UNCOVERING THE TRUTH ABOUT REPAYMENT PLANS

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AGENDA

• Preparing borrowers for repayment
• Overview of repayment plans
• Income-driven repayment plan updates
• Recent SCRA guidance
• Resources
MYTH VS. REALITY

**Myth:** I withdrew from school and never finished so I don’t have to repay my loans.

**Reality:** The borrower is responsible for repaying loans received to attend school!
BORROWERS NEED ANSWERS

• How does repayment work?
• How do I obtain a complete list of my loans?
• What are the available repayment plans?
• How do I know which plan to choose?
• How do I apply for the selected plan?
• What happens if repayment becomes difficult?
TAKing INVENTORY
Taking Inventory

Where can students obtain information on their Federal loans?

• National Student Loan Data System (NSLDS)
• Provides federal student loan amounts, loan holders, and loan servicers
• FFEL and Direct Loan programs

...on their private loans?

• Refer to promissory note or credit report
MYTH VS. REALITY

Myth: When entering repayment, borrowers think only the Standard plan is available.

Reality: During grace period, a borrower can choose any other plan for which he/she qualifies.
TAKING INVENTORY

Where can borrowers get help?

• From schools
  – Exit counseling

• From loan holder/servicer and guarantor
  – Customer service/phone center staff
  – Answer questions about repayment options
  – Assist borrowers in applying for selected plan
TAKING INVENTORY

What should borrowers expect from their loan holder?

• Repayment disclosure notice
  – Outlines the terms of the loans borrowed
  – Provides the repayment options available
  – Establishes the first payment due date

What should loan holders expect from borrowers?

• Select a repayment plan
• Communicate if problems arise during repayment
REPAYMENT PLAN COMPARISON

• Repayment plan comparison calculator available at https://studentloans.gov/myDirectLoan/repaymentEstimatorLoginRedirect.action (sign in with FSA PIN).
• Pre-populates with preliminary repayment plan eligibility and estimated repayment amounts for the Standard, Graduated, Extended Fixed, and/or Extended Graduated repayment plans
• Borrower enters additional information to obtain preliminary repayment plan eligibility information and estimated repayment amounts for the IBR, Pay As You Earn, and ICR repayment plans
ED’S REPAYMENT ESTIMATOR

Available on StudentLoans.gov.

2014 NCHER KNOWLEDGE SYMPOSIUM
November 3-5, 2014 Clearwater, FL
OVERVIEW OF REPAYMENT PLANS
AVAILABLE REPAYMENT PLANS

• Standard
• Graduated
• Extended

• Income Driven Plans:
  – Income-sensitive (FFEL only)
  – Income-based (FFEL and Direct Loans)
  – Income-contingent (Direct Loans only)
  – Pay as You Earn (Direct Loans only)
REPAYMENT PLANS

• Standard
  – Least expensive way to repay a student loan
  – 10-year term/120 equal monthly payments
  – Minimum monthly payment $50 or interest accrued, whichever is larger

• Graduated
  – Payments increase over time
  – Generally, still 10-year repayment term
  – Total amount paid in interest will be greater than under a Standard plan
REPAYMENT PLANS

• Extended
  – Lengthens repayment term up to 25 years
  – Must have a minimum loan balance of $30,000 to qualify (FFEL or Direct; cannot be combined)
  – Payments can be fixed or graduated
  – Total amount paid in interest will be greater than under a Standard plan
REPAYMENT PLANS

• Income-driven repayment plans
  – Income-sensitive—FFEL only
  – Income-contingent (ICR)—Direct only
  – Income-based (IBR)—FFEL and Direct
  – Pay as You Earn (PAYE)—Direct only
Direct Loan Borrowers by Repayment Plan, 2014 – Q3
(includes loans in repayment, deferment, and forbearance)

