Presenter: I'm covering two diverse or divergent topics that are very closely related and I intend on addressing the income-driven repayment plans first, followed by public service loan forgiveness. I intend on breaking each topic down in such a way where we first dive into the terms and conditions of the plan or the forgiveness program, then talk about some examples, and then at the end I hope to leave ample amount of time for questions and answers, since we always seem to have a lot about these topics.

So to dive in, there are three main income-driven repayment plans. The oldest I believe is the income-contingent repayment plan, which is available only in the direct loan program. It's been around since 1994, since the inception of the direct loan program, and it is very different from the income-based repayment plan and the pay-as-you-earn repayment plan. Next came the income-based repayment plan, which we implemented in 2009. Unlike ICR, it is available in both the FEL and direct loan program. And lastly, we have the pay-as-you-earn repayment plan, which you heard quite a bit about at the federal update this morning. We implemented this through our statutory authority to carry out an income-contingent repayment plan.

Like ICR, it is available only to borrowers in the direct loan program, and it has certain limitations attached to who can access it, namely new borrowers on or after fiscal year 2008, which means October 1, 2007, who receive a disbursement of a new or direct loan on or after the start of fiscal year 2012, which of course is October 1, 2011. It is very closely modeled on the statutory changes that are due to take effect in IBR for new borrowers after July 1, 2014, and because the changes to IBR are not yet effective and won't be for a number of years, I don't intend on calling them out in particular, but just keep in mind as we discuss pay-as-you-earn that IBR will begin to look considerably like pay-as-you-earn when 2014 comes around.

So borrower eligibility for the three plans. Under ICR all borrowers need to have to be eligible is eligible direct loans. Again, this is very different from the IBR and pay-as-you-earn plan, where for IBR you need to have eligible direct and/or FEL loans. And in addition to that, you would need to see your payment amount go down under the IBR plan relative to what your payment amount would've been under the ten-year standard repayment plan. This is called a partial financial hardship in our regulations, but really all you need to know about it is that the borrower would need to see "repayment relief" under the plan.

For the pay-as-you-earn plan, like other plans, you need to be a borrower who has eligible direct loans. In addition, you need t meet what we are calling the cohort requirement of having borrowed on or after October 1, 2007, as well as having received a new disbursement of a loan on or after October 1, 2011. Now the 2011 date does not mean that the loan needs to have been first disbursed on or after that date; rather any disbursement of a loan after that date is sufficient for the borrower to meet this cohort requirement, and in addition to receiving a disbursement of a direct loan, an application for a direct consolidation loan on or after this date will also satisfy this cohort requirement. And like the IBR plan, borrowers seeking the pay-as-you-earn plan would also need to see payment amount relief under the pay-as-you-earn plan, again, relative to the ten-year standard repayment plan.

Eligible loans. For ICR, again, the only eligibility criteria is that you have eligible loans. And for all of these plans really virtually all of the loan types within the loan program are eligible. For ICR, your direct loans, your sub and unsub loans are eligible, as well as grad PLUS, as well as consolidation loans are eligible. The only limitation attached to the ICR plan, and this is a recurring theme that you'll see throughout the other income-driven plans, is that parent PLUS loans are not eligible, and in addition to that, certain consolidation loans that repaid a PLUS loan are not eligible. For ICR, if you consolidate a parent PLUS loan today into a direct consolidation loan, that direct consolidation loan can be repaid under the ICR plan. If you received what we call a PLUS consolidation loan prior to July 1, 2006, those are not eligible, but if you consolidate today the parent PLUS loans can be repaid under the ICR plan through consolidation.

Similarly, if you have FEL loans that are not eligible for the ICR plan, the FEL loans can be consolidated into a direct consolidation loan in order to qualify. For IBR the same general rule applies, that generally all loans are eligible except for parent PLUS; however, the exception that exists for ICR where consolidation loans that repaid a parent PLUS loan are eligible does not apply. This is really because this is exactly what the statute says and you see the same limitation carried through to the pay-as-you-earn repayment plan, and we carry this limitation through to pay-as-you-earn because it is based on the IBR plan.

Something to note about the pay-as-you-earn plan on the previous slide I talked about the eligibility requirement associated with pay-as-you-earn, where the borrower needs to see payment relief under the plan in order to be eligible. Because pay-as-you-earn is only available for direct loans, but it is so closely modeled on IBR, when we are measuring whether the borrower would actually see that repayment relief under pay-as-you-earn we will also include FEL loans in that determination so that borrowers who have a mix of FEL and direct loans would not be kept away from the repayment plan merely because of the loan program they have borrowed in. That being said, of course, FEL loans can't be repaid under pay-as-you-earn, but they can become eligible for pay-as-you-earn, like ICR, by consolidating FEL program loans into a direct consolidation loan.

Payment amounts. For ICR the payment amount is going to be the lesser of what the borrower would pay on a 12-year standard repayment plan, a straight amortization over 12 years of the loan balance multiplied by an income percentage factor, which I promise I'll try to explain, or 20-percent of discretionary income. So under the first formula the payment amount is based both on the borrower's income and his or her loan debt. Under the second formula the payment amount is based only on income. This is just one of the many ways that ICR is different from the other two plans.

Now income percentage factors play the same role that the poverty guidelines do in determining what a borrower's discretionary income is. They provide an exclusion, effectively a limitation on the amount that the borrower would pay. So for example, a single borrower whose income is $31,884.00, the income percentage factor for that borrower is 80.33. So what you would do is you would determine what the borrower would pay over 12 years and multiply it by that percentage, and that's how you would determine what the borrower would pay over 12 years multiplied by the income percentage factor. Under IBR borrowers generally pay 15-percent of their discretionary income. These payments are only based on income. Those payments are ultimately capped at what the borrower would have paid on the ten-year standard repayment plan. Now ICR doesn't have this limitation, so payment amounts can ultimately become higher than they would've been under the ten-year standard repayment plan for borrowers who repay under the ICR plan. So IBR perhaps provides a little bit of a benefit relative to ICR there.

