Pam Moran: My name is Pam Moran. I'm with the office of post-secondary education. I'm a Senior Program Analyst. And so, what do I do, where am I in the scheme of things? Well, the office of post-secondary education is responsible for interpretation of statute, of laws that are enacted by the Congress. We developed the *Dear Colleague* letters that you see, generally speaking, unless it's operational in nature. We oversee the negotiated rule making process and development of program regulations. So that's sort of where we sit in the scheme of things and I'm joined today by Rosa Wright, who is with the Direct Loan division, handles Direct Loan servicing and other issues and she's located in federal student assistance, so we are two different units within the Department of Education. First, let's start out with giving you a little bit of overview of the program. I'm gonna take you through the Direct Loan and FFEL program repayment plans. And then Rosa is gonna finish up with information on other repayment strategies and some information about our ED servicing capability and just introduce you to some of our – the resource and appendix information that we won't go over, but is there for your information and to take back to your office. First, turning to understanding the basic repayment plans that are available to FFEL and Direct Loan borrowers. Now, you'll see that some of these are marked for the respective programs, so not all of these repayment plans are available to borrowers in both FFEL and Direct Loan. But the Standard Repayment Plan is and I should mention that all of these plans are provided for in the law, in the Higher Education Act, so these are not just the department's regulation. This is provided for in the Higher Education Act. Standard Repayment Plan is available to borrowers in both programs – oops, I'm sorry. I'm not advancing. Graduated Repayment Plan also available to borrowers in both programs. Extended repayment plan – available to certain borrowers in both programs. The Income Sensitive Repayment Plans available only to FFEL borrowers. Alternative Repayment Plans are Direct Loan only. Income Contingent Repayment, or ICR, is Direct Loan only and the Income Based Repayment Plan, which is the newest repayment plan introduced into the law, is available to both FFEL and Direct Loan borrowers. Turning to the Standard Repayment Plan – under this particular kind of repayment plan, a borrower will pay a fixed amount of at least $50.00 on a monthly basis for up to 10 years. For most borrowers, this plan is the most cost effective. You pay off sooner. You pay less interest over time than if you pay out over other repayment plans. Depending on loan indebtedness, levels of indebtedness, a borrower may not be able to handle a Standard Repayment Plan, but again, this is the most cost effective repayment plan for a borrower. And that's available to subsidized,

unsubsidized and plus loan borrowers – both parent plus and graduate professional plus, sub and unsub in Direct Loan and sub and unsub on the Stafford loans on the FFEL side. Now, there is also a standard repayment – what's referred to as a consolidation standard repayment for consolidation loan borrowers. That is also a fixed rate that a borrower pays monthly and that is computed based on the overall amount of the borrowers consolidation loan and other loans that they ask be considered in establishing the overall repayment period. That can go out from 10 to 30 years depending on the total indebtedness considered in establishing that repayment plan, but that is another form of a standard fixed payment plan. The Graduated Repayment Plan. This is sort of a step of progressive in a couple of steps. It's maybe beneficial for borrowers who have relatively low incomes when they first enter repayment, but they anticipate that they will have a fairly rapid incremental rise in their income over time. Under this plan, the payments start out low and then they increase every two years. The minimum payment amount equals the amount of interest that accrues monthly for up to the maximum repayment period. And like the Standard Repayment Plan, the maximum repayment period is 10 years for a subsidized or unsubsidized Direct Loan, unsub/sub Stafford loan on the FFEL side and plus loans and again, 10 to 30 years for a consolidation loan depending upon the level of indebtedness. That leads you to where you sit on that 10 to 30 year repayment period for the consolidation loan. But again, available, Graduated Repayment Plan available in FFEL and Direct Loan. Looking at what the – if you are a consolidation loan borrower, what the standard and Graduated Repayment Plans for a consolidation loan looks like. Now, based on the total student loan indebtedness amounts and you can see – and this is basically provided for in the law –that if you consolidate and have a total indebtedness of less than $7,500.00, you are limited to a 10-year maximum repayment period on the consolidation loan. And then it steps up, up to – if you have $60,000.00 or more in indebtedness, the maximum repayment period can go out as far as 360 months or 30 years. So this is the consolidation loan repayment scheme and again, within these periods of repayment, you can pay under either a standard payment or a graduated. Looking and turning to the extended repayment plan. This came into the law with the 1998 amendments to the HEA and that's why you see the reference to October 7th, 1998. That was the date of enactment of the reauthorization to the Higher Education Act of 1998. Extended – a borrower may choose this plan, and again, this is available to both FFEL and Direct Loan borrowers. If they did not have an outstanding balance on a FFEL or direct program loan as of date of enactment – October 7th, 1998 – or on a later date on or after

