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The  
**GEORGETOWN LAW**  
Financial Aid Office Guide  
to  
Income-Based Repayment  
and  
Federal Public Service Loan Forgiveness

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# What's "income-based" repayment?

*The government may forgive my loan debt?*

**Does it matter if I'm married?**

*Should I pick this option when I enter repayment?*

Until recently, most repayment of student loans was based on how much you owed (just like a car loan, mortgage, etc.). Now, a new option from the federal government allows many borrowers to make payments based on how much they earn instead.

This Guide describes the Income-Based Repayment option and a closely related loan forgiveness program from the federal government for public service employees. Both programs are potentially very beneficial but the details are important to consider. Please take the time to review this Guide carefully and in its entirety – it may well save you tens or hundreds of thousands of dollars! Also, you should not hesitate to ask anyone in the Financial Aid Office if you have questions about these programs or your other loan repayment options.

## The highlights -

- You qualify for Income-Based Repayment ("IBR") based on your federal loan debt, your income and your family size
- Your payments will adjust annually to reflect changes in your income and/or family size
- You do NOT need to be working in a particular field or for a particular type of employer to qualify for IBR
- If you qualify for IBR and also work for a public service employer, you may benefit from the forgiveness of the remainder of your federal debt after 10 years of participation/payment
- You may pay more than you otherwise would over time under IBR if you are not working in the public service
- The new federal benefits and LRAP may be combined if you qualify for both

## **Income-Based Repayment (“IBR”)**

IBR is a new way to determine your monthly federal student loan payment obligation. Under IBR, your monthly payment is determined by your income, not by the amount you have borrowed. The IBR option began July 1, 2009, and is only available for certain federal loans, such as Stafford loans, Grad PLUS loans and most federal Consolidation loans.<sup>1</sup> IBR is **not** available for loans that were consolidated with a Parent PLUS loan, loans that are in default, or private student loans.<sup>2</sup>

You may choose to enter IBR only if you have a “partial financial hardship.” A partial financial hardship is a situation in which the annual payment amount on your IBR-eligible student loans — as calculated under the 10-year, Standard Repayment schedule — exceeds 15% of your discretionary income.<sup>3</sup> Discretionary income for IBR purposes is typically the amount by which your adjusted gross income (“AGI”) exceeds 150% of the federal poverty guideline for your family size.<sup>4</sup> Your family size is determined by counting yourself, your spouse, and your children if they receive more than half their support from you.<sup>5</sup> The 2011 poverty guidelines for a family of one, two and three people living in Washington, DC or any of the contiguous 48 states are \$10,890, \$14,710, and \$18,530, respectively.<sup>6</sup>

The following table provides some examples of minimum eligible debt levels required to qualify for a partial financial hardship, assuming all loans have an interest rate of 6.8%,<sup>7</sup> the borrower is single, has no dependents, and lives in Washington, DC or any of the contiguous 48 states.

Adjusted Gross Income	Minimum Eligible Debt
\$43,935	\$30,000
\$53,135	\$40,000
\$62,335	\$50,000
\$71,535	\$60,000
\$80,815	\$70,000
\$90,015	\$80,000

Your AGI is typically determined from your previous year’s federal tax return. If you’re married, it includes your spouse’s contribution to your AGI if you file your federal tax return jointly.<sup>8</sup> If you file your federal tax return separately, your spouse’s income is not considered for your IBR purposes (although your spouse still counts in your family size).<sup>9</sup>

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<sup>1</sup> Federal Perkins loans also may be paid under IBR, but only if they are included as part of a Federal Direct Consolidation loan.

<sup>2</sup> Eligible loans that were consolidated with a spouse’s eligible loans when that was an option are eligible for IBR if both spouses sign the IBR application. In addition, both spouses must have a “partial financial hardship” as described in the following paragraph. See note 19 below for more information.

<sup>3</sup> Effective July 1, 2010, the applicable loan balance on which the 10-year, Standard Repayment is calculated for this comparison is the greater of the loan balance when the borrower entered repayment and the borrower’s current loan balance.

<sup>4</sup> While this is the default method of determining discretionary income, lenders do have the right to use alternative methods if they believe that your AGI does not reasonably reflect your current income. The Department of Education is requiring alternative documentation of income for new graduates.

<sup>5</sup> You may also count unborn children who will be born during the year in which you are certifying your family size as well as other individuals if those individuals live with you and receive more than half their support from you.

<sup>6</sup> You can review all of the 2011 federal poverty guidelines at <http://aspe.hhs.gov/poverty/11Poverty.shtml> or in Table 1 of the IBR Worksheet on the following page.