For pay-as-you-earn it is effectively the same as IBR, except instead of 15-percent of discretionary income payments are generally limited to 10-percent of discretionary income. Now one more thing to note about ICR and IBR versus pay-as-you-earn being different is that how we define discretionary income for ICR is different than how we define discretionary income for IBR and pay-as-you-earn. For ICR discretionary income is the difference between the borrower's income and 100-percent of the applicable poverty guidelines, which are published by the Department of Health and Human Services on an annual basis. For IBR it's a little bit more generous and that discretionary income is the difference between the borrower's annual income and 150-percent of the applicable poverty guideline for that borrower. So it's not really a secret that IBR generally yields lower payment amounts than ICR, and pay-as-you-earn will always, by definition, yield lower payment amounts than under IBR. But there are limited circumstances in which ICR will yield a lower payment amount than the other two plans, and the relief for borrowers who perhaps don't really, really need an income-driven plan, by which I mean their debt-to-income ratios are usually significantly less than one-to-one, or in other words, they make significantly more than what they owe in federal student loans. So the general rule is IBR and pay-as-you-earn yield lower payment amounts than ICR, but there are a few circumstances in which that's not always true.

For IBR and pay-as-you-earn only, this does not apply to ICR, there is an interest subsidy that is factored into the equation, and the interest subsidy, if a borrower is eligible for it, is the difference between the amount that the borrower would pay towards his or her subsidized loans less the amount of interest that accrues. So for example, if I pay $20.00 towards my subsidized loans under the IBR or pay-as-you-earn plan, but $40.00 of interest accrues in a month on those loans then I have an interest subsidy in the amount of $20.00. Borrowers are only eligible for the subsidy when their subsidized loans negatively amortize, which is to say when the amount of interest that accrues in a month is greater than their monthly payment amount towards those loans. So you not only need to have subsidized loans, but your loans need to also negatively amortize. So it's truth be told, it's not all that uncommon under these plans, even the ICR plan; it's just that ICR doesn't have an interest subsidy.

This interest subsidy also only runs for three years from the start date of the borrower's entry into the IBR or pay-as-you-earn plan. So if I enter today I have three years starting today, regardless of whether or not my loans negatively amortize, and regardless of whether or not I enter a period of deferment or forbearance. So if I've been in IBR for a year and then I enter an unemployment deferment for another year, when I come out of it and back into the IBR plan I will have used up two years worth of my interest subsidy under IBR and I don't get it back.

The only exception to this is economic hardship deferments; they will stop the three-year subsidy clock from running. So if I've been in IBR for a year and I get an economic hardship deferment for a year, when I come out of that deferment and back into repayment under IBR I'll still have two years left of my subsidy. But again, you need to be eligible for it, and you're only eligible for it if your loans negatively amortize. So it's a use-it-or-lose-it deal and we pretty much determine whether or not you even get to use it.

The capitalization rules for ICR, of course, are different than they are under the IBR and pay-as-you-earn plan. For ICR interest will capitalize annually during periods of negative amortization. We capitalize interest generally on July 1st of every year for ICR. And capitalization will only occur on an annual basis until the outstanding principle balance on the loan is 10-percent greater than it was from when the borrower entered repayment. This is really just to prevent the loan balance from spiraling out of control for borrowers whose, you know, income remains low, to the extent that their loans negatively amortize for a long period of time. And otherwise the normal capitalization rules apply. So say you have a borrower who was on the ICR plan and who is negatively amortizing and subsequently goes into a deferment or a forbearance, when that deferment or forbearance ends interest will capitalize, and on July 1st of the next year the negative amortization interest will capitalize. This doesn't – it doesn't work this way for the IBR or pay-as-you-earn plan; for both of those plans interest only capitalizes when the borrower no longer has a partial financial hardship or is no longer making payments based on income or leaves IBR entirely.

Now interest will also capitalize when borrowers do not return income documentation when they're required to do so, and I'll talk a little bit more about that later. But the general rule is that interest will only capitalize when the borrower loses partial financial hardship or leaves the plan.

Now to take us back to an example of a borrower who goes into a deferment or forbearance during a period of partial financial hardship, when they exit that period of deferment or forbearance that interest won't capitalize. And in fact, if the borrower has a partial financial hardship for forever, until they've paid off their loan, then interest will never capitalize. The same rules apply to pay-as-you-earn except we, during negotiated rulemaking, agreed to replicate the 10-percent limit that exists in ICR for the pay-as-you-earn plan. So we capitalize under pay-as-you-earn with the frequency of IBR, which is to say when the borrower loses partial financial hardship or exists the plan, but when interest actually does capitalize it's capped at 10-percent.

Loan forgiveness. All three of the income-driven plans provide for it, but they do so in slightly different ways. For ICR and IBR the repayment period or forgiveness period, if you will, is 25 years of qualifying repayment. For pay-as-you-earn, because it's carrying forward the statutory changes that were already due to take effect to IBR in 2014, the repayment period or forgiveness period is 20 years of qualifying repayment, and qualifying repayment is as simple as payments under any of these income-driven plans, payments under the ten-year standard repayment plan or any other plan where the payment amount is at least as much as the ten-year standard repayment plan, or economic hardship deferment. So if I'm on economic hardship deferment for 3 years, that's 3 years out of my 25 or 20 that I need to get forgiveness on my loans under these plans. And unlike some of our other forgiveness, such as public service loan forgiveness, the amount forgiven according to the IRS is taxable under current law, and, you know, depending on the borrower you could have a substantial amount forgiven and therefore be left with a fairly hefty tax bill.

Now both of these plans haven't been around for long enough for anyone to have met the 25 or certainly not 20-year limit or forgiveness marker, so nobody's yet been subjected to tax, and maybe Congress will change the Internal Revenue code to prevent this from being taxable, but under current law the IRS view it as taxable.

So we've gone through the terms and conditions of these repayment plans. I haven't discussed all the terms and conditions of the plans; notably, I have glossed over the treatment of married borrowers to provide us more time to get through what we need to get through. So I'm going to walk through examples of the terms and conditions of the plan as applied to Billy Borrower.