October 7, 1998 at the time they came forward and took out a new loan. They have to have more than $30,000.00 in outstanding loans, either FFEL program loans or direct program loans to enter this repayment plan. And that is not a combination or a cumulative total across both programs. Because of the way the law is written, you must have either more than $30,000.00 in outstanding Direct Loan debt, or more than $30,000.00 in FFEL loan debt. A borrower may choose to make fixed or graduated monthly payments under the extended repayment plan. The minimum payment amount is a $50.00 monthly payment if you choose to have a fixed extended repayment. It's an extended repayment, goes out to 25 years but no forgiveness is attached to repayment over 25 years. That just happens to be the maximum repayment period available to a borrower under an extended repayment plan, but unlike IBR and ICR, there is not a forgiveness feature. This is just the maximum repayment period, and you're loan payments would be attributed across that maximum repayment period not to exceed 25 years. Income sensitive repayment is available only in the FFEL program. Income Sensitive is a repayment plan that is really lender specific in the FFEL program, so you will not see a governing regulation. If you look in the FFEL program regulation, governing this repayment plan, other than it be available and be offered. The payment amount increases or decreases based on income change and borrowers are reevaluated annually, just as they would be, say, in the IBR or ICR repayment plan. The maximum repayment period is 10 years, except for income sensitive repayment offered for a consolidation loan borrower and the borrower basically has to re-up, so to speak, every year through the reevaluation process. Now, on the FFEL side, income sensitive repayment plans must provide for payment on a monthly basis of at least the accruing interest on the loan. At least the monthly accruing interest. So there is no negative amortization. There is no scheduled payment that can be less than the monthly accruing interest on this particular FFEL income sensitive plan. And monthly payment may be increased for the remaining term of the loan to compensate if the borrower receives decrease payments, income sensitive decreased payments in the earlier part of the repayment period. There is quite a bit of limitation, of course, especially if you're dealing with a loan that's subject to a 10-year maximum repayment period under the law. You can only provide for so much income sensitivity up front, and not have ballooning payments when you get to the end of the 10-year period. And the other prohibition in the regulations governing this kind of repayment plan for FFEL borrowers is that you cannot have balloon payments at the end. You cannot have a payment that is three times greater than any scheduled payment of the course of

the plan. So this is somewhat circumscribed in terms of the flexibility a lender has in the kind of Income Sensitive Repayment Plans. They can offer – of course, there's a little bit more flexibility in offering one to a consolidation borrower. Alternative Repayment Plans are only available to Direct Loan borrowers and this is really an individual case-by-case exceptional circumstance kind of repayment plan that's offered. It's when the terms and conditions that are attached to all the other available repayment plans are not adequate to meet a borrower's particular circumstance. The borrower has to provide evidence of their exceptional circumstance and then terms that can be effected through one of these alternate repayment plans must fit the following restrictions; a maximum of 30- year terms for repayment, minimum payment of at least $5.00 and payments cannot vary by more than three times the smallest payment. So again, no ballooning effect. And there are four different Direct Loan Alternative Repayment Plans that are available to be offered if, in fact, there is a borrower that on a case-by-case documented basis meets these circumstances. They are alternative fixed payment, alternative fixed term, alternative graduated and alternative negative amortization, in other words, paying less than the monthly accruing interest. But given the availability of income-based repayment as our newest repayment plan, these kind of individualized Alternative Repayment Plans are