

# FEDERAL STUDENT AID Income Based Repayment Plan for the Direct Loan and FFEL Programs

www.StudentAid.ed.gov

## What is Income Based Repayment?

Income Based Repayment (IBR) is a new repayment plan for the major types of federal loans made to students. Under IBR, your required monthly payment is capped at an amount that is intended to be affordable based on your income and family size.

## What federal student loans are eligible to be repaid under an IBR plan?

Any Stafford, Grad PLUS or Consolidation loan made under either the Direct Loan or FFEL program is eligible for repayment under IBR, EXCEPT loans that are currently in default, parent PLUS Loans, or consolidation loans that repaid a parent PLUS Loan. The loans can be new or old, and for any type of education (undergraduate, graduate, professional, job training).

## Who is eligible for IBR?

You may enter IBR if your federal student loan debt is high relative to your income and family size. While your lender will perform the calculation to determine your eligibility, you can use the Department's **IBR calculator** located on **Student Aid on the Web** ([www.studentaid.ed.gov](http://www.studentaid.ed.gov)) to estimate if you would likely benefit from the IBR plan. It looks at your income, family size, and state of residence to calculate your IBR monthly payment amount. If that amount is lower than the monthly payment under a 10-year standard repayment plan, then you are eligible to repay your loans under IBR. See below for a more detailed description of how IBR eligibility is determined.

The following chart shows the maximum IBR monthly payment amounts for 2009 for a sample range of incomes and family sizes.

		Family Size						
		1	2	3	4	5	6	7
<b>Annual Income</b>	<b>\$10,000</b>	\$0	\$0	\$0	\$0	\$0	\$0	\$0
	<b>\$15,000</b>	\$0	\$0	\$0	\$0	\$0	\$0	\$0
	<b>\$20,000</b>	\$47	\$0	\$0	\$0	\$0	\$0	\$0
	<b>\$25,000</b>	\$109	\$39	\$0	\$0	\$0	\$0	\$0
	<b>\$30,000</b>	\$172	\$102	\$32	\$0	\$0	\$0	\$0
	<b>\$35,000</b>	\$234	\$164	\$94	\$24	\$0	\$0	\$0
	<b>\$40,000</b>	\$297	\$227	\$157	\$87	\$16	\$0	\$0
	<b>\$45,000</b>	\$359	\$289	\$219	\$149	\$79	\$9	\$0
	<b>\$50,000</b>	\$422	\$352	\$282	\$212	\$141	\$71	\$1
	<b>\$55,000</b>	\$484	\$414	\$344	\$274	\$204	\$134	\$64
	<b>\$60,000</b>	\$547	\$477	\$407	\$337	\$266	\$196	\$126
	<b>\$65,000</b>	\$609	\$539	\$469	\$399	\$329	\$259	\$189
<b>\$70,000</b>	\$672	\$602	\$532	\$462	\$391	\$321	\$251	

After the initial determination of your eligibility for IBR, your payment may be adjusted each year based on your income and family size, but your required payment will never be more than the standard 10-year payment amount (unless you choose to exit the IBR program).

## What are the benefits of IBR?

- **PAY AS YOU EARN** - Under IBR, your monthly payment amount will be less than the amount you would be required to pay under a 10-year standard repayment plan, and may be less than under other repayment plans. Although lower monthly payments may be of great benefit to a borrower, these lower payments may result in a longer repayment period and additional interest.
- **INTEREST PAYMENT BENEFIT** - If your monthly IBR payment does not cover the monthly interest that accrues on the loans, the government will pay your unpaid interest on Subsidized Stafford Loans (either Direct Loan or FFEL) for up to three consecutive years from when you first enter IBR repayment. After three years, and for all the other types of loans, interest that accrues will be capitalized (added to the loan principal on which future interest is calculated) when the borrower no longer is eligible for an IBR repayment amount.



- **25-YEAR CANCELLATION** - If you repay under the IBR plan for 25 years and meet certain other requirements, any remaining balance will be cancelled.
- **10-YEAR PUBLIC SERVICE LOAN FORGIVENESS** - If you work in public service and have reduced loan payments through IBR, your remaining balance after ten years in a public service job could be cancelled if you made loan payments for each month of those ten years. The Public Service Loan Forgiveness Program is available only if you have Direct Loans and you make 120 monthly payments under the Direct Loan Program. If you have FFEL loans, you may be eligible to consolidate them into the Direct Loan Program to take advantage of the Public Service Loan Forgiveness Program. However, only the payments made while in the Direct Loan Program will count toward the required 120 monthly payments. For more information about this program, review the Department's **Public Service Loan Forgiveness Program Fact Sheet** located on Student Aid on the Web ([www.studentaid.ed.gov](http://www.studentaid.ed.gov)).

## What are the disadvantages of IBR?

- **YOU MAY PAY MORE INTEREST** - The faster you repay your loans, the less interest you pay. Because a reduced payment in IBR generally extends your repayment period, you may pay more total interest over the life of the loan.
- **YOU MUST SUBMIT ANNUAL DOCUMENTATION** - To set your payment amount each year, your lender needs updated information about your income and family size. If you do not provide the documentation, your payment reverts to the standard 10-year repayment amount.

## How is the IBR amount determined?

Under IBR, the amount an eligible borrower would repay each month is based on the borrower's Adjusted Gross Income (AGI) and family size. The annual IBR repayment amount is 15 percent of the difference between the borrower's AGI (or an alternate income amount) and 150 percent of the Department of Health and Human Services Poverty Guidelines, adjusted for family size. That amount is then divided by 12 to get the monthly IBR repayment amount. If that amount is higher than the 10-year standard repayment amount on the borrower's loans, then the borrower's required payment is the standard amount. The repayment amount under a 10-year standard plan is calculated based upon the total amount borrowed and the applicable interest rate applied over 10 years. (Unlike the IBR plan, the repayment amount under a 10-year standard plan is not based on your annual income.)

## Are there examples of borrowers who are eligible for IBR and for borrowers who are not?

**Example 1** - Based upon the IBR repayment formula a borrower with a family size of one and an AGI of \$30,000 would have an IBR calculated payment amount of \$172 per month. If this borrower had total student loan debt of \$25,000, the calculated monthly repayment amount under a 10-year standard plan with an interest rate of 6.8 percent would be \$288. Since the \$172 IBR calculated amount is less than the 10-year plan amount of \$288, the borrower would be eligible to repay under IBR at a monthly amount of \$172. However, if this borrower's total educational loan debt was only \$10,000 the 10-year calculated amount would be \$115 per month, which is less than the IBR amount of \$172. Thus, the borrower would not be eligible for IBR.

**Example 2** - A borrower with a family size of four and income of \$50,000 would have an IBR calculated monthly payment amount of \$212. If this borrower had total student loan debt of \$20,000 the calculated monthly repayment amount under a 10-year standard plan with an interest rate of 6.8 percent would be \$230. Since the \$212 IBR calculated amount is less than the 10-year plan amount of \$230, the borrower would be eligible to repay under IBR at a monthly amount of \$212. But, if this borrower's total educational debt was \$15,000, the 10-year calculated amount would be \$173 per month which is less than the IBR amount of \$212. This borrower would not be eligible for IBR.

## How Do Borrowers Apply for IBR?

For more information and to apply for IBR you should contact the lender or lenders who hold your student loans.

This fact sheet provides only a summary of the basic requirements of the Income Based Repayment Plan. For more detailed information, refer to the final regulations for this program (34 C.F.R. 682.215 and 685.221) by linking to <http://www.ed.gov/legislation/FedRegister/finrule/2008-4/102308a.html>.