Billy is single, has no dependants, and therefore is a family size of one, and lives in Florida. Billy has an adjusted gross income of $35,000.00 and Billy has $50,000.00 in direct loan debt, $23,000.00 of which is subsidized, and all of which is at 6.8-percent, because frankly it just made the math easier. Under ICR Billy's initial payment would be $397.17. Now when I did these projections I assumed that his income would increase by about 5-percent a year, which is I think what the Census Bureau says is normal, even though it doesn't really feel like that for most of us, I think. And I also project a certain increase in the poverty guidelines and the income percentage factors to account for inflation over time. So with that in mind, if Billy's income increases by 5-percent a year, his final monthly payment amount will be $535.23. So it will go up about – I'm horrible at math, but about $150.00 over the course of his repayment period.

Billy's payment amounts will always be enough to cover the accruing interest, so Billy under ICR will never have the annual capitalization of negative amortization interest because there is none. In addition, Billy will play off his loan in just under 14 years. So no forgiveness for Billy. It is more common under ICR than under IBR or pay-as-you-earn to pay off the loans prior to receiving forgiveness. But it is certainly true that under IBR and pay-as-you-earn many borrowers in this same situation will not receive forgiveness, and we'll go into some examples of that in a minute.

Over the course of the 164 months Billy will pay a total of $78,444.28 towards his $50,000.00 in loans. And for comparison I have provided the total amount that Billy would pay under the 10-year standard repayment plan and the extended plan or consolidation standard plan, both of which for this borrower would have a repayment period of 25 years. So in just under 14 years Billy will pay about $10,000.00 more than he would've paid under the 10-yewar standard repayment plan and less than he would pay – considerably less than he would pay under the extended repayment plan. And this is likely due to the fact that he pays his loans off in under 14 years, which is less than – more than 10 years, less than the repayment period he would have under the extended plan or the consolidation standard repayment plan.

Under IBR, using the same projections about income and the poverty guidelines Billy's payment amount would be $228.06 starting out. That's less than ICR, which is usually going to be the case. And the final payment amount for Billy will be $575.40. Billy will receive an interest subsidy under IBR, because as long as negatively amortized, specifically the subsidized loans, which are the only loans eligible for subsidy, but over the course of his first three years in IBR he will not have to pay a total of $653.16 in interest. And, you know, that doesn't seem like all that much money, but if you're Billy I'm sure you appreciate it.

Billy will eventually lose partial financial hardship and will therefore have his payment amount capped at what he would've paid under the 10-year standard repayment plan in his 16th year of IBR. So the $575.40 figure, that's the amount that he would pay under the 10-year standard payment amount. And like under ICR, Billy will pay off his loan before receiving forgiveness in the 21st year of IBR. Now because Billy's payment amount was lower and his repayment period was longer, he is going to pay a total over time of $101,673.34. This is towards his $50,000.00 in debt.

Now the previous slide had him paying about $78,000.00 under ICR; this is significantly more. And I would note, again, that this is considerably more than what he would've paid under the 10-year standard repayment plan, and almost as much as he would've paid under the extended or consolidation standard repayment plan. Hint hint, the figures are close, generally because the amount of time spent in IBR versus the other plans is comparable.

Finally, pay-as-you-earn. His initial monthly payment amount will be $152.04. This is the lowest of the three plans. Like I said, generally that's always the case. His payment amount will go up to $492.19 over time. Now that's less than the $575.00 figure from the IBR slide, primarily because Billy will always have a partial financial hardship under the pay-as-you-earn and will therefore always have a payment amount that's based only on his income.

The interest subsidy is going to be more generous for the same borrower with the same loans under pay-as-you-earn versus IBR because the payment amounts are lower. So Billy will, for payment, receive almost $2,000.00 in an interest subsidy, which is substantially more than it was under IBR, where it was $600.00-some odd dollars. So pay-as-you-earn really is the best deal for Billy if Billy is seeking to keep his monthly payment amounts as low as possible.

Now Billy will also receive forgiveness under the pay-as-you-earn plan, where he wouldn't have under the IBR or ICR plans. And he's forgiven almost the full amount of the original principal balance on his loans. Billy won't actually start paying down principal on his loans until his 18th year in the pay-as-you-earn plan; for the rest of the time it's all interest. Now he's only going to pay a total of $70,000.00 over the course of this 20 years, and that's related to $69,000.00 over the course of a 10-year standard repayment plan. The pay-as-you-earn plan is where we start to see whether the borrower receives forgiveness and the amount that the borrower pays over time not being comparable relative to the amount of time that they actually spend repaying under the plan that they're in. By that I mean under IBR, when Billy was in repayment for 21 years under that plan he paid almost as much as he would have under the extended plan with 25 years, because the repayment periods were comparable. For pay-as-you-earn you start to see that being the case less and less.

And to recap, there's a nice little chart here for all of us. And we can see that for this borrower pay-as-you-earn consistently yields the lowest monthly payment amount and the repayment amount under the other ten-year standard and extended plans are provided to you. You can see obviously, you know, ten-year standard is going to be the highest payment amount and the extended repayment plan is going to be less. Now what you can also tell from this chart is that at a certain point under all three of the income-driven repayment plans Billy may be able to keep his payment amount lower by leaving the plan entirely and jumping to the extended repayment plan. Now there are a whole host of factors that go into what his extended payment amount would be if he's been in one of these plans for a while and subsequently chooses to leave, but Billy is free to do so under all of the plans if the extended plan yields a better payment and he just wants to leave.

Something to note about leaving the IBR plan which does not apply to the ICR or the pay-as-you-earn is that under the IBR plan there is a requirement that when borrowers leave the plan that interest not only capitalize if there's any outstanding, but that the borrower initially be placed on this 10-year standard repayment – I'm sorry, the standard repayment plan, which for non-consolidation loans and consolidation loans can be different, but they're required to exit onto the standard repayment plan. This is because that's exactly what's required in the statute.