almost never used. I think very, very limited use. Now moving to the Income Based Repayment Plan. *[Coughs]* Ooh, I'm sorry. Oops. Slide out of place. Moving to the Income Based Repayment Plan. Did I skip a slide? Yes. Moving to the Income Contingent Repayment plan. Direct Loan only. Income Contingent Repayment or ICR is a repayment plan that bases the borrower's monthly payment on yearly income, family size and loan amount. As the borrowers income rises or falls, so does their payments and after 25 years any remaining balance on the loan will be forgiven, but currently further action by the US Congress, the borrower would have to pay taxes on any amount forgiven after that 25 year period. It is considered income to the borrower for federal tax purposes. Payments under Income Contingent Repayment can be less than the accruing interest, which is referred to as negative amortization, and as you look here, you can see that it's really looking at the same features on an annual basis that we look at borrowers under the IBR repayment plan. Income Contingent Repayment has been in existence, I believe, for about 17 years, so we haven't quite reached the point for borrowers who have been repaying under that plan steadily to the point where we have any forgiveness granted under that repayment plan, but it is provided for. You can have, because, in fact, the plan provides for the possibility of paying less

than the accruing monthly interest, you can have an actual scheduled monthly payment of $0.00 for a borrower so that is possible. Okay, moving finally to the Income Based Repayment Plan. Now this is our newest plan. It was enacted as part of the College Cost and Access Reduction Act in 2007 and it became – we regulated it under negotiated rule making and it became available and effective as of July 1, 2009. Under this plan, the required monthly payment is capped at an amount intended to be affordable based on the borrowers income and family size. The maximum repayment period, again, just like in ICR, is 25 years and if certain requirements are met, any remaining balance will be cancelled. But again, just like with ICR, right now it is income to the borrower that would be subject to federal taxes. Now, in the parenthetical, I've noted that there is a change that Congress made in the law as part of the SAFRA legislation that will, in fact, for new borrowers on or after July 1, 2014, reduce the 25 years in repayment to 20 years. But that is a statutory change. That's a legal change made in the Higher Education Act and that effective date, the secretary cannot move that forward and we'll get into a little bit of – cuz there's a little bit of confusion about the recent announcement based on IBR changes. Only FFEL or direct Stafford or grad plus borrowers and consolidation borrowers whose loans were not used to repay parent plus loans can take advantage of IBR. You also cannot be in default to be eligible to repay under income-based repayment. Delving a little bit more into the details of borrower eligibility for IBR – a borrower's eligible to repay under IBR if the monthly payment amount calculated on the borrower's loans under a 10 year Standard Repayment Plan, is more than the IBR monthly payment amount. And then the borrower is deemed to have a partial financial hardship. A borrower has to demonstrate – based on the examination of their income, their family size, their adjusted gross income – to enter the repayment plan – and this is unlike any of the other repayment plans – the borrower must demonstrate that they have a partial financial hardship. The borrower provides either adjusted gross income and that's generally the most recently filed adjusted gross income through federal taxes or alternative income documentation can be used annually. And there is an annual evaluation based on the borrowers IBR anniversary date to determine whether they continue to show partial financial hardship and to potentially recalculate the borrowers IBR repayment amount. If the borrower has multiple loan holders – let's say they have ED held loans and they have FFEL loans held by a commercial FFEL lender – they must apply, if they're interested in paying all of their loans under income-based repayment – they would have to apply separately to each of their loan holders to request that repayment

plan. And the scheduled monthly payment will be adjusted across those loan holders on a prorated basis for that borrower. And just a little note down in the corner that there is information at http://www.studentaid.ed.gov. There's a fact sheet on the IBR repayment plan, there's a whole series of Q's and A's on the IBR repayment plan. Also, at that website, you will find a link to repayment information and repayment calculators for all of these repayment plans where folks can go in and plug in information and compare and contrast in trying to determine what the best plan is for them. Calculating the IBR payment. Annually, the IBR payment is capped at 15 percent of the difference between the borrower's income and 150 percent of the HHS poverty guidelines. This is actually