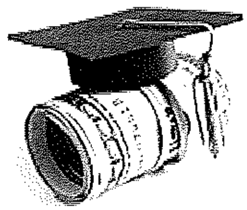
# Income-Based Repayment (IBR) for Federal Student Loans



The federal government's income-based repayment program (IBR) for student loans allows qualified borrowers to tie their monthly federal student loan payments to their discretionary income. A new version of the IBR program called "Pay As You Earn" took effect on December 21, 2012 (it was originally scheduled to be phased in during 2014, but the Obama administration took regulatory measures to make it available sooner). The potential for IBR to change the landscape for college borrowers is enormous. According to the U.S. Department of Education, as of last October, about two million borrowers had applied for IBR.

## What exactly is IBR?

Under the Pay As You Earn program, monthly federal student loan payments are based on income and family size (your payment is readjusted each year based on changes to these criteria). Payments are equal to 10% of your discretionary income, and payments are made over a period of 20 years, with all remaining debt generally forgiven after 20 years of on-time payments (loans are forgiven after 10 years for those in qualified public service if all payments are made on time and other requirements are met).

*Note: An earlier version of IBR capped monthly payments at 15% of discretionary income and offered loan forgiveness after 25 years.*

## How do I qualify for IBR?

Not everyone is eligible for IBR. To qualify, you must meet several requirements:

1. You must have an eligible federal student loan. Loans eligible for IBR include federal Stafford Loans (subsidized and unsubsidized), Direct Loans (subsidized and unsubsidized), PLUS Loans made to graduate or professional students, and consolidation loans (that don't include underlying PLUS Loans made to parents). Loans *not* eligible for IBR include PLUS Loans made to parents, consolidation loans that include underlying PLUS Loans made to parents, and private education loans from banks or other lenders.

2. You must be a new borrower as of October 1, 2007, and you must have received a disbursement of a qualifying federal student loan on or after October 1, 2011.

3. You must have a "partial financial hardship." You are considered to have a partial financial hardship when the monthly amount you would be required to pay on your federal student loans under the 10-year standard repayment plan (i.e., fixed monthly payments over 10 years) is higher than the monthly amount you would be required to pay under IBR.

The Department of Education has an IBR calculator on its website that you can use to determine whether you are likely to qualify for IBR and to estimate what your IBR monthly payment would be (www.studentaid.ed.gov/ibr). The calculator considers your federal student loan balance, adjusted gross income (AGI), federal income tax filing status, family size, and state of residence. However, for an official determination of your eligibility for IBR, or to apply for IBR, you'll need to contact your loan servicer. If you are unsure who holds your loans or who your loan servicer is, you can find out more at the National Student Loan Data System website (www.nslds.ed.gov). You'll need your Federal Student Aid PIN to sign in to the database.

## A word of caution

IBR sounds like a gold mine, right? Well, there are some things to be aware of. First, with IBR, you may pay substantially more interest over the life of the loan than you would under a standard 10-year repayment plan because you are paying your loan over a longer period of time. Second, you must submit annual documentation to your loan servicer so your monthly payment amount can be reset (if necessary) each year. Third, and perhaps most significant, you may owe federal income taxes (and possibly state income taxes) on the amount of the loan that is forgiven after 20 years. For more information on IBR, visit www.studentaid.ed.gov/ibr.