- **Income-driven (13%)**
  - Income-Contingent: 0.6 (3%)
  - Pay As You Earn: 0.3 (1%)
- **Income-Based (9%)**
  - Income-Based: 1.7 (9%)
- **Graduated: 10 Years or Less (10%)**
  - Graduated: More Than 10 Years: 0.3 (2%)
  - Graduated: 10 Years or Less: 1.9 (10%)
- **Standard: 10 Years or Less (61%)**
  - Standard: More Than 10 Years: 1.6 (9%)
- **Alternative (2%)**
  - Other: 0.5 (3%)

**Note:** Numbers of borrowers are in millions.

PERCENTAGE OF BORROWERS

• Standard 10-years or less = 61%
• Graduated 10 years or less = 10%
• Extended more than 10 years = 11%
  – Standard = 9%
  – Graduated = 2%
• Income-driven = 13%
  – Income-Contingent = 3%
  – Income-Based = 9%
  – Pay As You Earn = 1%
• Alternative and Other = 5%
INCOME-DRIVEN REPAYMENT PLANS
INCOME SENSITIVE PLAN
(AVAILABLE IN FFEL ONLY)

Overview:

• Rarely used since the inception of IBR, but still relevant especially for Parent PLUS borrowers
• Smaller payments tied to monthly gross income from all sources, though minimum payment = accrued interest
• Loan holder has flexibility on how to determine payment amount
• Extends maximum repayment term by up to five years, via a mandatory administrative forbearance
Income Sensitive Plan
(Available in FFEL Only)

Details to consider:

• Results in more interest owed over life of loan
• Lower payments may not count toward forgiveness under IBR
• Requires an annual recertification process
• “Three-Times rule” (no installment amount under ISR can be more than three times greater than any other) limits flexibility
• Unavailable if borrower consolidates their FFELP loans
INCOME-BASED PLAN (IBR)  
(AVAILABLE IN BOTH FFEL AND DIRECT)

Overview (for borrowers prior to 7/1/14):  
• All FFELP loan types are eligible, excluding Parent PLUS loans and Consolidation loans that include at least one Parent PLUS loan  
• Borrower must have a “partial financial hardship” (PFH) to qualify  
• PFH payment amount = 15% of “discretionary income”  
• PFH payment amount may be as low as $0 per month  
• Remaining balance after 25 years is forgiven
INCOME-BASED PLAN (IBR)
(AVAILABLE IN BOTH FFEL AND DIRECT)

**Myth:** Borrower’s family size, for purposes of IBR eligibility, equals the number of dependents listed on their tax return.

**Reality:** The family size, for purposes of IBR and the other income-driven plans, includes all persons (spouse, children, unborn children, and others) who will receive more than half their support from the borrower for the year in which family size is certified.
INCOME-BASED PLAN (IBR)
(AVAILABLE IN BOTH FFEL AND DIRECT)

Myth:  An IBR-eligible borrower can get a zero payment upon request.

Reality:  The borrower can only get a zero payment if they qualify; the IBR payment is a strict percentage of the borrower’s discretionary income. A borrower who states they cannot afford anything above a zero payment but does not qualify for that should consider other options (deferment, forbearance).
INCAME-BASED PLAN (IBR)  
(AVAILABLE IN BOTH FFEL AND DIRECT)

Overview (for borrowers prior to 7/1/14):

• Requires annual recertification of PFH status; borrowers who no longer have a PFH or fail to recertify go to the “Permanent-standard” payment

• Permanent-standard = level payment resulting from a 10-year amortization of the borrower’s outstanding balance when they first entered IBR.

• Borrower can leave IBR altogether, but must pay at least one “expedited-standard” payment before they can move to any other plan (or even return to IBR)
INCOME-BASED PLAN (IBR)
(AVAILABLE IN BOTH FFEL AND DIRECT)

Overview (for borrowers prior to 7/1/14):

Loan holder disclosure requirements (as of 7/1/13):

• Approval notice confirming both PFH and Permanent-standard amounts, and reminding applicant of need to renew annually
• Reminder notice near the end of each 12-month PFH period, encouraging applicant to reapply and giving them the deadline for doing so
• Denial notice to borrowers who attempt to renew PFH but do not qualify
• Annual notice to borrowers in permanent-standard, reminding them that they can reapply for PFH at any time
INCOME-BASED PLAN (IBR)
(AVAILABLE IN BOTH FFEL AND DIRECT)