the formula for determining whether or not someone shows a partial financial hardship and you'll note, again, a parenthetical, this is a statutory change, a change made in the law under the SAFRA act, that this 15 percent cap will go down, be reduced to 10 percent for new borrowers on or after July 1, 2014. The monthly payment amount is based on the borrower's adjusted gross income, family size and state of residence. And state of residence ties in to the Health and Human Services Poverty Guidelines, which are published annually in the federal register. And a combined adjusted gross income is used for married borrowers who file a joint return. So if you have a married filing jointly situation and only one borrower in the family, then the joint AGI is used. It's considered an available resource for purposes of determining the borrower's eligibility, a resource for repayment of the loan and it is used in determining the eligibility for IBR. For a single filer – that could be someone who files singly or someone who is married and filing singly – then it would only be the AGI of that individual that would be used in the determination. The minimum monthly payment may be as low as $0.00 or it can be a modest $10.00 depending upon what is the result of the calculation of IBR eligibility and the monthly payment amount calculation. So again, it can be a scheduled payment of $0.00, it can be less than the monthly accruing interest for the borrower. Just to give you some examples of the different scenarios here under IBR. Here we have a single borrower – and these were done using the calculator that I mentioned that you will find at http://www.studentaid.ed.gov. We have a single borrower. They have an adjusted gross income as an individual of $35,000.00. Their estimated *[coughs]* excuse me – total student loans are $50,000.00. 6.8 fixed rate. They're based on the HHS standards. Their state of residence is the Continental US – outside of Alaska and Hawaii and they have a family size of one. Excuse me, I'm so sorry. According to the information provided, it appears the borrower's eligible for IBR – so they show a partial financial

hardship – and the monthly payment amount is approximately $235.00. And that borrower would be reevaluated using this same information annually, based on their IBR anniversary date, to determine whether they continued to show partial financial hardship and what their recalculated payment amount might be because of changes in income and family size. Married borrower, filing jointly – and in this case, we only have one borrower in the family so we have a combined AGI of $35,000.00. That one borrower has $50,000.00 in debt. 6.8 fixed interest rate. Again, HHS poverty guidelines. We would use the standard for continental use cuz they're outside of Alaska and Hawaii. Family size of two. This person also, based on IBR calculation, qualifies for IBR and their monthly payment amount is approximately $160.00 a month. Our last example is married borrowers who are filing jointly, but both borrowers have outstanding debt and they are both interested in paying under IBR. So they have a total combined AGI of $70,000.00. They have a total combined student eligible student loan debt of $80,000.00. Again, we've plugged in the fixed interest rate of 6.8. They spouse – number two spouse who has their own loans – has $30,000.00. So $30,000.00 of the $80,000.00 is for that other spouse. Again, same fixed interest rate. Two in the household outside of Alaska and Hawaii and according to the IBR calculation, the first borrower with the bulk of the debt would qualify for IBR and their monthly payment would be approximately $436.00. The second spouse's IBR monthly payment of course is less because they have a lesser part of the overall debt. And the same information is used to consider their eligibility, but then it is prorated to get the payment amount for the borrower who has the lesser percentage of debt. If payment is less than accrued interest on a subsidized loan or the subsidized portion of a consolidation loan, the secretary pays the difference for up to three consecutive years from the borrowers IBR repayment start date. So the secretary actually pays the difference between the borrower's monthly scheduled payment – which in this case is not covering the monthly accruing interest – so the secretary is paying that difference so that going forward, that borrower's accruing monthly interest is being covered and so the debt is not growing. And this goes on in a subsidized loan or on the subsidized portion of a consolidation loan, for up to three consecutive years from the date the borrower enters IBR. If, based on the annual anniversary review that is done of a borrower, if they no longer show partial financial hardship as part of that annual evaluation, then their payment is required, under the law, to be recalculated based on a 10 year standard repayment. Now, actually, the law and the regulations refer to it as a recalculation, but the way that the loan servicers have implemented this is they are capturing a 10-year