We have mitigated the negative consequences of this to a certain extent by allowing the borrower to leave the standard repayment plan after making one payment under the standard payment – repayment plan. Now of course depending on how long the borrower has been in IBR that payment amount can be quite high because the remaining balance is amortized over the remaining repayment period, by which I mean if I've been in IBR for five years and I'm a non-consolidation loan borrower and I exit the IBR plan, I exit onto the ten-year standard repayment plan and the entire remaining balance of my loans is amortized over the remaining five years. So the $575.40 that you see on this chart is likely not going to be my repayment amount if I've been making lower payments under the IBR plan. So that's something to keep in mind.

When we underwent the latest round of negotiated rulemaking we also tried to mitigate this further by allowing borrowers to make a payment under the standard repayment plan, but under a reduced payment forbearance agreement with their loan holder.

Applying. And I'm going to try to speed through this as much as possible. Under income-driven repayment plans borrowers must submit income documentation when applying and they must also do so annually, and that is because for IBR and pay-as-you-earn eligibility is based on income, and for ICR the payment amount is based on income. The borrower can document their income through the use of our electronic application, that I'll delve into a little bit further in a few minutes, a paper copy of their latest tax return, or an IRS tax return transcript.

All three of the plans have a feature whereby if the borrower's adjusted gross income from their tax return or tax transcript is not available, that loan holders or loan servicers can look at alternative documentation of income, which usually means pay stub, but it includes any taxable income, anything that would factor into what the borrower's AGI is. So unemployment benefits are something that we would look at; however, untaxed income, such as SSI from the Social Security Administration, or TANF, which is welfare, untaxed income, we don't want to see it because it's not part of whether the borrower is eligible, nor is it part of the payment amount.

For borrowers who seek to use our new electronic application, one issue associated with alternative documentation of income is that if you are required to use alternative documentation of income or if you want to as a borrower, then you have some additional follow-up with your loan holder or loan servicer, because the electronic application currently only supports the use of adjusted gross income that is electronically provided form the IRS using the IRS data retrieval tool. And generally when we're looking at alternative documentation of income it gets tricky, because we're trying to project whatever documentation that is received to cover a 12-month period, and you don't always know how often the borrower receives the income; it's sometimes not evident from the income documentation. Over the course of time loan holders have requested varying numbers of pay stubs or forms of income documentation for borrowers, so there have been inconsistencies that have developed.

And we've tried to remedy this by coming up with a combined, streamlined, income-driven repayment plan application that will standardize some of the processing and income documentation requirements associated with all of the plans. So borrowers soon will only need to provide one piece of documentation per source of income, though they're free to provide more if they wish. And we're going to ask borrowers to write on their documentation how frequently they're paid, so it takes some of the guesswork out of doing this. And just one of the other benefits of doing this is that it will be one application for both the FEL and the direct loan program and will cover both the standard application process, which is adjusted gross income or alternative documentation of income.

As I mentioned, when we use alternative documentation of income we're projecting it to cover a 12-month period. But unlike when we use AGI, which necessarily takes out what we call "above-the-line deductions' to gross income, you can't do that when you're using alternative documentation of income because you don't know. So even if you had a borrower who had an adjusted gross income and an alternative documentation, and their income is actually the same, alternative documentation of income will always be higher because you can't take those adjustments to income into account when you're using alternative documentation.

In addition, you have pre-tax deductions to pay, which I've got to tell you, not all employers really make clear whether a deduction is pre or post-tax ad loan holders aren't going to try to guess and figure it out. They'll usually subtract it out if it's readily evident from the documentation that it is a pre-tax deduction and therefore wouldn't factor into AGI anyway, but it's really usually very difficult to figure that out.

And lastly, when you're using alternative documentation of income, even if you haven't held your job for the entire year, we're going to project that income to cover a full 12-month period because that's what we – I mean that's just how the payment amounts are supposed to be calculated. When we use adjusted gross income we more or less assume that the income is from employment or, you know, income that's received over the course of the entire tax year, and so we divide that amount by 12 and apply the IBR formula and you get your payment amount. Similarly, we'll project alternative documentation of income to cover a 12-month period.

Income and family size. As I mentioned, you have to do it every year. If you don't do it when you're required to do so, your repayment amount will be recalculated and it will be recalculated to be the amount that you would've paid under the ten-year standard repayment plan. Now you're still under the IBR or pay-as-you-earn plan or IBR plan. That being said, your payment amounts are likely considerably higher and under the IBR and pay-as-you-earn plan it also yields interest capitalization.

The date that the borrower is required to recertify annually is based on the date that they actually entered the plan. So for example, if I enter the plan today, which is I think November 27th, then next November 27th I'll have a new payment amount based on my new documentation that's effective for a 12-month period. And the electronic application can be used to recertify income and family size on an annual basis.

Some highlights about some of the processing changes that are coming to all of the income-driven plans; borrowers are going to start receiving notices about the terms and conditions of the repayment plan that they've elected so that there will be increased awareness of the requirement to submit income documentation and certify family size annually. When they're coming up on their anniversary date, as we call it, the date by which they need to have their income documentation in for recalculation, there are certain deadlines that borrowers are going to be asked to meet so that loan holders have adequate time to document – or I'm sorry, recalculate the borrower's payment amount. And if for whatever reason there's a delay at the loan holder or the loan service or that can occur, the borrower's monthly payment will remain what it was for the prior year until the loan holder can recalculate the new payment amount.

These regulations, as was mentioned during the federal update, were published on November 1, 2012. The effective date of those regulations is July 1, 2013. We are implementing these provisions early, and so you should start to see the federal loan servicers for the federal loan portfolio only to implement by the end of 2012. In the final regulation we also designated these provisions as being slated for early implementation for the FEL program, but it's at the loan holder's option to implement those provisions early. And so I can't really say whether any of them are intending on doing so, or if they are, when, but I can say as to the federal portfolio in short order will be fully implemented to follow these new processing requirements.