Overview (for borrowers prior to 7/1/14):

• Three-year interest subsidy on negatively amortizing payments, on subsidized loans only
• Interest capitalizes whenever borrower transitions from PFH to Permanent-standard, or leaves IBR altogether
• Payments made under PFH or Permanent-standard are applied to accrued interest before late charges or principal
• Borrower can prepay their loan, except for when they have a zero payment
INCOME-BASED PLAN (IBR)
(AVAILABLE IN BOTH FFEL AND DIRECT)

Important aspects of loan forgiveness:

• Borrower can receive forgiveness only after making 300 qualifying payments and after 25 years has elapsed since the first qualifying payment was made.
• Payments made while borrower is in default do not count.
• Forgiveness amount = principal and interest remaining after the above threshold has been met.
• Under current tax law, amount of principal forgiven is taxable, as income received by the borrower during that year.
INCOME-BASED PLAN (IBR)
(AVAILABLE IN BOTH FFEL AND DIRECT)

Qualifying payments toward loan forgiveness:

• PFH payments made, including payments of $0
• Permanent-standard payments made
• Payments made under a standard 10-year repayment plan, or payments equal to or greater than the “standard-standard” amount
• Months of Economic Hardship Deferment
• For DL borrowers, ICR payments made, including payments of $0
INCOME-BASED PLAN (IBR)
(AVAILABLE IN BOTH FFEL AND DIRECT)

Other important characteristics:

• Applicant must use ED-issued IDR application at all times
• Borrower can submit alternative documentation in lieu of a tax return, when current income not reflective of AGI
• With co-made loans (primarily spousal consolidation), each maker must qualify separately
• Very limited administrative forbearance options should an IBR borrower become delinquent
INCOME-BASED PLAN (IBR)
(AVAILABLE IN BOTH FFEL AND DIRECT)

**Myth:** A borrower who gets a new IBR payment will always “start fresh”, with no past-due amounts.

**Reality:** A borrower who is continuing in IBR but who fell delinquent on their previous PFH amount will remain past-due for those previous PFH installments. It is important for the borrower to make other arrangements to satisfy those amounts.
“NEW” IBR
(AVAILABLE IN DL ONLY)

• Same as the traditional IBR outlined in previous slides, except that the PFH payment is only 10% of discretionary income, and loan forgiveness occurs after only 20 years of qualifying payments
• Available only to first-time borrowers on or after 7/1/14, and to borrowers who already paid off all previous FFELP and DL loans when they acquired a loan on or after 7/1/14
• Consolidation borrowers qualify only if all of the underlying loans met the qualifying characteristics above
PAY AS YOU EARN
(AVAILABLE TO DL BORROWERS ONLY)

• Early manifestation of “New” IBR; introduced via a Presidential Executive Order dated 10/25/11 and codified in regulations (34 CFR 685) via negotiated rulemaking and a Final Rule dated 11/1/12 (77 FR 66088)
  – Payments equal to 10% of discretionary income, with equivalent eligibility criteria
  – Forgiveness after 20 years of payments
Pay As You Earn
(Available to DL Borrowers Only)

• Eligible borrowers are those who have no outstanding DL or FFELP balance as of 10/1/07, and who receive:
  – A Direct Loan disbursement on or after 10/1/11; and/or
  – A Direct Consolidation loan based on an application received on or after 10/1/11, unless it repays a Direct or FFELP loan that was outstanding as of 10/1/07 (including a Consolidation loan that repaid any such loans)
Pay As You Earn
(Available to DL Borrowers Only)

Matches New IBR exactly, except for the following:

• Required interest capitalization under the PAYE umbrella is limited to 10% of the principal balance when the borrower first entered the plan

• Borrowers choosing to leave the PAYE umbrella altogether can go directly to the alternate plan of their choosing; no intervening expedited-standard layer

• A borrower with both FFELP and DL loans could be eligible for both traditional IBR and PAYE

• Forgiveness payment period can begin no earlier than 10/1/07, even for borrowers who used ICR before that date

