



WomanView

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Income Based Repayment Loan Program: An Alternative Option for Borrowers Struggling to Repay Federal Student Loans

Individuals having difficulty repaying federal student loans have a new repayment option, the Income Based Repayment Loan Program (IBR). Established by the College Cost Reduction and Access Act of 2007, the IBR became available on July 1. The program was created to allow for lowered payments on federal student loans for borrowers with high educational debt and low income and to encourage graduates to pursue careers in public service.

How Does the IBR Work?

Any Stafford, Grad PLUS, or Consolidation loan made under either the Direct Loan or Federal Family Education Loan (FFEL) program is eligible for repayment under the IBR, except loans that are in default, parent PLUS Loans, or consolidated loans that repaid a parent PLUS Loan. The loans may be old or new and for any type of education (undergraduate, graduate, professional, job training).

The IBR caps annual student loan payments at 15 percent of the borrower's discretionary income—the amount by which the borrower's adjusted gross income (AGI) exceeds 150 percent of the federal poverty level. That amount is divided by 12 to get the monthly repayment amount. For most borrowers, IBR payments are less than 10 percent of income, and those whose income is less than 150 percent of the federal poverty level are exempt. Annually the borrower's monthly payment amount is adjusted according to changes in annual income and family size as shown in the preceding year's federal income tax returns. When calculating the cap on monthly payments, a married borrower is permitted to file a separate income tax return to exclude his or her spouse's higher income. For more information on the IBR, see Federal Student Aid at <http://studentaid.ed.gov/PORTALSWebApp/students/english/IBRPlan.jsp>.

How Does the IBR Differ from Other Loan Repayment Programs?

The IBR differs from most loan repayment options in that it bases payments on the borrower's discretionary income to make monthly payments more affordable. By contrast, other options require repayment of the balance over a set period, such as 10 or 25 years. For example, a single borrower has \$40,000 in federal education loans and an AGI of \$30,000 a year. The 2009 federal poverty level in the continental United States for the borrower is \$10,830, and 150 percent of that is \$16,245. The repayment cap on monthly payments would be 15 percent of \$13,755 (\$30,000 – \$16,245) divided by 12 months, or \$171.94 a month under the IBR. That amount is considerably lower than the \$460.32 a month that the borrower would pay under the standard 10-year repayment plan or the \$277.63 a month under the extended 25-year repayment plan. The IBR also yields lower monthly payments than the income-contingent repayment plan, which caps monthly payments at 20 percent rather than 15 percent of the borrower's discretionary income.

Who Is Eligible?

Eligibility is determined by the lender, and borrowers who display a "partial financial hardship" likely qualify for the IBR. A borrower has "partial financial hardship" when the annual amount due on all of the borrower's eligible loans, as calculated under a standard 10-year repayment plan, exceeds 15 percent of discretionary income. The Federal Student Aid website has an IBR calculator to help borrowers find out if

they are eligible for the program. To use the IBR calculator, see <http://studentaid.ed.gov/PORTALSWebApp/students/english/IBRPlan.jsp>.

What Are the Benefits of the IBR?

The IBR has other benefits than reduced monthly payments:

- **Switching Payment Plans Allowed.** The borrower is not locked into the IBR payment plan and may elect to switch to another payment plan or pay off the loan in less time without penalty.
- **Interest Subsidy.** The government pays or waives the unpaid interest on subsidized Stafford loans for the first three years if the borrower's monthly payment does not cover the monthly interest that accrues on the loan. For all other loans, interest accrues until the loan is paid or until the remaining balance is forgiven after the borrower completes 25 years of qualifying payments.
- **Public Service Loan Forgiveness Program.** Borrowers who work full-time in qualifying public service employment for 10 years and make 120 monthly loan payments may have the remaining balance of eligible direct loans forgiven. Payments made since October 1, 2007, count toward the 120-payment requirement. For more information about this program, see FinAid at <http://www.finaid.org/loans/publicservice.phtml>.
- **Non-Public Service Loan Forgiveness Program.** Borrowers not pursuing public service careers may have their loan debt discharged after 25 years of satisfactory repayment.

What Are the Downsides?

While the IBR has many benefits, it does have some downsides:

- **More Interest Payments Due to Extended Repayment Period.** The reduced monthly payment generally extends the repayment period, resulting in the borrower paying more total interest over the life of the loan.
- **Debt Discharged Under 25-Year Plan Taxable.** Under current tax law, borrowers on the 25-year loan forgiveness program have to pay income taxes on the amount of debt discharged the year the loan is forgiven. However, the 10-year loan forgiveness program is tax-free pursuant to a 2008 Internal Revenue Service ruling.
- **Requirement to Submit Annual Documentation.** Participants must supply lenders with annual updated information about their income and family size. Without the documentation, the borrower's monthly payment reverts to the standard 10-year repayment amount.
- **Only Certain Federal Loans Eligible.** Stafford loans, Grad PLUS loans, and most federal consolidation loans under either the Direct Loan or FFEL program are eligible under the IBR. However, state loans, private loans, federal Direct PLUS (parent) loans, including federal consolidation loans that include parent PLUS loans, and loans that are in default are ineligible. For more information, see <http://studentaid.ed.gov/PORTALSWebApp/students/english/IBRPlan.jsp>.

How Do You Apply?

Those interested in applying for the IBR should contact their student loan lender or lenders.

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