The income-driven application launched in September. It will initially only include the IBR plan and can be used by borrowers with not only federally-held loans, but also borrowers with commercially held FEL loans, where the entity that services the borrower's loans also services a federal loan. To try and make that simpler to understand I'm going to give an example, and I promise federal servicers in the audience I'm not trying to show favoritism, but if you have Sallie Mae, who is servicing commercially-held FEL loans, Sallie Mae is also a federal loan servicer, so Sallie Mae's commercially-held FEL loans were also borrowers whose loans are serviced by Sallie Mae commercially will also be able to use the income-driven application. Now we hope to expand it to the rest of the FEL community in the near future; we're trying to work out exactly how we should go about doing so. But what we have now with the servicers who commercially service FEL loans, who are also federal loan servicers, represents a very sizeable majority of the commercially-held FEL portfolio, upwards of 70-percent. So I think it's fair to say that most borrowers, regardless of loan-holder, can use this application now for IBR.

The application is hosted on studentloans.gov, and you use the same IRS data retrieval tool that you use for individuals completing the FAFSA. For individuals who can prepopulate their income-driven application with their adjusted gross income, it will also electronically transmit that application to their loan holder or loan servicer so that the process is seamless for the borrower. If for whatever reason that's not available or the borrower needs to submit adjusted gross income, the electronic application will generate the paper application process that exists today or will exist in the future, when our new application is finalized, and should prepopulate that application for the borrower based on the responses that they provided on studentloans.gov, so the only thing that the borrowers really need to do is attach their income documentation, sign the application, and mail it to wherever they need to mail it.

I have some screenshots here, and hopefully they're of sufficient quality for you to actually see what it looks like. This is what the IRS interface looks like after the borrower has gone through the IRS data retrieval tool process. You can see that the borrower will be presented with their adjusted gross income, their filing status, and the tax year that was pulled, and will be asked to confirm that the tax information that was pulled over from the IRS is still based on their current income.

After the borrower goes through this whole process this is the screen that they'll see to more or less review their application and "sign it" electronically. I include this screenshot so you can see the scope of the information that borrowers are asked to enter; you can see that it's really not all that much. The electronic application relies heavily on skip logic to really only present borrowers with the information that's relevant to their situation, so we will not ask for spousal information, for example, for borrowers who aren't required to provide spousal information about their application.

And lastly, this is the confirmation screen. This is what a borrower will see when they've submitted their application. You can see that this is a borrower who has a mix of loans that are eligible for the plans but their loan services are different. So at the top of the screen we have the servicer named Test that is participating in the electronic application process, and there's a confirmation that the application has been submitted. Below we see the servicer named Bank of America. Bank of America is not currently participating, though we hope to expand it to include them. For this borrower, he or she is notified that the application has not been sent to the servicer and that they will need to follow up with the paper application process.

The paper application is obviously still available. I for whatever reason a borrower doesn't want to use the electronic application or can't, this is the process that will continue to be used. I've laid out the current form that's landscaped around the income-driven repayment plans, but you can pretty much throw it out the window because the new combined, streamlined application is, you know, coming soon, very soon. The final comment period on it expired just yesterday and we hope to have it approved by OMB very shortly. So we hope that it's in use by the end of this year, right around the time that we make pay-as-you-earn available and we expand the electronic application process to include the other income-driven plans, ICR and pay-as-you-earn.

Okay, that's income-driven repayment plans. I'm going to segue now into public service loan forgiveness. Believe or not, there's actually less to cover here than there was for the income-driven repayment plans, since we are talking about three of them and now we're just talking about one. But public service loan forgiveness, or PSLF for short, provides for forgiveness of the remaining balance of a borrower's direct loans only, direct loans, after the borrower makes 120 full on-time monthly payments after October 1, 2007. All of the payments need to be made under a qualifying repayment plans and all of the payments need to have been made while the borrower is working for a qualifying organization. The borrower also needs to be working for a qualifying organization at the time that they apply for and receive forgiveness. And finally, unlike with income-driven repayment plan forgiveness, the IRS does not consider forgiveness amounts under PSLF to be taxable. This is because there is what you could call additional consideration for the forgiveness; the borrower is required to engage in some sort of service and is receiving the forgiveness in exchange for that service. So the IRS doesn't consider it taxable under current rules.

Qualifying payments. As I've said, you need to make 120 of them, which is the equivalent of ten years. The payments don't need to be consecutive, but they need to be for the full amount due. So if I owe $100.00 every month and I only pay $50.00 and I don't pay the other $50.00, that doesn't count. Similarly, if you're in a deferment or a forbearance and you make a payment, also doesn't count. You need to be making scheduled monthly payments for it to count. They also need to be on time, which we have regulated to mean within 15 days of the due date. Many borrowers will make a series of multiple partial payments over the course of their billing cycle, and if they do so, generally we will aggregate those payments throughout the billing cycle and have it equal one full monthly payment.

So if we go back to the borrower who was $100.00 every month, and he makes two $50.00 payments during his billing cycle, those will add up to be $100.00 and he'll get credit for the month. Generally lump sum payments, though, will not count beyond the month in which the payment was made. So if I owe $100.00 every month and I pay $200.00, I will get credit for the month that I make the payment, but not the next month, where the second $100.00 goes to satisfy the subsequent month. There's one exception; it's for AmeriCorps and Peace Corps individuals who, both of whom receive a service payment or an education award, a transition payment, what have you, if they make a lump sum payment with either of those educational or service awards, we will split that lump sum payment up into qualifying payments, but I believe that we won't give more than 12 months credit.

Qualifying repayment plans, surprise, surprise. We're back to income-driven repayment plans as being the main one, however, the ten-year standard repayment plan and any other plan that has monthly payment amounts that are the same or greater than the ten-year standard plan also qualify. Non-qualifying repayment plans are then the extended plan, the graduated plan, and this is a big deal, write this down, the consolidation standard repayment plan where the repayment period is more than ten years does not qualify. So if you take consolidate and take no other action to select a repayment plan, those payments are not qualifying for public service loan forgiveness. Borrowers need to make an active, conscious decision to get themselves onto a qualifying repayment plan if they consolidate. And it doesn't take a whole lot of consolidated debt to get to a repayment term that's more than ten years at $7,500.00.

Obviously if you sit on a ten-year standard repayment plan and make 120 payments under that plan, the remaining balance at the end of ten years is zero. So for borrowers who have made payments under ten-year standard that's fine, we'll count them, but they really do need to switch to an income-driven plan in order to receive any forgiveness. And obviously because of the way the payment amount works, the pay-as-you-earn plan is likely to give you the most bang for your buck, so to speak, and yield the highest forgiveness amount.

