

# Session #11

## FFEL and Direct Loan Repayment Plans and Loan Forgiveness

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# College Cost Reduction and Access Act of 2007

- College Cost Reduction and Access Act of 2007 (CCRAA) amended the Higher Education Act (HEA) by adding:
  - Public Service Loan Forgiveness to the Direct Loan Program (HEA section 455(m))
  - Income-based Repayment (IBR) Plan to the Federal Family Education Loan (FFEL) and Direct Loan Programs (HEA section 493C)
- Public Law 110-84
- Enacted September 27, 2007

# Higher Education Opportunity Act (HEOA)

- Public Law 110-315
- Enacted August 14, 2008
- Amended HEA to:
  - Extend Teacher Loan Forgiveness to full-time teachers employed by an educational service agency (ESA)
  - Include new eligibility standards for title IV loan total and permanent disability discharges

# Regulations

- Final (CCRAA) Rule published October 23, 2008:  
[www.ifap.ed.gov/fregisters/attachments/FR10232008.pdf](http://www.ifap.ed.gov/fregisters/attachments/FR10232008.pdf)
- Final Rule (HEOA) published October 29, 2009:  
[www.ifap.ed.gov/fregisters/attachments/FR10292009.pdf](http://www.ifap.ed.gov/fregisters/attachments/FR10292009.pdf)

# FFEL and Direct Loan Forgiveness

- Teacher Loan Forgiveness
- Public Service Loan Forgiveness
- Service in Areas of National Need (no appropriation)
- Service as Civil Legal Assistance Attorney (no appropriation)

# FFEL and Direct Loan Discharges

- Death (including death of a dependent for parent PLUS)
- Total and Permanent Disability
- Bankruptcy
- Closed School
- Unpaid Refund
- False Certification
  - School-based
  - Identity Theft



# Teacher Loan Forgiveness Changes

- Full-time teachers employed by educational service agency
- Same eligibility criteria and forgiveness amounts (low-income; 5 consecutive years; up to \$5000 or \$17,500)
- States will identify eligible ESAs for ED Directory of Designated Low-Income Schools
- For ESA teachers, 5 consecutive years qualifies only if includes ESA service performed after 2007-2008 academic year for service that begun prior to effective date

# Total and Permanent Disability Discharge Changes

- New statutory eligibility standards
  - For certain veterans: Has been determined by secretary of Veterans Affairs to be unemployable due to service –connected disability
  - Effective August 14, 2008 (DCL-09-04, May 15, 2009)

# Total and Permanent Disability Discharge Changes

- New statutory eligibility standards for all other borrowers:
    - Is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death, has lasted for a continuous period of not less than 60 months, or can be expected to last for a continuous period of not less than 60 months
- (Effective: TPD Applications received on/after July 1, 2010)

# Total and Permanent Disability Discharge Changes

For all other borrowers:

- Potential Reinstatement of discharged loan for 3 years after date discharge granted if borrower:
  - Receives income that exceeds 100% of HHS Poverty guideline for family of two
  - Receives new Teach Grant or title IV loan (except Consolidation)
  - Fails to repay loan or Teach Grant disbursements for loans/awards made before discharge date and received in 3-year post-discharge period

# Public Service Loan Forgiveness – §685.219

- Secretary forgives outstanding balance on an eligible Direct Loan if the borrower:
  - Is not in default
  - Makes 120 separate, full monthly payments, within 15 days of the due date, after October 1, 2007 under one or more specified repayment plans
  - Is employed in a public service job at the time loan forgiveness is requested and granted and during the period the borrower makes the required 120 payments



# Loans Eligible for Public Service Loan Forgiveness

- Federal Direct Unsubsidized Stafford Loans
- Federal Direct Subsidized Stafford Loans
- Federal Direct PLUS Loans for parents and grad/professional students
- Federal Direct Consolidation Loans

# Loans Eligible for Public Service Loan Forgiveness

- Other Federal loans may qualify for public service loan forgiveness if consolidated into a Direct Consolidation Loan, including:
  - FFEL Subsidized/Unsubsidized Stafford Loans
  - FFEL PLUS Loans for parents and grad/professional students
  - FFEL Consolidation Loans (excluding joint spousal consolidation loans)
  - Federal Perkins Loans
  - Certain Health Professions and Nursing Loans

# Repayment Plans Under Which 120 Payments Must be Made

- Income-based repayment plan (not available for parent PLUS loans)
- Income-contingent repayment plan (except parent PLUS borrower)
- 10-year Standard repayment plan
- Any other repayment plan if monthly payment is not less than that paid under Direct Loan standard repayment plan

# Eligible Public Service Jobs for Loan Forgiveness

- Employment, in any position, by a public service organization
- Service in a position in Americorps or the Peace Corps
- Employment or service must meet the definition of “full-time”