<sup>7</sup> If some loans carry a higher interest rate, the minimum eligible debt level would be lower.

<sup>8</sup> Effective July 1, 2010, married borrowers who file joint tax returns and who both have eligible student loan debt will have their individual IBR eligibility determined based on their joint income and the combined eligible loan debt of both spouses.

<sup>9</sup> Please note that certain federal and other tax benefits are not allowable for married taxpayers filing separate tax returns. As with all tax and finance matters, you should carefully consider all the ramifications of electing this repayment option as part of your overall tax and financial strategy.

Under IBR, your loan payments will be capped at 15% of your discretionary income or your payment amount under the Standard Repayment schedule, whichever is less.<sup>10</sup> Every year, your payment amount will be adjusted based on new discretionary income and family size information.<sup>11</sup> In addition, your discretionary income will be compared with your original 10-year standard repayment amount to determine if you continue to have a partial financial hardship. If you cease to have a partial financial hardship, you will begin owing the IBR maximum amount (i.e., your standard 10-year monthly repayments).<sup>12</sup>

Income-Based Repayment Worksheet			
You can use this worksheet to determine if you are eligible for the Income-Based Repayment (IBR) plan to repay your eligible FFELP and/or Federal Direct education loans.			
<b>Total eligible federal student loan debt</b>	[1]	\$	
Eligible federal student loans include only your FFELP/Direct Federal Stafford, Federal Grad PLUS, Federal Perkins, and Federal Consolidation Loans			
<b>Estimated monthly loan payment due for [1]</b>	[2]	\$	
Payment must be calculated using the Standard Repayment Plan based on a 10-year payment schedule: <a href="http://www.finaid.org/calculators/loanpayments.phtml">http://www.finaid.org/calculators/loanpayments.phtml</a>			
<b>Total annual loan payment due for [1]</b>	[3]	\$	
Multiply monthly loan payment due [2] by 12 months as follows: [2] * 12			
<b>Household size</b>	[4]		
Include you, your spouse, and dependents who reside in your household			
<b>Household Adjusted Gross Income (AGI)</b>	[5]	\$	
Include income of your spouse, if married and filed joint federal tax return			
<b>HHS poverty line for household size reported in [4]</b>	[6]	\$	
Refer to Table 1 below to determine the poverty line for your household size and location of household and enter that value			
<b>150% of poverty line for your household size</b>	[7]	\$	
Multiply the poverty line reported in [6] by 150% as follows: [6] * 1.5 (note that the calculated values are provided below in Table 1 for your convenience)			
<b>Household AGI - 150% of poverty line</b>	[8]	\$	
Calculate the amount of your AGI [5] that is above 150% of the poverty line [7] by subtracting [7] from [5] as follows: [5] - [7]			
<b>15% of AGI above 150% of the poverty line</b>	[9]	\$	
Multiply the amount of your household AGI that is above 150% of the poverty line for your household [8] by 15% as follows: [8] * 0.15			
<b>Are you eligible for IBR?</b>	[10]	<b>Eligible / Not Eligible</b> (circle one)	
If [9] is <u>less</u> than [3], you are eligible for IBR If [9] is <u>equal</u> to or <u>greater</u> than [3], you are <b>NOT</b> eligible for IBR			
If you are eligible for IBR (as indicated in [10]), proceed to the next step [11] to calculate your monthly loan payment under IBR; otherwise, stop here.			
<b>IBR monthly loan payment</b>	[11]	\$	
If you are eligible for IBR, your monthly loan payment is calculated by dividing the result from [9] by 12 months as follows: [9] / 12			
<b>Table 1. HHS Poverty Guidelines</b>			
<b>Persons in Family</b>	<b>48 Contiguous States &amp; D.C.</b>	<b>Alaska</b>	<b>Hawaii</b>
1	\$10,890	\$13,600	\$12,540
2	\$14,710	\$18,380	\$16,930
3	\$18,530	\$23,160	\$21,320
4	\$22,350	\$27,940	\$25,710
5	\$26,170	\$32,720	\$30,100
6	\$29,990	\$37,500	\$34,490
7	\$33,810	\$42,280	\$38,880
8	\$37,630	\$47,060	\$43,270
For each additional person, add	\$3,820	\$4,780	\$4,390

<sup>10</sup> If your calculated monthly IBR payment is less than \$5, you will owe nothing. If your calculated monthly IBR payment is equal to or greater than \$5, but less than \$10, your monthly payment will be \$10. Note that it is possible under IBR to owe and pay less each month than the amount of interest that has accrued on your IBR loans for that period. (In other words, IBR allows for the “negative amortization” of your loans. Negative amortization is the process through which your principle loan balance actually increases over time due to unpaid interest being recapitalized.) For the first three years of your IBR payments, any accrued interest you are not obligated to pay on the subsidized Stafford loan portion of your loans will be paid by the U.S. Department of Education. All other such accrued interest is capitalized if/when you leave IBR or no longer have a partial financial hardship.