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ED is now seeking to expand PAYE, pursuant to a Presidential memorandum dated 6/9/14:

• On 9/3/14, ED announced in the Federal Register (79 FR 52273) their intention to conduct a negotiated rulemaking for this purpose

• ED scheduled hearings for 10/23/14 and 11/4/14, in Washington, DC and Anaheim, CA respectively, so that interested parties could testify and help ED set the rulemaking agenda

• Rulemaking is likely to begin in early 2015
INCOME-CONTINGENT PLAN (ICR)
(AVAILABLE IN DIRECT ONLY)

• Retained but modified extensively via negotiated rulemaking and the Final Rule dated 11/1/12 (77 FR 66088)
• ED aligned many of the provisions of ICR with those of traditional IBR
• Does not have a PFH eligibility standard; borrower can get ICR regardless of income
INCOME-CONTINGENT PLAN (ICR) (AVAILABLE IN DIRECT ONLY)

Unique characteristics of ICR:

• No qualification; payment is lesser of 20% of discretionary income and a 12-year standard amortization multiplied by an AGI-driven income percentage factor published annually by ED

• Discretionary income is the amount by which the borrower’s AGI exceeds 100% of the applicable poverty guidelines, rather than 150%

• Initial payment = monthly accrued interest until amount above can be determined
**INCOME-CONTINGENT PLAN (ICR)**
(AVAILABLE IN DIRECT ONLY)

**Unique characteristics of ICR (continued):**

- Required interest capitalization under the ICR umbrella is limited to 10% of the principal balance when the borrower first entered repayment
- Available on CON loans that paid off one or more Parent PLUS loans, though not on Parent PLUS directly

Beyond these, ED adopted the other provisions already attributed to traditional IBR, most notably the permanent-standard payment amount
NCHER IDR RESOURCES

• IBR Implementation Guide for FFELP loans (last updated 12/10/13):

• IDR Plan Comparison Chart (excludes ISR):
SERVICEMEMBERS CIVIL RELIEF ACT (SCRA)
SCRA BACKGROUND

On August 14, 2008, the Higher Education Opportunity Act (HEOA) amended the Higher Education Act (HEA) to provide that the maximum interest rate that may be charged to certain servicemembers under section 207 of the Servicemembers Civil Relief Act (SCRA) would apply to FFEL and DL loans.
SCRA BACKGROUND

In response to a series of inquiries, ED:

• Clarified that the borrower could submit the written request for the SCRA interest rate benefit through electronic means (such as e-mail or text message), and

• Authorized use of the Department of Defense’s (DOD’s) Defense Manpower Data Center (DMDC) database to confirm dates of the borrower’s military service
ED has determined that the DMDC database provides sufficient supporting documentation of an individual’s eligibility for the SCRA interest rate limitation by identifying borrowers who are, or who have been, in military service and by confirming the dates of that service.
RECENT GUIDANCE (DCL GEN-14-16)

• Once a borrower’s status and service dates have been confirmed using the DMDC, the loan servicer may use the DMDC-generated certification information to support the borrower’s receipt of the SCRA interest rate limitation.

• The loan servicer must retain the supporting information from the DMDC in the borrower’s file.

• When the SCRA’s interest rate limitation is applied to a borrower’s account, the loan holder must notify the borrower that the interest rate on the loan has been changed.
RECENT GUIDANCE
(DCL GEN-14-16)

A FFEL lender that uses the DMDC to confirm a borrower’s SCRA status and grant the interest rate limitation, and that maintains the supporting information from the DMDC, will not be subject to any program liabilities if any information provided by the DMDC is found to be incorrect.
SCRA REMINDERS

• Reservists who have received orders to report for military service or who are in military service are also entitled to the interest rate limitation under the SCRA.

• A lender may confirm the eligibility of a reservist using the DMDC and rely on the dates reflected in the system as the active-duty service period for which the borrower is eligible for the reduced interest rate, including using the reservist’s order notification date as the start date of the service period.
SCRA REMINDERS

There are two important limitations on the application of the SCRA’s interest rate to FFEL program loans and Direct Loans:

1) The SCRA applies only to loans taken out by a servicemember before the servicemember entered active-duty military service.

