

Income-Based Repayment and Public Sector Loan Forgiveness

Greetings,

This summary document describing two new options for repaying federal student loans is adapted from the website <http://www.ibrinfo.org/>. The changes described below provide new opportunities for recent veterinary medical school graduates to alleviate some of their debt burden.

Income-Based Repayment

Income-Based Repayment (IBR) is a new payment option for federal student loans. It can help borrowers keep their loan payments affordable with payment caps based on their income and family size. For most eligible borrowers, IBR loan payments will be less than 10 percent of their income - and even smaller for borrowers with low earnings. IBR will also forgive remaining debt, if any, after 25 years of qualifying payments.

IBR is available to federal student loan borrowers in both the Direct and Guaranteed (or FFEL) loan programs, and covers most types of federal loans made to students, but not those made to parents. To enter IBR, borrowers must have enough debt relative to income to qualify for a reduced payment. That means it would take more than 15 percent of whatever one earns above 150% of poverty level to pay off loans on a standard 10-year payment plan.

IBR uses a sliding scale to determine how much borrowers can afford to pay on federal loans. If borrowers earn below 150% of the poverty level for their family size, the required loan payment will be \$0. If one earns more, the loan payment will be capped at 15 percent of whatever they earn above that amount. Except for the highest earners, that usually works out to less than 10 percent of the borrower's total income.

In some situations, the reduced payment under IBR may not cover the interest on the loans. If so, the government will pay that interest on Subsidized Stafford Loans for the first three years in IBR. After three years and for other loan types, the interest will be added to the total amount owed. While the debt may grow if the affordable payments are low enough, anything still owed after 25 years of qualifying payments will be forgiven.

Qualifying payments: The Department of Education has indicated that the following types of payments will count towards IBR's 25-year forgiveness period, as long as the borrower is in IBR at some point during those 25 years.

- Payments made in the Income Contingent Repayment plan (ICR) *before* July 1, 2009.
- All payments made on or after July 1, 2009 in the IBR, Income Contingent Repayment (ICR), and Standard (10-year) Repayment plans.
- Periods when the borrower has a calculated payment of zero in IBR or ICR (this occurs when the borrower's income is at or below 150% of the poverty level for their family size).

- Periods on or after July 1, 2009, when the borrower has been granted an economic hardship deferment.

Public Service Loan Forgiveness

Public Service Loan Forgiveness (PSLF) is a new program for federal student loan borrowers who work in certain kinds of jobs. It will forgive remaining debt after 10 years of eligible employment and qualifying loan payments. (During those 10 years, the Income-Based Repayment (IBR) plan can help keep loan payments affordable.)

This program is for people with federal student loans who work in a wide range of "public service" jobs, including jobs in government and nonprofit 501(c)(3) organizations. In most cases, eligibility is based on whether they work for an eligible employer. The borrower's job is eligible if they:

- are employed by any nonprofit, tax-exempt 501(c)(3) organization;
- are employed by the federal government, a state government, local government, or tribal government (this includes the military and public schools and colleges); or
- serve in a full-time AmeriCorps or Peace Corps position.

If they don't meet these criteria, the Department of Education's regulations create a two-part test of other circumstances under which the borrower may still be eligible:

(1) the employer is *not* "a business organized for profit, a labor union, a partisan political organization, or an organization engaged in religious activities, unless the qualifying activities are unrelated to religious instruction, worship services, or any form of proselytizing;"

and,

(2) the employer provides any of the following public services: emergency management; military service; public safety; law enforcement; public interest law services; early childhood education; public service for individuals with disabilities and the elderly; **public health**; public education; public library services; and school library **or other school-based services**.

PSLF covers federal Stafford, Grad PLUS, or consolidation loans as long as they are in the Direct Loan program. Borrowers with loans in the Guaranteed (or FFEL) loan program must switch to the Direct Loan program to get this benefit.

Only payments made *after* October 1, 2007 count towards the 10 years (120 monthly payments, not necessarily consecutive) required for Public Service Loan Forgiveness. Qualifying payments are payments made through the William D. Ford Direct Loan Program in any of the following three repayment plans: the Income Contingent Repayment plan, the Standard (10-year) Repayment plan, and the Income-Based Repayment (IBR) plan.

To count, these payments must be made while they are working full-time in an eligible job. "Full-time," according to the final regulations issued by the Department of Education, means an annual average of 30 hours per week or the standard for full-time used by the employer,

whichever is greater. For people working part-time at two or more qualifying jobs, "full-time" means an annual average of 30 hours across all jobs held. In professions such as teaching, annual contracts that include at least eight months of full-time work will be treated as the equivalent of a full year's employment. If they meet all the criteria, the earliest their remaining debt could be forgiven is October 2017.

This loan forgiveness program will only benefit people who still owe money on their federal loans after 10 years of eligible payments and employment. If the borrower's income is low relative to debt, and they qualify for reduced payments under IBR (or Income Contingent Repayment) at any time during those 10 years, the borrower will likely have debt left to forgive.

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