<sup>11</sup> You must permit your lender to view certain IRS information about you. You must also annually re-certify your family size. If you fail to re-certify your family size, a family size of one will be used even if you had a family size greater than one previously.

<sup>12</sup> You may also choose to exit IBR. If you do, you will automatically be switched to the standard 10-year repayment plan. Your annual ability to subsequently switch to another payment plan is preserved.

## **Federal Public Service Loan Forgiveness**

IBR is a 25-year payment plan. At the end of 25 years, any remaining balances will be forgiven.<sup>13</sup> However, you may be eligible for forgiveness after only 120 on-time IBR payments<sup>14</sup> (or in as little as 10 years<sup>15</sup>) if you satisfy certain additional criteria while making those payments.

First, you must be working full-time<sup>16</sup> for a qualifying public service employer, such as the government (including federal, state and local governments) or a 501(c)(3) non-profit organization.<sup>17</sup>

Second, your IBR loans must be owed directly to the federal government. This type of loan is called a Federal Direct loan. Federal loans borrowed while at Georgetown prior to the 2010-2011 academic year, while guaranteed by the federal government, were borrowed from and are owed to a third-party entity.<sup>18</sup> Therefore, these loans (and other similar federal loans you may have from attendance at other institutions) must be transferred to the U.S. Department of Education through a process called Federal Direct Consolidation. You are entitled by law to make this transfer for the purpose of participating in the public service loan forgiveness program and can start the process by visiting <http://loanconsolidation.ed.gov> or by calling 800-557-7392.<sup>19</sup>

While many administrative details of the federal public service loan forgiveness program have yet to be determined, you will need to affirmatively seek loan forgiveness upon satisfactorily making your 120th qualifying payment and still be employed in full-time qualifying employment when you apply for forgiveness and when that forgiveness is granted. You will also need to provide documentation and verification of your qualifying employment. Therefore, you are strongly urged to keep very careful records of your employment and payment history.

Loans forgiven under this public service program will not be considered taxable income by the IRS.<sup>20</sup>

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<sup>13</sup> The beginning date for the 25-year period is the earlier of the date on which the borrower made an IBR payment or the date on which the borrower made a payment or received an economic hardship deferment on another eligible FFELP loan or made a payment or received an economic hardship deferment on a FFELP Consolidation loan prior to qualifying for IBR, but no earlier than July 1, 2009. See note 18 below for more information on “FFELP” loans.

<sup>14</sup> Qualifying payments on or after October 1, 2007 under the standard, 10-year payment plan also count for the 120 payments requirement as do certain other less common payments made on or after that date provided all other requirements are met. No payments under an extended repayment plan count. Eligible payments must be received within 15 days of the due date to be considered an on-time payment.

<sup>15</sup> The 120 payments do **not** need to be consecutive.

<sup>16</sup> Full-time is defined by your employer, but must be at least 30 hours per week for nine months per year. You may combine part-time employment with multiple eligible employers in order to meet the full-time requirement. In addition, leave taken under a condition covered by the Family and Medical Leave Act of 1993 does not constitute a break in full-time employment or have the effect of reducing your annual average to below your full-time level.

<sup>17</sup> Additional qualifying employment is service in a full-time AmeriCorps or Peace Corps position, employment for tribal government, or employment in a “public service organization” which includes organizations that provide “legal services provided by a public service organization that are funded in whole or in part by a local, state, federal, or tribal government” but are 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.” Full-time volunteer work, other than for AmeriCorps or Peace Corps, does not qualify. The geographic location of your work does not matter for these purposes, but your employer must be a U.S. entity. For questions, please contact Direct Loan Servicing at 800-848-0979.

<sup>18</sup> Examples include Stafford or Grad PLUS loans from Discover, T.H.E., Access Group and Citibank. These federal loans are part of the Federal Family Education Loan Program and are commonly known as “FFELP” loans.

<sup>19</sup> FFELP loans consolidated with a spouse’s loans when that was an option are not eligible for Federal Direct Consolidation and therefore are not eligible for federal public service loan forgiveness.

<sup>20</sup> Note that it is still believed that loan amounts forgiven at the end of the full 25-year IBR schedule will be considered taxable income, although we have some time to worry about that.