Eligible loans, as I mentioned, direct loans only. All direct loans, but direct loans only. FEL programs are not eligible. Perkins loans are not eligible, but like with ICR and pay-as-you-earn, they can be consolidated to become eligible. Parent PLUS loans I should note are eligible, but can't be repaid under any of the income-driven plans, with the exception of ICR. So if you have a parent PLUS borrower that's looking to benefit from this, they can do so, but they need to do so in such a way that they've consolidated and taken some affirmative action in order to get their loans to qualify.

Qualifying employment. Each of the 120 payments need to be made during a period of qualifying employment, which means any job at a government organization; federal, state, local, tribal, what have you, they all qualify. A not-for-profit 501(c)(3) organization, which includes a lot of institutions of higher education, hint hint; most of your jobs probably qualify. Or any other not-for-profit organization that provides certain public services, and I have listed them. I am not going to go through them, but it's the usual suspects, if I may. And like the payments not needing to be consecutive, neither does the employment, so if you have gaps in qualifying employment, that's fine, we'll stitch them together to get you to 120 payments.

You need to be a full-time employee at the organization where you work, and generally we look to the employer's definition of what full-time is, but we set a floor, and the floor is an annual average of 30 hours per week, which is pretty generous. If you have multiple employers we're just going to set your full-time standard at the floor of 30 hours and there is an exception for certain contract employees for eight months out of the year; this is targeted at public school teachers, or they also will be considered full-time if they work an annual average of at least 30 hours a week.

A note about organizations that are religious in some way, if the individual's job includes the following three things: religious instruction, worship services, or any form of proselytizing, they're not wholly disqualified, but when they are seeking to meet the full-time requirement they cannot include time spent on those three activities, and this applies to employment at any not-for-profit organization, including 501(c)(3) organizations.

Earlier this year – early this year we released an employment certification form for borrower's to demonstrate their qualifying employment to us. We will – the borrower will complete the form with help from their employer, it requires the certification of and authorized official of the employer. We have designated Fed Loan Servicing to be the PSLF servicer for this program, and what that means is that the borrower will submit this form to Fed Loan Servicing regardless of who services their federally-held loan. Fed Loan Servicing will determine whether or not the employment qualifies and if the borrower has qualifying loans. And if both of those things check out and if Fed Loan Servicing doesn't currently service the borrower's loans, those loans will be transferred to Fed Loan Servicing, who will then make a determination as to how many of the payments made to date qualify for the plan, and they will do so in a way where they will marry up the payments that have come in and the dates of the employment, and the borrower will have a definitive idea of how many payments they've made so far, how far they have left to go, and it will, if nothing else, at least provide confirmation that they're doing everything right, or if they're doing something wrong, help them self-correct.

Borrowers can submit the form as often as annually. They're certainly not required to submit it. They're never required to submit this form on a periodic basis. When it eventually becomes time for borrowers to qualify they'll obviously – if they haven't submitted these in the past they'll need to submit one of these forms for every employer that they've worked at. So obviously we highly recommend that they do so on a periodic basis, but it is not required.

I have a few screenshots for you of what the bulk of this form looks like. You can see at the top, I hope, if it's not too blurry, we ask for things like the name of the organization, the EIN of the organization, we ask for the start and end dates, full-time, part-time, and we ask the employer to check off what kind of organization they work for. You have three main checkboxes; you have government, 501(c)(3), and you have the residual private not-for-profit category, where we also ask the employer to check off the box of the qualifying public service that the organization provides. We then ask for a signature and contact information, and that information is usually sufficient for Fed Loan Servicing, you know, sometimes with our help, to make a determination as to qualifying employment.

As I alluded to, the employment certification form is not an application for forgiveness. And because a borrower must make 120 qualifying payments after October 1, 2007, by definition no borrower can qualify for public service loan forgiveness until at the earliest October of 2017. So we're a way's out, but, you know, it's getting closer every year. And so there's no application yet because no one has cause to submit one. We will submit one closer to when borrowers get closer to qualifying, but as of right now we don't have an application.

I'll quickly go through some of the common themes that we've seen so far with the employment certification form. We have borrowers who only have FEL loans submitting the form. As I've gone over, only direct loans qualify, so these borrowers are informed of the fact that their loans don't qualify, and I believe they're advised about their option to consolidate to become eligible. We have a number of borrowers who haven't provided the employer EIN to us. This is very important to us because it usually provides the best clue as to who the employer is. Frequently employers have very complicated arrangements between themselves and other organizations, and the EIN sort of becomes the definitive marker of who ultimately employs that borrower. And when we don't have it we go back and ask for it.

Similarly, we have a number of borrowers who are not paying under our qualifying repayment plan. Obviously the overwhelming majority are going to be the consolidation standard plan. But we also have a number of borrowers who are making qualifying payments under the ten-year standard repayment plan when they submit the form, which is fine, it qualifies, but as I mentioned, won't get them anything, because they'll have paid off their loan in full before they can get forgiveness. So they're advised to switch to an income-driven plan if this is serious, or if they're serious with their seeking public service loan forgiveness.

Similarly, we've had borrowers who work at for-profit corporations, a number of them trying to claim that they work in qualifying employment. Obviously for-profit corporations don't qualify, and we've gotten pretty good at determining whether or not it's a for-profit corporation that we're looking at.

Lastly, we have a number of borrowers or employers checking the wrong box on the employment certification form, thinking they're a 501(c)(3) organization when they're not, and they fall under the latter category. And if we can figure it out we oftentimes won't go back and ask the borrower to provide any additional information, but sometimes there's just not enough information for us to determine whether the employment qualifies without more, and if that's the case we will go back and ask the borrower, the employer for more information. Because honestly, in this program especially, the burden is on the borrower to prove that their employment qualifies. We've gone out of our way to try and make it easy for them to do so, but ultimately the burden is on them. So if for whatever reason we can't make a determination, and we're pretty conservative about what we're willing to accept, because this is a new program and we don't frequently delve into employment issues, we'll go back and ask for more.