standard payment amount in their systems. And so if a borrower hits this trigger where they no longer show partial financial hardship when they come up for their next annual review, then simply what happens is they revert to that payment amount that has been locked into the servicers system. But the statute refers to it as a recalculation, the regs refer to it as a recalculation, but it really is a transition back to a payment amount that was calculated and locked in to the servicers system. The borrower, in this situation, even though they no longer show partial financial hardship and their payment is transitioned to the 10-year standard payment amount; they are still under what we describe as the umbrella of the IBR repayment plan. It does not mean that, "Oh, suddenly I'm no longer eligible for the IBR payment plan". You may remain under the umbrella of the IBR repayment plan. You would be reevaluated every year, continue to be reevaluated. If things became more difficult for you, you experienced a drop in income, then in fact, you might once again show partial financial hardship, but even if you don't, you could continue to pay out under the umbrella. You are still within the Income Based Repayment Plan. The other thing I should mention is that if a borrower hit the trigger that requires that they be reverted back to this 10 year Standard Repayment Plan, that would apply to borrowers who not only had loans that had a maximum repayment period to begin with of 10 years, but also would apply to consolidation borrowers who may have, when they entered IBR, had a longer repayment period. Borrowers, however, can pay out, of course, under IBR for up to 25 years, so someone who had a maximum 10-year standard repayment period can effectively pay out over a longer period of time than 10 years, not to exceed 25 years. But there is this required recalculation or transition to a 10 year standard repayment amount under the IBR repayment plan if a borrower no longer show partial financial hardship when they are reevaluated annually. If the borrower, however – and this is another alternative – wishes to leave the IBR repayment plan totally, that's their right. But if they do so, there is a particular treatment. The law provides that if a borrower leaves IBR totally, they must repay under a Standard Repayment Plan. Now, the law didn't say 10-year standard repayment, it simply said Standard Repayment Plan. So what we did during the development under negotiated rulemaking of the IBR regulations is we provided that if a borrower left IBR totally, they have to go into standard repayment. If they were in a 10-year standard – if they had a 10-year maximum repayment period, then that means a 10-year standard repayment for that borrower. If they had a consolidation loan, then that means a standard consolidation loan monthly payment, which is what, many borrowers pay under the consolidation loan program. The time that they spent in IBR,

however, counts against the overall repayment period they have left available to them. So this may leave some borrowers – particularly those that only had a maximum 10 year repayment period to begin with – basically unable to exit IBR. So a borrower may have to stay under the umbrella of IBR because if they exit, the years that they were paying under IBR will count in the overall repayment period. And if they have not paid down their debt significantly, then that could mean that over a very short period of time – let's say they have two years left on the original 10 years – all the rest of the loan would have to be paid out in that two-year period, one year period. A borrower may have stayed in IBR for more than 10 years and they cannot basically exit because they have no time left on the original maximum repayment period. Also, if a borrower no longer shows partial financial hardship, or they leave IBR totally, any accrued outstanding interest that remains unpaid is capitalized. So if you leave IBR totally, any outstanding accrued unpaid interest is capitalized. If you remain under IBR, but you no longer show partial financial hardship, the law also provides that any unpaid outstanding accrued interest would also be capitalized. Some of the advantages of IBR – well, of course affordable payments that could be actually a scheduled payment of as little as $0.00. It's payments that are capped, effectively, based on the borrower's disposable or discretionary income. The government, as we mentioned, will pay the unpaid interest that's accruing monthly on a subsidized loan or on the subsidized portion of a consolidation loan for up to three consecutive years. If the borrower's scheduled monthly payment amount doesn't cover the accruing interest any remaining principle and interest, obviously, will be cancelled after 25 years of repayment and IBR payments count towards public service loan forgiveness, which, for some borrowers, is a very important issue. The disadvantages of IBR are that you would pay more interest over the life of the loan, obviously. And to continue to pay reduced payments under IBR a borrower has to go through