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Preparing for Repayment Restart

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The Institute of Student Loan Advisors

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Agenda

- Overview of the Income Driven Plans
- Plan Specifics
- Overview of the IDR One-Time Adjustments
- Adjustment Specifics
- Consolidation
- Fresh Start
- Restart On Ramp

About TISLA

- Non-profit that offers free, expert, unbiased, student loan advice and dispute resolution to all consumers.
- Nationally recognized student loan experts
- freestudentloanadvice.org

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riven Plans

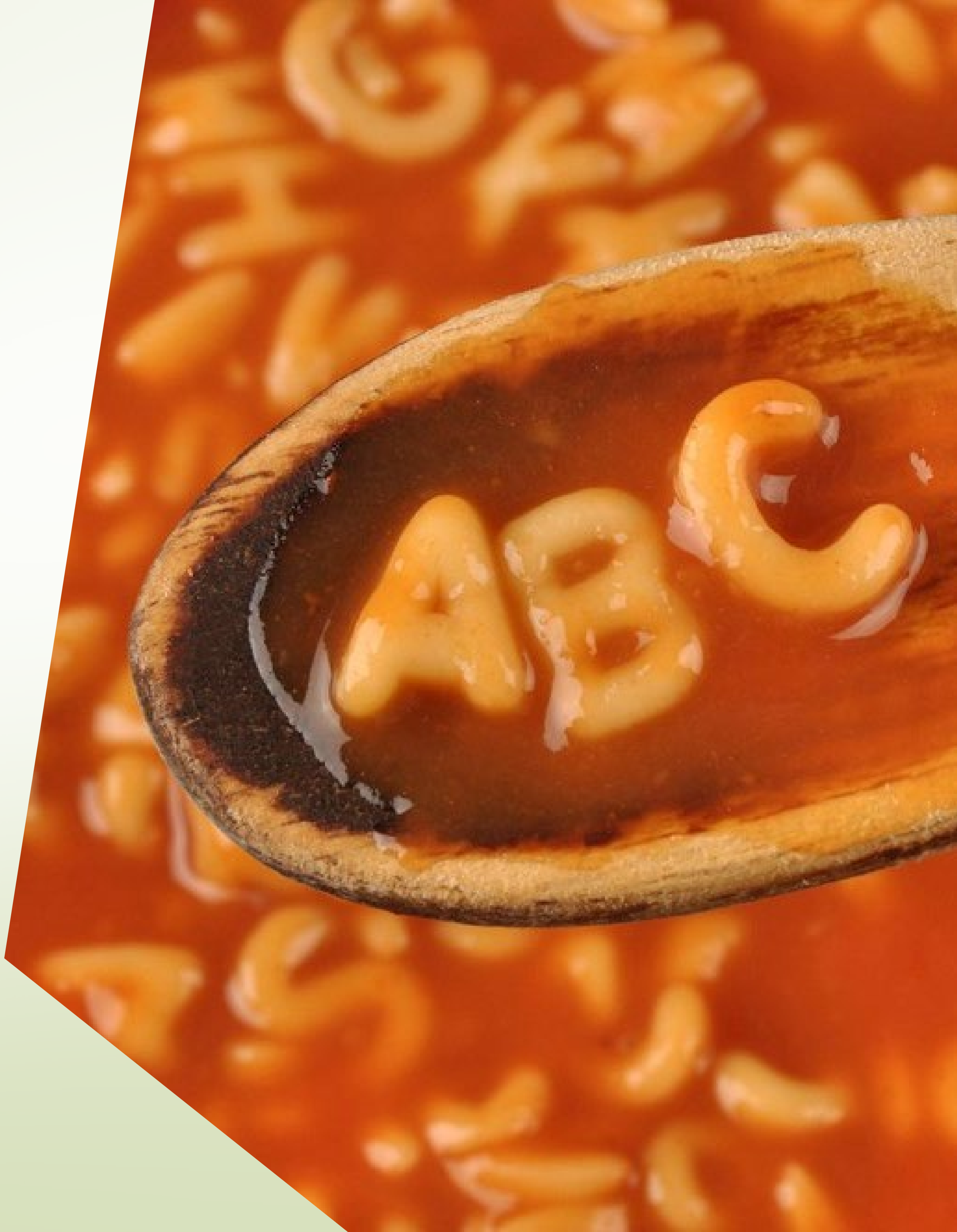
Background and Overview

- Created to help make federal student loans affordable
- First one created in 1994, most implemented after 2009
- All have "baked in" forgiveness component after 20/25 years on an IDR plan
- All base payment on a percentage of discretionary income
- All define discretionary income as Adjusted Gross Income – 100/150/225% of poverty level based on family size and state
- All require annual recertification of income

Plan Types

- “Old” Income Based Repayment (IBR)
  - Both Federal Family Education Loan program (FFEL) and Direct Loans (DL) are eligible
- “New” Income Based Repayment (IBR)
  - Only Direct Loans are eligible
- Pay As You Earn (PAYE)
  - Only Direct Loans are eligible
- Revised Pay As You Earn (REPAYE)/SAVE
  - Only Direct Loans are eligible
- Income Contingent Repayment (ICR)
  - Only Direct Loans are eligible
  - Only plan Parent Plus loans can receive and only if they are consolidated

- As a group they are called the income driven plans (IDR)



Discretionary Income

For married borrowers who file taxes married AGI is total AGI for both spouse's

For married borrowers who file separately AGI is only borrower's income

- Exception for community property states
- Exception for REPAYE plan
- Effective July 30th REPAYE/SAVE will treat MFS same as other plans

- 100% for Income Contingent Repayment
- 225% for REPAYE/SAVE as of July 30, 2023
- 150% for Old and New IBR and PAYE and current REPAYE

Discretionary Income

Adjusted Gross Income (AGI) – 150%* of poverty level for borrower's state and family size (IBR, PAYE, current REPAYE)

