

# STUDENT LOAN REPAYMENT



# College graduates struggle to repay student loans

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By Ben Woloszyn, Laramie Boomerang via AP

University of Wyoming graduate Kelsey Day finishes her commencement speech on Saturday. Many grads will struggle paying off student loan debt.

By Christine Dugas, USA TODAY

Thousands of college graduates are facing a student loan crisis.

The job market is shrinking, and the sour economy is preventing employers, parents and relatives from helping those who are behind on payments.

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Student loan defaults are at their highest rate since 1998, and likely will go higher. And though federal student loans offer some payment modification options, private loans are far more onerous, because even filing for bankruptcy rarely wins out

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# REPAYMENT FACTOIDS

- Borrowers may change repayment plans at any time
- Borrowers who are required to repay under the ICR plan must make three consecutive monthly payments before changing to another plan
- There is no limit to the number of times borrowers may change plans
- Borrowers who change from the IBR plan may ONLY switch to the Standard Repayment Plan
- [www.federalstudentaid.ed.gov](http://www.federalstudentaid.ed.gov)

# TYPES OF REPAYMENT

- Standard
- Graduated
- Extended
- Income-Contingent (DL ONLY)
- Income-Sensitive (FFEL ONLY)
- Income-Based (IBR)
- Loan Consolidation

# STANDARD REPAYMENT

- Fixed amount each month until loan is paid in full
- Approximately \$58 per month for each \$5,000 borrowed at 6.8% interest
- 10-year repayment limit

# GRADUATED REPAYMENT

- Payments must cover at least interest
- Payments increase approximately every two years
- 10-year repayment limit
- No single payment under this plan will be more than three times greater than any other payment

# EXTENDED REPAYMENT

- Fixed or graduated payment amount
- Maximum repayment is 25 years
- *Must have at least \$30,000 in a specific program to qualify (FFEL or DL)*
  - May not add totals in DL and FFEL together to qualify
- Must be a new borrower as of October 7, 1998

# INCOME-CONTINGENT REPAYMENT

- ONLY Direct Loan Stafford and Direct PLUS
- Parent borrowers not eligible
- Each year, monthly payments will be calculated on the basis of
  - Adjusted Gross Income (AGI, plus spouse's income if married), family size, and the total amount of borrower's Direct Loans
- Borrower will pay the lesser of:
  - The amount you would pay if you repaid your loan in 12 years multiplied by an income percentage factor that varies with your annual income, or
  - 20% of their monthly discretionary income

# INCOME-CONTINGENT REPAYMENT

- Maximum repayment period is 25 years (not including forbearances or deferments)
- Unpaid portion is forgiven but may be taxed
- If payments do not cover interest, unpaid amount is capitalized once each year
  - Capitalization will not exceed 10% of the original amount owed when borrower entered repayment
  - Interest will continue to accumulate but will no longer be capitalized

# ICR REPAYMENT EXAMPLE

- **Step 1:**

Multiply the principal balance by the constant multiplier for 8.25% interest (0.0109621)

$$\$15,000 \times 0.0109621 = \$164.4315$$

- **Step 2:**

Multiply the result by the income percentage factor that corresponds to the borrower's income.

$$88.77 (0.8877) \times 164.4315 = \$146$$

- **Step 3:**

Determine 20% of discretionary income (based on the poverty guidelines for a family of one).

$$(\$39,201 - \$10,890) \times 0.20 / 12 = \$471.85$$

- **Step 4:**

Payment is the amount determined in step 2 because it is **less** than 20% of discretionary income. **NOTE:** This example is based on the 2011 income percentage factors and U.S. Department of Health and Human Services (HHS) poverty level guidelines.

# INCOME-SENSITIVE REPAYMENT

- FFEL ONLY
- Maximum repayment period is 10 years
- Payment increases or decreases according to income (annually)

# INCOME-BASED REPAYMENT

- Available for both FFEL and DL
- Up to 25 years to repay
- Unpaid portion is forgiven but may be taxed
- Monthly payments capped at 15% of discretionary income
  - AGI minimum 150% of poverty guideline
- Must have partial financial hardship to enroll in IBR Plan
- If borrower is married and files separately, only borrower income is used when calculating payment amount
- Parent borrowers not eligible

# INCOME-BASED REPAYMENT

- If the monthly IBR payment amount does not cover the interest that accrues on the loans each month, the government will pay the unpaid accrued interest on the Subsidized Stafford Loans (either Direct Loan or FFEL) for *up to three consecutive years* from the date the borrower began repaying their loans under IBR.

# PARTIAL FINANCIAL HARDSHIP (PFH)

Borrower's annual loan payment using the Standard 10-year Repayment Plan



15% of (borrower's adjusted gross income – 150% of poverty line amount)

Based on income and family size

Final rules effective 07/01/2010 allow for the PFH to be determined based on the greater of either: the original loan balance when the borrower initially entered repayment or the current loan balance at the time IBR is requested.

# SCENARIOS

Examples	Single borrower with no dependents	Married borrower with two children (and no spousal income or spousal student loan debt)	Married borrower with no other dependents
Eligible student loan debt	\$40,000	\$80,000	\$40,000
Interest rate	6.8%	6.8%	6.8%
Adjusted Gross Income	\$15,000	\$33,400	\$22,500
10-year Standard plan monthly payment	\$460	\$920	\$460
Estimated monthly payment under IBR plan	\$0	\$0 (PFH result was \$4)	\$10 (PFH result was \$8)
Reduction in monthly payment amount	\$460	\$920	\$450

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Examples	Single borrower with no dependents	Married borrower with two children (and no spousal income or spousal student loan debt)	Married borrower with no other dependents
Eligible student loan debt	\$40,000	\$80,000	\$40,000
Interest rate	6.8%	6.8%	6.8%
Adjusted Gross Income	\$30,000	\$60,000	\$25,000
10-year Standard plan monthly payment	\$460	\$920	\$460
Estimated monthly payment under IBR plan	\$170	\$340	\$40
Reduction in monthly payment amount	\$290	\$580	\$420

# LOAN CONSOLIDATION

- No minimum amount
- Fixed interest rate
- Up to 30 years to repay
- Rate is weighted average interest rate of all loans being consolidated, rounded up to the nearest one-eighth of 1%.
- Maximum interest rate is 8.25%
- Borrowers retain subsidy benefit
- One lender, one payment
- Generally takes longer to pay, thereby increasing total interest paid
- Online calculator and questions/answer section
  - [www.loanconsolidation.ed.gov](http://www.loanconsolidation.ed.gov)

# PUBLIC SERVICE LOAN FORGIVENESS

- Accelerates loan forgiveness under IBR to 10 years
- Savings are tax free
- Employed 10 years in a public service job
  - Federal, state, local, tribal, some non-profit organizations, some private organizations that are non-profit
  - Police, fire, EMS, public education, military, public health, social work, government
- Loan forgiveness is not retroactive—prior employment in a public service job does not count
- Borrower may move non-DL loans into DL consolidation
  - Previously consolidated loans may be reconsolidated to gain eligibility for PSLF
- Only non-defaulted DL loans are eligible
- Borrower must make 120 payments
- Fact sheet at [www.studentaid.ed.gov](http://www.studentaid.ed.gov)

# Questions or Discussion?

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