the ritual of annually, based on their anniversary date, submitting information on their income and family size every year so that the servicer can reevaluate their status under the IBR plan. And, in fact, if a borrower fails to provide the income information and family size update that is required, then the statute, the law and the regs provide for that borrower to be reverted back to a 10 year Standard Repayment Plan. Just in looking at a comparison of IBR versus ICR, note IBR for parent plus loan borrowers or if a parent plus loan borrower has consolidated and has a consolidation loan that repaid parent plus loans, those borrowers are not eligible for IBR payment. But, under ICR, a parent plus borrower is not eligible to repay a parent plus loan itself under ICR, but if they

consolidate their parent plus loans and repay them through consolidation, they can request – the may request – ICR. IBR and ICR are two of the eligible payment plans most likely to leave a borrower with a remaining balance for forgiveness under the public service loan forgiveness program. So that's why I highlight that parent plus borrowers do have an opportunity through the consolidation process to set themselves up in a repayment plan – this one being ICR – that would allow them, potentially, to qualify for public service loan forgiveness. IBR is available for FFEL and Direct Loan borrowers, whereas ICR is only for Direct Loan borrowers. IBR monthly payment amounts tend to be lower than ICR because there is that cap that's established on disposable income. IBR and ICR both may have monthly payments that are less than the accruing monthly interest, otherwise called negative amortization. Again, comparing the two, IBR – they have the interest subsidy for the three consecutive years for borrowers who are paying less than accruing monthly interest. ICR, the borrower is responsible for all of the interest that accrues on the loan. Under IBR, unpaid interest, unpaid accrued outstanding interest, is capitalized only if the borrower no longer shows partial financial hardship as part of their annual evaluation or the borrower leaves IBR totally. In ICR, the unpaid interest is capitalized annually, but no more than 10 percent of the original loan amount will be capitalized and added to principle. After you reach that cap, then what happens, since the borrow is still always responsible for the accruing interest, the outstanding accruing interest is handled as a separate outstanding accounts receivable or pool of expense that the borrower's still responsible for but it's no longer capped and added to principle. That would be used where interest would be applied to going forward. IBR – forgiveness after 25 years, but as we mentioned, that's gonna reduce to 20 years for new borrowers on or after July 1, 2014. And ICR, which is purely regulatory – I mean, there is authorization in the Higher Education Act for the secretary to develop an Income Contingent Repayment plan, but it is a purely regulatory repayment plan and ICR forgiveness is after 25 years under current regulations. The pay as you earn repayment plan that was announced by the president recently in Denver is a proposal, basically, to amend ICR. This is a regulatory initiative of the department. It is to regulate or reregulate ICR to accelerate or to offer, basically, the IBR changes that will be available to borrowers in 2014 under IBR, cuz we have no authority – the secretary has no authority to impact those effective dates on IBR that are statutory. So what this is all about is going into current ICR – which is purely regulatory – and revision ICR In such a manner as to provide the equivalent kind of benefit that borrowers will see statutorily on the IBR side. So, we will be doing this

through negotiated rule making and that is part of the loans team that was recently announced. And we will start in the second week of January of 2012 to actually negotiate several different loan issues, but one of them will be this pay as you earn regulatory initiative to provide additional repayment relief to borrowers. Payments under the Pay as You Earn program that was announced by the president, would, again, reduce the payment cap from 15 percent to 10 percent of discretionary income and forgiveness would be reduced from 25 to 20 years. Now, when that announcement was made, it was also announced that that would apply to new borrowers in 2008 who also received a new loan in 2012 and folks have asked, "Well, what is that? Is that fiscal year? Is that academic year? What is that?" and the answer to that is, "We don't know because that's subject to negotiated rule making." So we can't get out ahead of that process. We are going to have to identify what that means through the regulatory process. And just one final slide in terms of what the overlap is between repayment plans and public service loan forgiveness, because people are confused by this. Obviously, Income Based Repayment Plan is a repayment plan unto itself. It is different than the public service loan forgiveness program. But because these things were sort of promoted together in concert, people got confused thinking they were one and the same thing, not sure. Well, this is the overlap. The overlap is, under the public loan forgiveness program law, borrowers who are providing qualifying service and making qualifying payments have to make those payments under certain repayment plans and that's specified in the law governing public service loan forgiveness. And there are four plans listed. 