Example:

AGI is $62K, family size of 4 living in MD

$62k - $39,300 (150% of $26,200) = $22,700/12 = $1892

10% x $1892 = $189

15% x $1892 = $283

Adjusted Gross Income (AGI) – 225%* of poverty level for borrower's state and family size (revised repaye/save)

Example:

AGI is $62K, family size of 4 living in MD

$62k - $58,950 (225% of $26,200) = $3050/12 = $254.16

10% x $254.16 = $25.41 (until July 1st, 2024 for all loans)

5% x $254.16 = $12.70 (after July 1st, 2024 for undergraduate loans)

Partial Financial Hardship

- PFH required for eligibility for some IDR's

- A PFH exists when the annual amount due on your eligible loans, as calculated under the 10-year standard repayment plan, exceeds:
  - 15% of your Discretionary Income for IBR
  - 10% of your Discretionary Income for PAYE and "New" IBR.
  - PFH not required for ICR and REPAYE/SAVE

- $60K principal = $720 under 10-year standard repayment plan
- $189 discretionary income from prior example is lower – so PFH exists

Income Based Repayment

Eligible Loans	**FFEL Stafford, Graduate PLUS and Consolidation loans that do not contain Parent PLUS** **Direct Stafford, Graduate PLUS and Consolidation loans that do not contain Parent PLUS**
Payment Calculation	15% of discretionary income
Partial Financial Hardship required?	yes
Interest subsidy	100% of difference between calculated payment and monthly accrued interest for 36 months for Subsidized Stafford Loans only (time on economic hardship deferment or other IDR's count towards the 36 months)
Forgiveness	After 25 years on this or combination of plans

“New” Income Based Repayment

Eligible Loans	**Direct Stafford, Graduate PLUS and Consolidation loans that do not contain Parent PLUS** **Only borrowers with <u>all</u> loans made on or after July 1, 2014** **Effective July 1, 2024 if you have been on repaye/save for at least sixty months you cannot switch to new IBR**
Payment Calculation	10% of discretionary income
Partial Financial Hardship required?	yes
Interest subsidy	100% of difference between calculated payment and monthly accrued interest for 36 months for Subsidized Stafford Loans only (time on economic hardship deferment or other IDR’s count towards the 36 months)
Forgiveness	After 20 years on this or combination of plans