It does not apply to loans taken out after the borrower’s active-duty military service began.
2) Because a consolidation loan is a new loan, a consolidation loan made after the borrower has started active-duty military service is not eligible for benefits under the SCRA even if the underlying loans were taken out prior to the start of active-duty service.

For this purpose, a consolidation loan will be considered eligible for benefits under the SCRA as long as the borrower applied for the consolidation loan before starting active-duty military service.
The SCRA states that no interest above 6% can accrue for credit obligations during the period of military service, nor can that excess interest become due once the period of military service ends, instead that portion above 6% is permanently forgiven.

- “Interest” includes service charges and fees (such as late charges)
SCRA REMINDERS

The monthly payment must be reduced by the amount of interest saved during the covered period:

- The amount of any periodic payment due from a servicemember shall be reduced by the amount of the interest forgiven
- ED verbally agreed during Negotiated Rulemaking that the $50.00 minimum payment requirement still applies
RISKS

• In the last several years, SCRA has received significant attention from federal regulators, the plaintiffs’ bar, and the media

• CFPB paying special attention to servicemembers’ issues, including SCRA
  – Office of Servicemember's Affairs, headed by Holly Petraeus
  – Consumer complaints

• DoJ Enforcement - Risk of being fined and/or imprisoned for violation of SCRA
DCL BEST PRACTICES

• An Industry Workgroup has been reviewing the DCL guidance and is working on a Best Practices Q & A’s document related to SCRA operational issues
• The goal is to make the Best Practices document available soon
BEST PRACTICES

• Be proactive

  • When borrowers apply for any military benefit (forbearance, deferment, no interest accrual), give them information about the SCRA and check to see if they are eligible

• Ensure monitoring is in place to prevent a loan that is already at a rate of less than 6% from being increased over the SCRA limit (monitor variable interest rate loans that are receiving the SCRA benefit)
BEST PRACTICES

• Perform internal audits to review accounts and ensure the SCRA rate is being applied correctly
• Review new hire training materials and call center scripts
• Provide additional/recurring training to staff
OTHER MISCONCEPTIONS ABOUT REPAYMENT & BORROWER COUNSELING OPPORTUNITIES
MISCONCEPTION
• Borrowers think they can make payments directly to principal when they still have outstanding interest
• Borrowers don’t understand how the principal balance got so high

COUNSELING
• Explain payment application, and how borrower can reduce the principal faster
• Explain the basics in interest—accrual, capitalization, impact of deferment or forbearance on unsub loans
MISCONCEPTION

• Borrowers do not realize they receive only a single grace period

• Cosigners believe they are only a reference, not responsible for the loan

COUNSELING

• Explain that the borrower has been in an in-school deferment, not another grace period

• Explain the obligation of a cosigner
MISCONCEPTION

• Borrowers confuse deferment and forbearance

• Borrowers demand forbearance—they think it is an entitlement

COUNSELING

• Explain the differences and why one may be more appropriate for the borrower

• Explain there are limits to discretionary forbearance; other repayment options may be available
MISCONCEPTION

• Borrowers misunderstand Public Service Loan Forgiveness and think they automatically qualify for forgiveness if they work for a non-profit organization.

COUNSELING

• Explain the requirements for receiving PSLF; especially that they must qualify for an income-driven plan in order to benefit.
MISCONCEPTION

• Defaultered borrowers don’t understand how the principal balance got so high

COUNSELING

• Explain collection costs and how they come into play with respect to how payments are applied
• Explain the importance of getting into a satisfactory repayment arrangement
• Explain rehabilitation
RESOURCES
RESOURCES

- NCHER
  - Successful Student Loan Repayment Information
    http://www.ncher.us/?page=e2150
  - Servicemember benefits
    http://www.ncher.us/?page=e2149

- ED
  - Student Loan Estimator calculator
    StudentAid.gov/repayment-estimator
  - Repay Your Loans
    https://studentaid.ed.gov/repay-loans