10 year Standard Repayment. Income Contingent Repayment. Income Based Repayment and other repayment plan that's available if the monthly payment is at least equal to the amount that someone would pay under a 10 year Standard Repayment Plan. Remember, PSLF is only available to Direct Loan borrowers. So these would be qualifying payments made while the borrower is providing qualifying services, a full time employee of a public service organization and the payments would have to be made – this is a Direct Loan borrower making payments on their Direct Loan – under one of these four repayment plans. What should be noted is, if you're paying under a strictly a 10 year Standard Repayment Plan, that's 120 months of payments. PSLF provides for forgiveness of anything that's outstanding after 120 months of monthly payments. So if you pay strictly under a 10 year Standard Repayment Plan, you will not have a balance left for purposes of public service loan forgiveness and that forgiveness of the outstanding balance is the benefit. Last bullet. If you pay under any other repayment plan and pay an amount on a monthly basis

that's equivalent to what you would pay under a 10 year Standard Repayment Plan, then again, if you did that strictly for your entire repayment period, that loan would be paid off within 120 months. You would have no outstanding balance left to be subject to forgiveness. So IBR and ICR are the two repayment plans that are likely to leave you, a borrower, with an outstanding balance that would be forgiven for purposes of public service loan forgiveness. So that's the overlap between repayment plans and public service loan forgiveness. And with that, I'll close. Pardon my cough. It's been a long week. And I'll turn it over to Rosa.

Rosa Wright: Thank you. Good morning, again. Moving forward we're gonna start and have a discussion on repayment strategies and other borrow tools that are available. So in addition to the various repayment plans offered to fit a borrower's needs, we have several tools that may help a borrower in satisfying their repayment obligation. Those are repayment incentives, assistance in the form of deferments and forbearances and loan consolidation. Repayment incentives. Currently we have two repayment incentives. The first one is up front interest rebate. The rebate is equal to a percentage of the total borrower's principle and for loans that was first dispersed on or after July 1, 2010; it is equal to .5 percent. It is for borrowers who must make their first 12 payments on time to retain this rebate. Once they have entered repayment – and those payments do not have to be consecutive. So therefore, a borrower can actually go into a forbearance or deferment during their first 12 months or their first 12 payments and we count the payments and not the months. So they do not have to be consecutive to retain this rebate. However, this authority for the upfront rebate was eliminated with the Budget Control Act of 2011 and it will cease with loans that are first disbursed on or after July 1, 2012. We also have a second repayment incentive and that is the electronic debit. It is where the borrow elects to have their monthly payment automatically debited from a checking or savings account and for that they will receive a .25 percent interest reduction. Another form of repayment assistance is deferments and forbearances and they're available and may be considered the right option when a borrower is having trouble in making their monthly payment under any other repayment plans that are offered. For deferments – a deferment is a temporary suspension of payments for a specific situation and with the deferment; the borrower is not responsible for the interest that is accrued on subsidized loans. There's different types of deferments and the ones we're going to discuss here is the first one is in school and it can be applied for any increment for borrowers enrolled at least on a half time basis. We also have a parent plus deferment and a post