Pay As You Earn (PAYE)

Eligible Loans	**Direct Stafford, Graduate PLUS and Consolidation loans that do not contain Parent PLUS** **Direct Loan new borrowers* on/after October 1, 2007 who receive a Direct Loan disbursement on/after October 1, 2011** **Will be sunset effective July 1, 2024 (if you aren't on it on that date you never can)**
Payment Calculation	10% of discretionary income
Partial Financial Hardship required?	yes
Interest subsidy	100% of difference between calculated payment and monthly accrued interest for 36 months for Subsidized Stafford Loans only (time on economic hardship deferment or other IDR's count towards the 36 months)
Forgiveness	After 20 years on this or combination of plans

Revised Pay As You Earn (REPAYE)/SAVE

Eligible Loans	**Direct Stafford, Graduate PLUS and Consolidation loans that do not contain Parent PLUS Parent Plus "double consolidated" by July 1, 2025 are eligible**
Payment Calculation	10% of discretionary income until July 1, 2024 On or after July 1, 2024 -5% of discretionary income if the borrower only has undergraduate loans -10% of discretionary income if the borrower only has graduate loans -a proportionate percentage if the borrower has both.-
Partial Financial Hardship required?	No
Interest subsidy	100% of difference between calculated payment and monthly accrued interest for 36 months for Subsidized Stafford loans only (time on economic hardship deferment or other IDR's count towards the 36 months) 50% of difference between calculated payment and monthly accrued interest on all loans for duration on REPAYE plan Effective July 30, 2023 100% of the difference between the calculated payment and the monthly accrued interest on all loans for the duration on the REPAYE/SAVE plan
Forgiveness	After 20 years on this or combination of plans for borrowers with undergraduate loans only; 25

Income Contingent Repayment

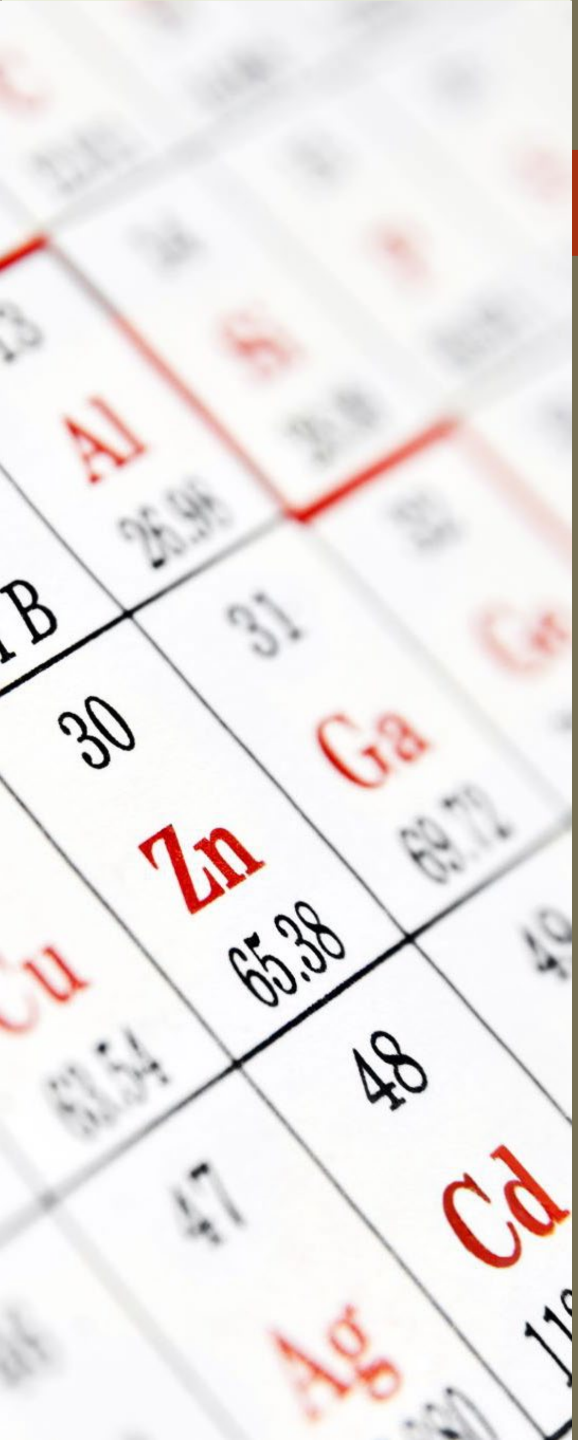
Eligible Loans	**Direct Stafford, Graduate PLUS and Consolidation loans, including those that contain Parent PLUS**
Payment Calculation	Lesser of: 20% x Discretionary Income ÷ 12 OR 12-year standard payment multiplied by Income Percentage Factor*
Partial Financial Hardship required?	No
Interest subsidy	None
Forgiveness	After 25 years on this or combination of plans