# Definition of Public Service Organization

- A Federal, State, local, or Tribal government organization, agency, or entity
  - A job in government excludes time served as a member of the United States Congress
- A public child or family service agency
- A non-profit organization under section 501(c)(3) of the Internal Revenue Code that is exempt from taxation under section 501(a) of the Internal Revenue Code
- A Tribal college or university

# Definition of Public Service Organization (cont.)

- Public service organization is a private organization that provides public services:
  - Emergency management
  - Military service
  - Public safety
  - Law enforcement
  - Public interest law services (legal advocacy may be provided “on behalf of” low-income communities at a nonprofit organization rather than strictly “in” low-income communities at a non-profit organization)



# Definition of Public Service Organization (cont.)

- Public service organization is a private organization that provides public services:
  - Early childhood education (including licensed or regulated health care, Head Start, and state-funded pre-kindergarten)
  - Public service for individuals with disabilities and the elderly
  - Public health (including nurses, nurse practitioners, nurses in a clinical setting, and full-time professionals engaged in health care practitioner and health care support occupations)



# Definition of Public Service Organization (cont.)

- Public Service Organization is a private organization that provides public services:
  - Public Education
  - Public Library Services
  - School Library and other school-based services

# Definition of Public Service Organization (cont.)

- A private organization is not:
  - A for-profit business
  - A labor union
  - A partisan political organization or
  - An organization engaged in religious activities unless activities are unrelated to religious instruction, worship services, or any form of proselytizing

# Eligible Public Service Jobs for Loan Forgiveness

- Americorps position means:
  - A position approved by the Corporation for National and Community Service under section 123 of the National and Community Service Act of 1990
- Peace Corps position means:
  - A full-time assignment under the Peace Corps Act as provided for under 22 U.S.C. 2504

# Treatment of Lump Sum Payments from Americorps or Peace Corps

- If a borrower makes a lump sum payment using all or part of an Americorps service award or Peace Corps transition payment, qualifying payments equal lesser of:
  - # of payments resulting after dividing the amount of lump sum by monthly payment amount required under appropriate repayment plan or
  - Twelve payments

# Definition of “Full-time” for Qualifying Employment

- Full-time means working in qualifying employment in one or more jobs for the greater of:
  - An annual average of at least 30 hours weekly, or
  - For a contractual or employment period of at least 8 months, an average of 30 hours per week; or
  - Unless the qualifying employment is with two or more employers, the number of hours the employer considers full-time



# Definition of “Full-time” for Qualifying Employment

- Definition of full-time (cont.):
  - Vacation or leave time provided by the employer or leave taken for a condition that is a qualifying reason for leave under the Family and Medical Leave Act is not considered in determining the average hours worked on an annual or contract basis



# Public Service Loan Forgiveness Process

- Borrower requests loan forgiveness after making 120 qualifying payments
- Generally, borrowers repaying under IBR or ICR will have outstanding balances left to forgive after 120 qualifying payments
- ED will determine borrower's eligibility and notify borrower accordingly

# Current FFEL and Direct Loan Repayment Plans

- Standard Repayment Plan
- Extended Repayment Plan
- Graduated Repayment Plan
- Income-based Repayment Plan
- Income-Sensitive Repayment (FFEL only; lender specific)
- Income Contingent Repayment Plan (Direct loan Only)

# INCOME-BASED REPAYMENT

§682.215 FFEL  
§685.221 Direct Loans



# Income-Based Repayment

- New repayment plan that began July 1, 2009 for FFEL and Direct loan borrowers
- Caps monthly payments on eligible loans to an affordable amount, based on income and family size

# Loans Eligible for IBR

- FFEL or Direct
  - Stafford loans
    - Subsidized and Unsubsidized
  - Grad PLUS loans; not Parent PLUS
  - Consolidation loans, except consolidation loans that paid off Parent PLUS loan
- Loans must not be in default

# Borrower Eligibility

- Determined by comparing monthly payment for all eligible loans under 10-year Standard repayment plan to the calculated IBR payment
- If IBR amount is less than Standard repayment, borrower is eligible (deemed to have “partial financial hardship”) and may choose to make IBR payment



# Calculating the IBR payment

- Annual IBR payment is 15% of the difference between borrower's income and 150% of the HHS Poverty Guidelines, adjusted for family size and state of residence

# Calculating the IBR payment Borrower's Income

- Adjusted Gross Income (AGI), as reported to IRS
- If married and filed joint return, combined AGI is used as borrower's AGI for IBR calculation
- Effective July 1, 2010
  - New treatment for married borrowers who filed joint return and both individuals have eligible loans

