues to evolve.
- To potentially achieve forgiveness, borrowers must have experienced periods of reduced payments for approximately 12 or more years while participating in IBR.



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What have we learned?

- Thorough counseling is necessary to ensure borrowers enter the most appropriate and beneficial repayment option based on their current and anticipated long-term situation.



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Counseling Points

- Because IBR is a long term option, borrowers will likely pay more interest over the life of the loan.
- The Permanent-Standard payment can be much higher than the current installment if:
 - The current installment is based on a maximum term > 10 years.
 - The current installment is based on a Graduated Repayment plan.



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Counseling Points

- Each request for reduced payments requires documentation and disclosure of borrower's most recent federal tax information from the IRS.
- Relative to the Economic Hardship Deferment, it's more difficult to qualify if married filing jointly.



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Counseling Points

- Borrowers remain eligible for deferments and forbearances while in IBR.
- Borrowers should not apply for IBR until their loans have entered repayment.
- Borrowers must contact each loan holder separately to request IBR.



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VSAC Statistics

As of 9/30/09:

- Total # of borrowers in IBR = 185
 - Total # of borrowers in \$0 PFH = 111
- Total # of applications received from borrowers = 257



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Questions?



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