*https://www.federalregister.gov/documents/2020/06/02/2020-11818/annual-updates-to-the-income-contingent-repayment-icr-plan-formula-for-2020-william-d-ford-federal

Payment Calculation

- Uses spousal income if married filing taxes as married
  - Will also use spouse's loans if also on an IDR
- When borrower no longer has a PFH, payment is based on ten-year term for balance when first entered plan
  - ICR and REPAYE/SAVE has no PFH so no maximum payment

- Beginning July 30, 2023 the spouse cannot be counted in the family size if married filing separately on any IDR plan



Forgiveness (Traditional IDR Rules)

- Must be on an IDR for the full 240/300 months for balance to be forgiven
  - 10-year standard plan also counts
- Consolidation resets the IDR count to zero
  - Starting July 1, 2023 (effectively 1/1/2, consolidation will result in a weighted average of the underlying loans IDR counts
- Do not have to be on the same IDR the whole period
- IDR payments do not need to be consecutive
- Employment status or employer not relevant
- Doesn't matter who makes the payment
- Payment always calculated off of actual borrower's income, regardless of who is making the payments
- All of your eligible loans must be on the same repayment plan
- IDR payments also count for PSLF assuming borrower is working PSLF eligible employment that month and the payment was made on a PSLF eligible loan

What Counts for the Count

- Payments made under any IDR plan including $0 calculated payments
- Effective July 1, 2024 payments made under IBR while in default
  - No other defaulted payments count
- Effective July 1, 2023 periods of
  - A cancer treatment deferment
  - A rehabilitation training program deferment
  - An unemployment deferment
  - An economic hardship deferment
  - A military service deferment
- Effective July 1, 2024 periods of
  - National service or national guard forbearance
  - Bankruptcy forbearance where required payments were made
  - Administrative forbearance

Income Driven Plan Waiver

One Time Adjustment on All ED Held Loans

Eligible Loans

- All federally held
  - Stafford
  - Graduate Plus
  - Parent Plus
  - Includes consolidated FFEL and Perkins
    - Must consolidate by December 31, 2023

If it was eligible for the COVID pause, it's eligible for these waivers

IDR Adjustment

- The following are temporary exceptions:
  - Payments made under the FFEL, Perkins or prior to consolidation will be counted
    - Does not apply to periods of default
    - <u>Does</u> apply to Parent PLUS
  - Counted even if past due or short payments
  - All payment plans count
  - Periods of default do not count
  - any months spent in economic hardship or military deferments in 2013 or later;
  - any months spent in any deferment (with the exception of in-school deferment) prior to 2013
  - If you have at least 12 consecutive or 36 months total forbearance it will be counted
  - Will also count for PSLF assuming the borrower was working eligible employment at the time
    - Including for Parent PLUS loans