# Calculating the IBR Payment Borrower's Income (cont.)

- Other documented proof of current income may be accepted if AGI is not available or AGI reported to IRS does not reasonably reflect current income

# Calculating the IBR Payment HHS Poverty Guidelines

- Income amounts based on family size and state of residence
- Published annually in Federal Register
- Posted on IFAP as an Electronic Announcement

# Calculating the IBR Payment Family size

- Borrower and borrower's spouse
- Borrower's children who receive more than half their support from borrower
  - includes children expected to be born in year of certification
- Other individuals who live with, and receive more than half their support from the borrower

# Calculating the IBR Payment Special Rules

- If calculated IBR amount is less than \$5.00, monthly payment is \$0.00
- If calculated IBR amount is equal to or greater than \$5.00 but less than \$10.00, monthly payment is \$10.00

# Calculating the 10-year Standard Repayment

- Based on 10-year repayment of aggregate amount of IBR-eligible loans outstanding at point of entering repayment
- Effective July 1, 2010, use of the greater of eligible loans outstanding at point of initial repayment or at time of IBR request

# Comparison of IBR and Standard Repayment Amount

- If monthly amount calculated under 10-year Standard repayment plan is LESS than IBR monthly amount, borrower is not eligible for IBR
- If monthly amount calculated under 10-year Standard repayment plan is MORE than IBR monthly amount, borrower is eligible and may choose to repay under IBR

# Online help

- Calculator available to estimate amount of IBR payment and borrower eligibility: [www.studentaid.ed.gov](http://www.studentaid.ed.gov)
- NSLDS available to borrower to obtain complete Federal student loan information - [www.NSLDS.ed.gov](http://www.NSLDS.ed.gov)
- Websites of individual loan holders

# IBR Process

- Borrower must annually provide the loan holder with information needed to determine eligibility and calculate IBR payment amount
- Proof of AGI
  - Borrower authorizes IRS verification of AGI
  - Alternative documentation required if AGI does not reflect current income

# IBR Process (cont.)

- If borrower requests IBR from loan holder, all loans held by that entity must be repaid under IBR unless borrower requests otherwise
- If there are multiple loan holders, the borrower must apply to each loan holder to qualify on all loans
- Loan holders pro-rate payment amounts

# Subsequent Years

- Borrower may continue if still eligible for reduced payment based on annual recalculation
  - Amount of IBR payment may change

# Subsequent years (cont.)

- If borrower no longer eligible for IBR reduced payment or chooses to stop making reduced payments under IBR
  - May stay in IBR program with maximum monthly payment recalculated on 10-year Standard repayment of amount owed at point borrower initially started IBR (includes consolidation borrowers)
  - Repayment period may exceed 10 years



# Subsequent years (cont.)

- Any borrower who leaves IBR plan will be placed on Standard repayment
  - For non-consolidation borrowers, payment recalculated under 10-year Standard plan, based on time remaining and amount outstanding at the point the borrower discontinued payments under IBR

# Subsequent years (cont.)

- Any borrower who leaves IBR plan (cont.)
  - For a consolidation loan, payment is recalculated based on
    - repayment period remaining in period originally set for consolidation repayment (up to 30 years)
    - balance owed on consolidation loan and other student loans at time borrower discontinued paying under IBR

# Subsequent Years (cont.)

- Interest capitalization
  - Interest is capitalized if borrower is no longer eligible for reduced IBR payment or if borrower chooses to leave IBR

# Interest Subsidy

- If reduced IBR payment does not cover full amount of interest that accrues each month on borrower's subsidized Stafford loans (or subsidized portion of consolidation loans), Secretary pays remaining interest for borrower for period up to 3 consecutive years from repayment period start date

# Loan Forgiveness

- Amount of accrued interest and principal remaining after borrower makes the equivalent of 25 years of payments through combination of eligible monthly payments and Economic Hardship deferment is forgiven
- Eligible payments counted towards total of 25 years:
  - Monthly reduced payments under IBR calculation

# Loan Forgiveness (cont.)

- Eligible Payments (cont.)
  - Monthly reduced payments capped at maximum payment under 10-year repayment based on repayment of loans outstanding at time entered IBR
  - Monthly payments under ICR (DL)
  - Monthly payments under any repayment plan if amount is not less than 10-year Standard repayment based on loans outstanding at initial repayment of loans

# Advantages of IBR

- Affordable payments (including \$0)
- If borrower's calculated IBR payment does not cover the monthly accrued interest, the remaining interest is paid for borrower for three years on subsidized loans
- Remaining principal and interest forgiven after 25 years of payments
- IBR payments count for Public Service Loan Forgiveness

# IBR Disadvantages

- More interest paid over time
- Repayment period more than 10 years
- Annual submission of information on income and family size to prove continued eligibility for reduced payments under IBR

# Questions??



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