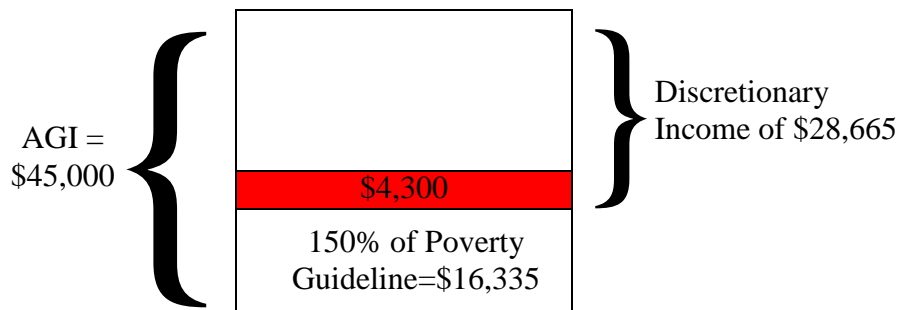
## Is IBR Right For Me?

Now that you are familiar with IBR and the federal public service loan forgiveness program, the question remains whether IBR is right for you. While the answer to that question depends on the specifics of your situation (and predictions by you regarding your future career path), it is helpful to first review some numerical comparisons.

For simplicity, let's assume a student has \$120,000 in total federal student loan debt upon entering repayment. And let's assume that debt is made up of \$61,500 in Stafford loans and \$58,500 in Grad PLUS loans.<sup>21</sup> The amounts<sup>22</sup> this student would owe and pay under typical, non-IBR repayment schedules are:

	Monthly payment	Total payments	NPV of total payments
10-year Standard Repayment	\$1,433	\$171,900	\$131,084
30-year Extended Repayment	\$850	\$305,880	\$147,174

In order to determine what this student's payments will be under IBR (and even whether he is eligible for IBR), we must first investigate his income. Let's assume he lives in D.C., his AGI is \$45,000<sup>23</sup> and he is unmarried and has no children or other dependents.



The red portion of the illustration above represents 15% of this student's discretionary income of \$28,665 (or \$4,300). Since that amount is less (much less!) than his annual payments would be under his 10-year, Standard Repayment schedule ( $\$1,433 \times 12 = 17,196$ ), he is eligible for IBR. His initial monthly payments under IBR would be \$358 ( $\$4,300 / 12$ ).

But remember, unlike the Standard or Extended Repayment options, this student's monthly payments are likely to change from year to year because his income is likely to increase. Let's assume his income increases by 6% each year and he is employed by an eligible public service employer. His monthly

<sup>21</sup> This hypothetical example is highly stylized. While the total loan debt is similar to the average student loan debt for recent Georgetown Law graduates, including three years of maximum Stafford loan borrowing, it does not take into account interest that would have accrued on the unsubsidized portions of that debt while the student is in school. It also does not take into account any benefits of IBR and the federal public service loan forgiveness program as they relate to the subsidized Stafford debt while in repayment. The interest rates in this example are assumed to be 6.8% for the Stafford loans and 8.5% for the Grad PLUS loans. This example also assumes an annual income growth rate of 4%, a discount rate of 5.8% and an annual poverty level growth rate of 3%. You should compute your own projections using your assumptions.

<sup>22</sup> These and all amounts in this hypothetical are approximated.

<sup>23</sup> This is a typical starting salary for a public interest attorney. Remember that the default method of determining IBR payments uses the borrower's AGI from the previous year, which in many cases will be lower than current salary.

payments would increase each year (as his income, and therefore his discretionary income increases) until, in year 10, his monthly payments would equal approximately \$536. At the end of year 10, he would have paid approximately \$53,107 (\$39,674 in NPV). Assuming he made his payments on-time, he would then qualify for federal forgiveness of the remaining amount outstanding, or approximately \$158,438.

What if this student earned the same amount in year one (and over time), but did not work for an eligible public service employer? (For example, let's assume he works for a small, private firm in a rural town.) He would still qualify for IBR (since 15% of his discretionary income is less than the annual amount of his payments under his 10-year, Standard Repayment schedule), but he would not benefit from the federal public service loan forgiveness benefit after 120 payments. Instead, he would need to continue making payments until the end of year 25 when the remainder of his owed amount would be forgiven under the IBR provisions themselves. At the end of year 25 he would have paid approximately \$192,268 (\$90,618 in NPV) and approximately \$154,065 would be forgiven.

There are many assumptions in this hypothetical. Unfortunately, you will need to make many assumptions too as you consider the IBR option (the biggest of which is your future employment). You are advised to experiment with different hypothetical situations using the calculators available at [www.finaid.org](http://www.finaid.org) or the worksheet included in this packet and should feel free to consult with a member of the Georgetown Law Center Financial Aid Office team for more individualized advice.