What the Adjustment Will Do

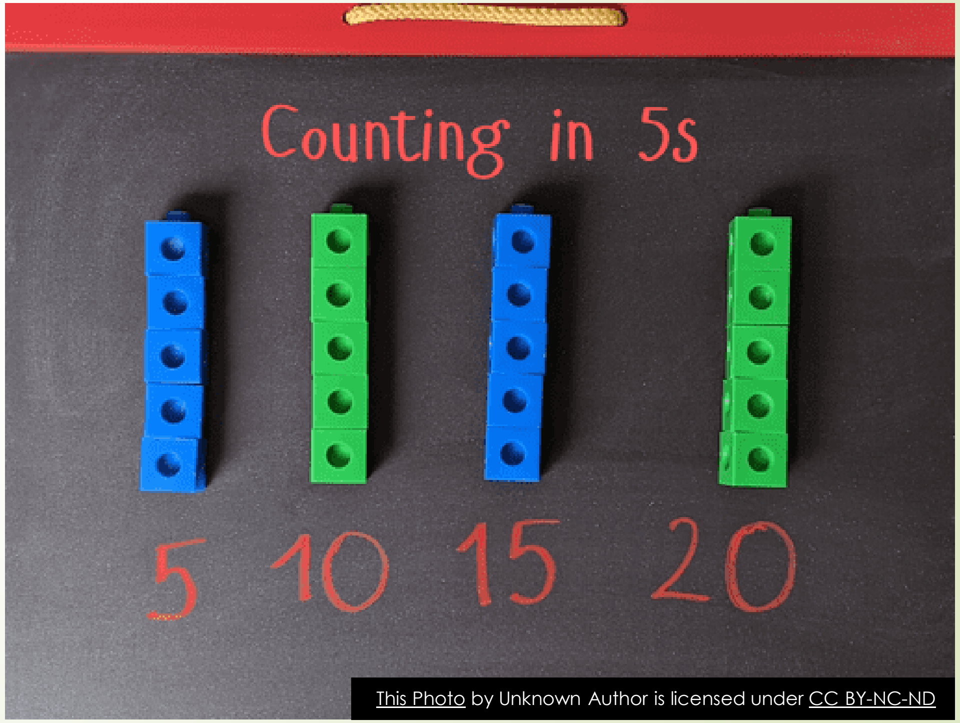
- Adjustment will give IDR credit to all payments regardless of payment plan
- Will count back to July 1994
  - Back further for forbearance totals
- Could result in immediate forgiveness if loans have been in repayment 20/25 years
- Consolidation of any FFEL, Perkins, or Direct Loan will NOT reset count if submitted by December 31, 2023
  - Including for PSLF
- Consolidation of loans with different counts will receive highest count if done by December deadline
  - Consolidations after that will receive a weighted average
- These will count for PSLF, <u>including for Parent Plus loans</u>

How the IDR Adjustment Affects PSLF

- Must consolidate ineligible loans into the Direct Loan program by December 31, 2023 to take advantage
- Must still be working for an eligible employer for these months for PSLF
- Any payments made over the forgiveness months needed will be refunded
  - Does not include pre-consolidation payments
- Borrower **does** need to have been working for an eligible employer at the time of forgiveness application unless they hit 120 and applied prior to October 31, 2022

IDR/PSLF Waivers

- The following are temporary exceptions through December 31, 2023:
  - Consolidation will not reset the forgiveness count
    - Includes FFEL, Direct and Perkins loans
  - If the loans have different payment counts, the consolidation will be assigned the higher count
  - If the loan was consolidated more than once all prior periods of repayment status will be counted



Timing

- Borrowers who have enough payments to get forgiveness under either PSLF or the IDR waivers may see the waiver applied now.
- Most adjustments won't occur until 2024
- No application – it will just happen
- If the adjustment won't result in immediate forgiveness you will need to be on an IDR to accrue remaining payments
- There will be a "buy back" option for certain ineligible periods in the future – but that process is not available now
  - You will not be able to buy back pre-consolidation periods