Some stats about the portfolio to date. As I mentioned, it's been going since the end of January. So far we've had almost 30,000 borrowers complete and submit an employment certification form. This is only through September. Almost 17,000 of them have been deemed to work in qualifying employment, and of those we have gone through the really painstaking process of determining how many qualifying payments they've made during the period of qualifying employment for nearly 7,000 of them. The overwhelming majority of those individuals have been in the 1 to 2-year category of qualifying in payments, but we do have some that are between 3 and 4 years, and we have a very small, select category that are between 4 and 5 years, on their way towards public service loan forgiveness. So we conceivably have borrowers qualify as early as October 2017.

So I'm going to close by trying to draw a closer link between the income-driven plans and public service loan forgiveness for you before I open it up for questions. Billy didn't qualify for IBR or ICR forgiveness, and many, many, many people on income-driven plans are like Billy, their debt-to-income ratios are just such that they'll pay off their loans under the plans before the end of their repayment period to 25 years, or 20 years for pay-as-you-earn, though it's much more likely under pay-as-you-earn for borrowers to get forgiveness.

An income-driven play for people like Billy can help provide relief and public service loan forgiveness can provide forgiveness where it otherwise would not have been available, and it can do so in a much faster way. Ten years is a lot faster than 25. And it can also help avoid paying substantially more in interest, which is what borrowers who pay off their loans under the IBR or ICR plans frequently encounter, because they've seen repayment relief, there's all of this additional interest that's accrued, and that's ultimately the responsibility of the borrower if they don't receive forgiveness. Now that's true under public service loan forgiveness as well, but because it's only ten years that it takes, it's much less likely that the borrower has gotten into the business of needing to pay back the additional interest that's yet accrued. So for borrowers like Billy PSLF seems like a pretty good deal.

To recap, Billy was single, no dependants, resides in Florida, $50,000.00 in direct loans, $35,000.00 in income, an annual increase in 5-percent a year in income. Without public service loan forgiveness the top row is more or less what you've already seen on a previous slide. For ICR and IBR Billy is going to pay off his loans before the repayment plan forgiveness. For pay-as-you-earn he'll see some forgiveness. But with public service loan forgiveness, under ICR Billy will have almost $20,000.00 forgiven in his direct loans, and under IBR he has $45,711.82 forgiven. So clearly $45,000.00 is better than zero, which hopefully illustrates the point that PSLF can help borrowers like Billy, whose debt-to-income ratios aren't so out of whack that they'll get the repayment plan forgiveness, can help them. But for pay-as-you-earn too, Billy would see an additional benefit above and beyond what he would've seen under just the pay-as-you-earn forgiveness, and you can see that he'll get about $13,000.00, a little less, a $1,000.00 extra forgiven on his loans that he would've under pay-as-you-earn. And it also wouldn't be taxable.

And with that I'll open it up to questions. It looks like there are microphones up here, so please come up to the mike if you've got a question.

Audience: Hi. Thank you very much. This has been very informative. I do have a couple questions. One, if a student has – you talked about the amount of interest subsidy. If the student has subsidized and unsubsidized loan, how is their payment, is it done proportionally to the sub and the unsub? Is it all done to the sub? How is that calculated?

Presenter: So when we calculate a payment amount under all of the income-driven plans that payment amount is effective as to all of the borrower's eligible loans. So what then happens is the loan servicers or the loan holder will break down that aggregated payment amount to cover each of the borrower's eligible loans, and it is prorated based on each individuals' loan, each individual loan shared to the whole.

Audience: Okay. So if you have a lot of unsubsidized loans the amount of your payment that is going to the subsidized loan is probably very small, and therefore you're earning a larger interest subsidy during that partial hardship forbearance.

Presenter: Yes. If you have – if you disproportionate-

Audience: For a graduate student?

Presenter: Yeah. If you disproportionately have unsub, more of your IBR/ICR/pay-as-you-earn payment will go towards the unsub loans and less will then go towards sub. Though at the same time, because you will virtually have less in subsidized loans, there's also less interest accruing.

Audience: Less interest accruing, right. Another question, when does a borrower have to submit alternative documentation of income and when is it their option to submit it? We have a lot of students who say, "Well, can I file taxes this year while I'm a student, and therefore in November, when I go into repayment and I apply for IBR I'll show a zero income for the prior two years?"

Presenter: Sure. So borrowers are required to submit alternative documentation of income when their tax information is not truly reflective of their current situation. Now obviously it's more or less the – it's on the borrower to correctly identify when that circumstance occurs, so, you know, we hope borrowers are honest, but….

Audience: So if the borrower says, "Nope, this is what I'm doing," then the servicers aren't going to go back and say, "No, we don't believe you."

Presenter: They could.

Audience: They could?

Presenter: Yeah. I mean it's their role to safeguard the integrity of all of these programs, and we encourage them to. Though something to keep in mind is that we try not to put too many road blocks up to bar us trying to get into these plans, because it's very easy to, you know, not dot an I or cross a T and then have your application be denied for whatever reason. So it's absolutely a balancing act, both as to the ones that we hold and commercially-held FEL loans try to engage them. So most of the time borrowers who are applying are doing so after some sort of conversation on the phone with their loan servicer. If it comes out during that conversation that the borrower, you know, has a tax return available that shows an AGI of zero, servicer might ask a few additional questions to find out whether or not that's still good, whether or not they have a job currently, whether or not they're getting income. And if that's the case then they'll-

Audience: They can ask for the other information.

Presenter: Absolutely. Though at the same time, if you have a borrower who sees the application and applies without having been counseled, I don't think many loan holders or loan servicers are going to place follow-up calls to try and ascertain whether or not that information is good, because, you know, the borrower is certifying when they file their application that the information that is in this application is, you know, true and correct to the best of their belief. So it really is going to depend on how the borrower came by the application.

Audience: Okay. This information has been really very helpful, especially the comparisons. Have the exit counseling tool in NSLDS been updated to like show people the differences here? Because before it was a lot of text.

Presenter: There's a session about the financial aid.