Fresh Start Program for Defaulted Borrowers

Fresh Start

- Opportunity for all defaulted federal loans to get out of default and clear their defaulted credit lines
  - Does not clear past due reports that led up to the default
- Happens almost immediately – no payments needed
- Available to all defaulted borrowers, even those who rehabbed in the past and are consolidated
  - Also applies to FFEL Loans
  - Does not apply to Perkins (unless ED held)
  - Does not count as a rehab attempt
- Makes borrowers eligible for IDR plans and account adjustment

The How

- Three options
  - Online—Go to myeddebt.ed.gov and log in. Borrowers in default will be prompted to initiate FS
  - Phone—Call 1-800-621-3115
    - Tip: Before calling, look up income on most recent federal tax return (line 11 of IRS Form 1040).
  - What to expect on the phone: It will take about 10 minutes. A representative will ask for some information to find your record, then ask why you are calling (your answer: Fresh Start, to get out of default). You will also get an opportunity to sign up for an income-driven repayment plan, which likely will qualify you for a lower monthly payment than a standard plan.
  - Mail—Write to P.O. Box 5609, Greenville, TX 75403. In your letter, include your name, social security number, date of birth, and the following: "I would like to use Fresh Start to bring my loans back into good standing."

The When

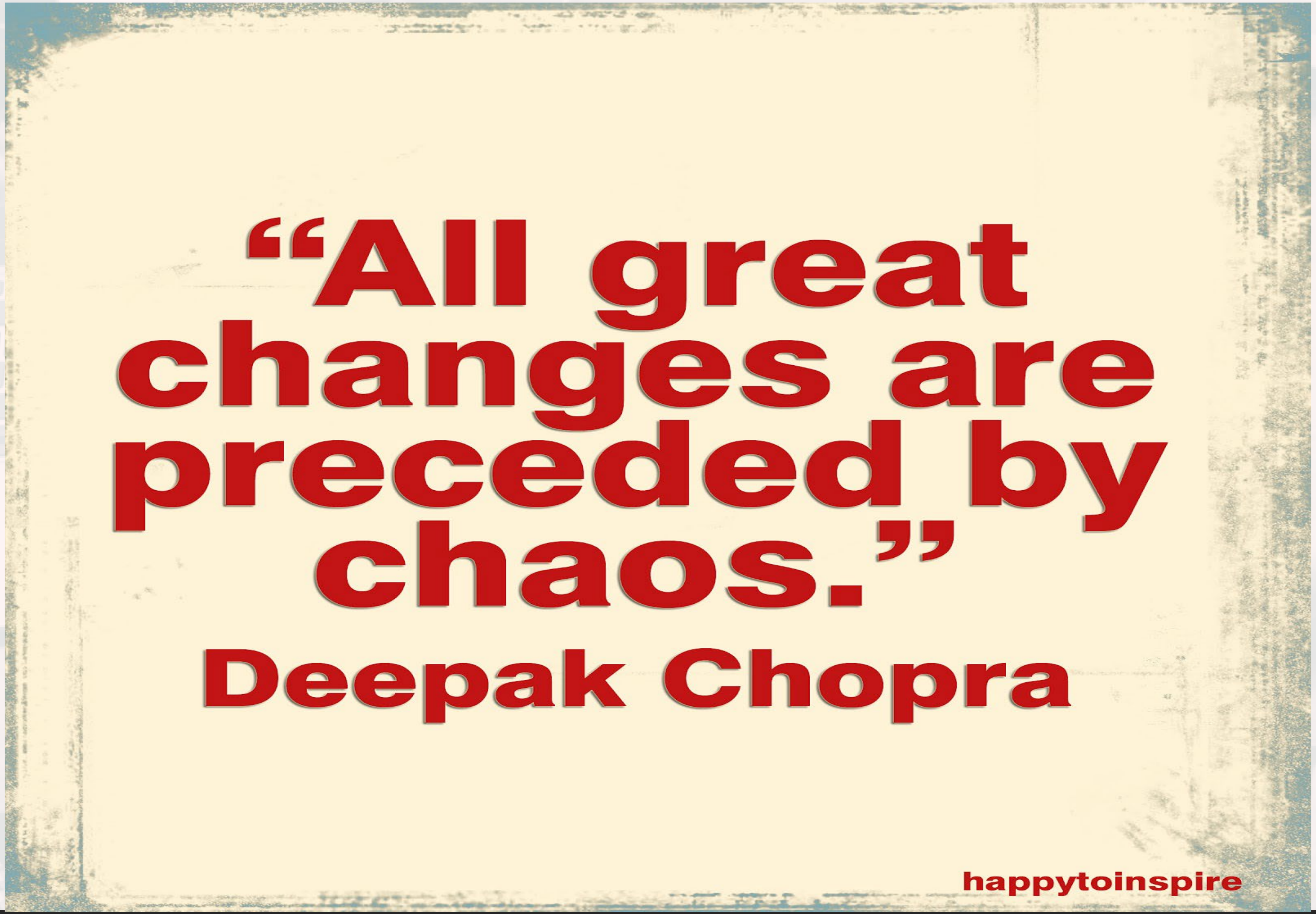
- Fresh Start process takes 4-6 weeks
  - Loans will be transferred to a non defaulted loan servicer
  - Borrower will be prompted to choose a repayment plan if they didn't do so during their FS request
- Available for one year after the end of the covid pause
- Not available for loans that default after the pause

Restart On Ramp

Fun Facts

- Interest will begin accruing September 1st
- Borrowers could have pre-covid outstanding interest
- 1st payments due October
- No IDR recertification due until six months after restart
- Income can be self certifying during 12 month on ramp
- No credit bureau reporting or default during on ramp
- Automatic forbearance will be used if borrowers becomes delinquent
- If borrowers become past due, collection attempts will still occur

July 1, 2023, Changes to PSLF



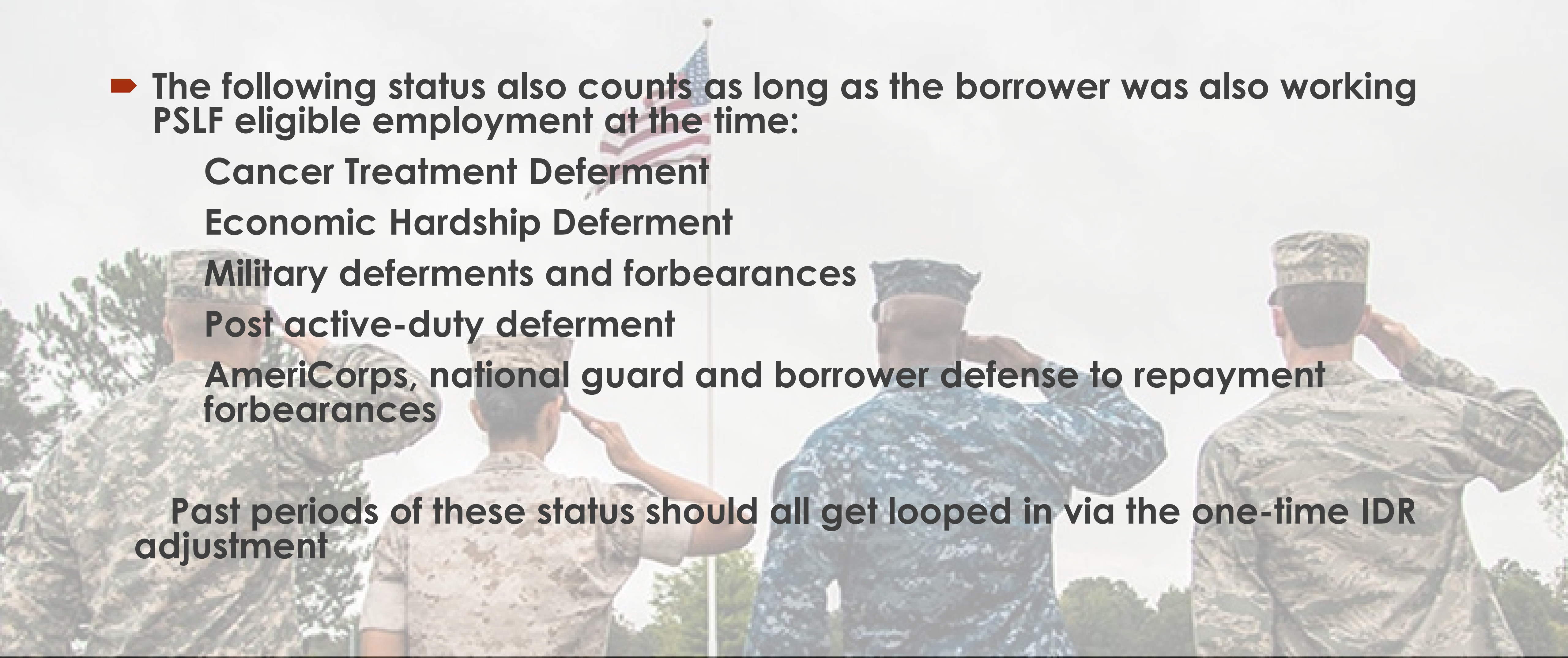
New PSLF Rules

- Full time now defined as 30 hours per week
  - Regardless of whether employer considers the borrower full time or not
- Adjunct professors get credit for 3.35 hours for every hour taught
- Small exception for for-profit employment
  - Only if the person actually does all of their work for an eligible non-profit and state law prohibits a non-profit hiring the person directly
    - TX and CA physicians the only situations that apply right now
- Borrower must still be full time for pslf eligible employer
  - For every one of the 120 payments
  - At the time they apply for forgiveness
  - BUT – no longer has to be employed at the time forgiveness is actually processed
- Consolidation after December 2023 will result in a weighted average of the underlying loan existing PSLF counts
  - Borrowers are encouraged to ensure their counts are current before consolidation
  - Most borrowers don't need to consolidate for pslf
  - FFEL and Perkins payments will not count unless you consolidate by December 31, 2023

New PSLF Rules

- **The following status also counts as long as the borrower was also working PSLF eligible employment at the time:**
  - **Cancer Treatment Deferment**
  - **Economic Hardship Deferment**