Audience: ______ ______.

Presenter: Yes, I encourage you to go to it. I don't know the session off the top of my head, but we're currently undergoing a process whereby we are putting entrance and exit counseling on studentloans.gov and we are integrating with FACT.

Audience: We have some big payoff differences, unless you choose the right one.

Presenter: Absolutely. Absolutely.

Audience: Thank you very much.

Presenter: You're welcome.

Anything else? I knew I couldn't get out of here with just one question.

Audience: So for the pay-as-you-earn plan, is that going to be a Web-based application when that becomes available, or will students have to do a paper one?

Presenter: It will be both. The current electronic application has currently been expanded to accommodate all of the income-driven plans, including pay-as-you-earn. And the combined, streamlined application paper that I mentioned also incorporates the pay-as-you-earn plan and is also including a checkbox for borrowers to more or less say, "I don't know what plan I want; I just want one that has a low payment. So figure out what's best for me and put me on that plan."

Audience: Good. Thank you.

Presenter: You're welcome.

Audience: Hi there.

Presenter: Hi.

Audience: I work at a law school and I appreciate your numbers when you're looking at the $50,000.00. But with law grads' average debt being upwards of getting close to $150,000.00, we have some borrowers at $200,000.00. So your numbers as far as loan forgiveness is going to be well over $100,000.00 for lawyers. Do you see this as a sustainable program five to ten years down the line, when the government starts canceling large dollars of loans?

Presenter: Well, I'm certainly not a budget analyst, and believe me, I sympathize with the law grads that have that amount of student loan debt, because I do. But one reason that I provided the comparison in the total amount paid between the repayment plan, the income-driven plan, and some of the other plan, was to illustrate the fact that you could easily make the argument that the government is in effect being made whole as to the total amount paid relative, you know, between the income-driven plan and the ten-year standard play, because the borrowers pay more than they would have over time under that plan in almost all cases.

Audience: I just know I hear from our students who are getting close to graduating, and especially in law, where it's really wide open for the public service loan forgiveness, they're pretty savvy, so they know that they're going to try to pay as little as possible, and it's a little challenging for me to try to keep the debt down when they know when they borrowed over $100,000.00 they want to get as much as they can, so it's a challenge for us.

Presenter: Sure. Now at the same time there's no guarantee that the law won't change. You heard during the federal update there were any number of statutory and regulatory changes that occurred in the last year, and I certainly can't provide any assurance that Congress won't just, you know, decide exactly what you've just illustrated, that this is not sustainable from a budgetary standpoint and that they need to either do away with public service loan forgiveness entirely or the income-driven repayment plan forgiveness.

Audience: Yeah, and that was the impetus for my question, is that I can kind of foresee this down the road, when there's large forgiveness for professionals with advanced degrees.

Presenter: Sure.

Audience: Thank you.

Presenter: You're welcome.

Audience: Hi. Thank you for the session. I have a question regarding perhaps it's a little bit confused and I missed what you might have said, but interest capitalization in the repayment plans related to income, if one does not qualify for capitalization and it's no longer available, I'm not quite sure what the implication is. I mean capitalization becomes an issue when the payment is not covering accurate interest, so if one no longer has the option of capitalization are you saying paying the interest is mandatory? I'm not quite sure.

Presenter: Absolutely. And that's actually a great question. If capitalization doesn't occur, but the interest accrues and is not satisfied, the time that the borrower makes his or her next payment, that payment first goes to interest. That's virtually always the case with how our payment allocation rules work. It's just in the case of negative amortization, where you can get to a point where a borrower has never actually paid down a loan principal on their loan if interest never actually capitalizes. At the same time, bear in mind, though, ultimately it's cheaper for the borrower if interest never capitalizes, because when that then happens interest accrues on the higher, new outstanding principal amount.

Audience: Ah, okay.

Presenter: But it's sort of like you have two buckets that are running; you have the outstanding principal balance and you have the outstanding interest balance, and in cases of negative amortization that outstanding interest balance goes up every month.

Audience: Okay. Thank you.

Presenter: You're welcome.

Audience: Hi. I have a question about the married student. I know we're using the AGI and your Billy was single. Married students, I mean the loan is an individual loan, but the adjusted gross represents a family income, and some of the students that we serve are actually married students, where they both have loans.

Presenter: So the way it works for married borrowers in a nutshell is it depends on how they file their taxes. If they file jointly, which most married couples do, because of the tax benefits, if the spouse of the borrower also has eligible loans we will take those loans into account when determining whether the borrower is eligible for the repayment plan that they selected and what the individual borrower's payment amount will be as to the joint income. So for example, if you have a joint AGI of $80,000.00 we are going to take that payment amount and prorate it as to each spouse's loans. Does that make sense?

Audience: Mm-hmm. I've been working with a couple where one of them isn't working, the other person is working, and it appears to me the best thing for them to do would be for them to file individually – I mean separately, so married filing separately, because otherwise it appears that the person who is not working would be penalized and be paying more for their – would have to make payments on their loans.

Presenter: Depending on the numbers, that could very well be true. The treatment of married borrowers is specified in statute, so there's not a whole lot we can do about it. We received a lot of comments about it during the last round of notice and comment rulemaking on the income-driven plans and it's not like we don't sympathize, but we don't have any authority to alter the treatment.

Audience: Yeah, I hope it changes, because, you know, when you have a student whose income is low enough that they can receive the Earned Income Credit, but filing married filing separately they wouldn't be eligible for it, so in a sense it may not even be in their beneficial to them to do anything other than do the standard – or the extended.

Presenter: Again, depending on the numbers. I mean it's a cost-benefit analysis for each couple and it's really difficult, especially with this issue, to make any sort of generalization. But absolutely, when you have a couple like the one that you've described, they either need to make a choice to forgo the tax benefits they'd otherwise get or ensure that one of the spouses gets a repayment amount that's, you know, palatable to them.

Audience: Thank you.

Presenter: You're welcome.

All right, I think I am out of time, so thank you all for coming. Tell your friends. I'm doing this three more times, so. Enjoy the rest of the conference.

[Applause]