  - **Military deferments and forbearances**
  - **Post active-duty deferment**
  - **AmeriCorps, national guard and borrower defense to repayment forbearances**

Past periods of these status should all get looped in via the one-time IDR adjustment



Hold Harmless or Buy Back

- Any period not in the prior list, other than in school status and grace period or default, will be eligible for "buy back"
- Not available yet
- Borrowers will be able to pay the amount they would have paid under an income driven plan at the time
- Cannot be done for pre-consolidation periods

Other Regulatory Changes

- When to submit reconsideration
  - Your employer is deemed ineligible by either the PSLF help tool or the servicer, and you have additional information showing they should be considered eligible
- You are denied forgiveness but believe it should be approved
- https://studentaid.gov/manage-loans/pslf-reconsideration

- Interest will no longer capitalize on Direct Loans except
  - When a borrower leaves a deferment
  - When a borrower fails to recertify timely or leaves the IBR plan
  - Interest is still added to principal during consolidation, although this is not actually interest capitalization

Resources

To estimate IDR payments

https://studentaid.gov/loan-simulator/

- Note that calculator assumes you are just beginning repayment and to date does not include the SAVE calculation

IDR Adjustment Information

https://studentaid.gov/announcements-events/idr-account-adjustment

Overall IDR and PSLF Information or other student loan questions

www.studentaid.gov

- https://studentaid.gov/help-center/contact/chat

www.freestudentloanadvice.org

- https://freestudentloanadvice.org/contact/

Fresh Start

https://studentaid.gov/announcements-events/default-fresh-start