enrollment plus deferment for graduate and professional students on loans that were first disbursed on or after July 1, 2008. Unemployment deferment is applied at six month increments for up to three years and is approved based on the borrowers evidence of their unemployment benefits or when they are registering at an employment agency and for unemployment deferment, the borrower does have to search and continue to search for employment and accept a full time employment of any type. Economic hardship is also applied in 12-month intervals or actually in applied in 12-month intervals instead of the six months, but it is for up to three years. It is for borrowers who are receiving payments under a federal or state public assistance program and although a borrower may be working full time, their monthly income is at or below the federal minimum wage or 150 percent of the poverty guidelines of their family size provided by Health and Human Services. It's also for borrowers who are serving as a volunteer for the Peace Corp. We also have military deferments and there are two. Active duty is available to those who are called to Active Duty during a war, other military operations, or a national emergency and it's for borrowers serving on or after October 1, 2007. Those borrowers may receive an additional 180 day period following their qualifying service. The second military deferment is for Post-Active Duty students and that's for a borrower who is a member of the National Guard or other reserve component who is called to Active Duty while enrolled as least half time or within six months of their date of active service. It is applied 13 months following the service or until the borrower returns to school, whichever one is earlier. Moving on to forbearances. Like a deferment, a borrower may postpone or make reduced payments with a request of a forbearance. Unlike deferments, however, the borrower is responsible for the interest that accrues on both the subsidized and unsubsidized loans. Forbearances may be granted for various reasons. Poor health or other acceptable reasons that is for the general forbearance – while the borrower's performing medical internship or residency, AmeriCorps or the National Community Service. It's also available for their teaching service that is eligible for the Teacher Loan Forgiveness Program and for the loan/debt burden forbearance is where the monthly payment is greater than or equal to 20 percent of their total monthly gross income. Forbearance is also applied for up to three years in 12-month intervals. The last repayment strategy we're going to go over today is loan consolidation and this slide right here is really referring to what we consider now the traditional consolidation program. It's where a borrower can request to have their loans put together into one account in one loan. The will have one lender and one monthly

payment. They have flexible repayment options. Lump payments can be lower. It's a fixed interest rate for the life of the loan and it's also free to consolidate. We're now referring to the consolidation program on the previous slide as the traditional because the president announced last month a special consolidation opportunity that is to be offered January to June 2012. It is available to borrowers who have at least one commercially held FFEL loan and one federally held direct or FFEL loan. Borrowers must be in an in grace status, repayment or deferment or forbearance status. The commercial FFEL defaulted loans that have been rehabilitated are actually eligible. For commercial FFEL loans that are in a current default or subject to bankruptcy proceedings are not. Some of the benefits of this special consolidation in addition to the traditional consolidation program – you're still getting your one servicer, one payment. There is a .25 interest reduction at the time of consolidation. The previous time and repayment counts toward the new terms as well as no loss to the previous IBR payments. Also, the new loan is eligible for the public loan forgiveness. And going forward, just to conclude today's session, we're gonna go briefly share some information on the ED services and we provided some resources of appendixes of legislation applicable to repayment plans and Direct Loan servicing. The department currently has six federal loan servicers which we assign Direct Loans. They are Direct Loan Servicing Center ACS, Fed Loan Servicing, Great Lakes, Mohela, Nelnet and Sallie Mae. And it's actually our goal of our services to provide a successful and positive experience for our borrowers and we encourage our borrowers to actually get to know and develop a relationship with their servicers. All services have tools and counseling aids to assist borrowers with managing their student loans and for the schools we have dedicated school support servicers that are there to assist you. And as Pam mentioned earlier, we're providing some resources that you can use as reference points. This page right here is just providing some links actual to electronic announcements and that IBR fact sheet as well as the fact sheet and Q and A on public service loan forgiveness. We also introduced delinquency prevention resource web page this past summer. This is the announcement that introduces that and gives you a little bit more information. Going through some of the appendixes, there's different legislation that's applicable. We had the Budget Control Act, the Health Care Education Reconciliation Act, SAFRA, Higher Education Opportunity Act. Also, the College Cost Reduction to Access after 2007. And a couple of more applicable regulations are available. Of course with this being the last day, this slide right here is no longer applicable and we wanted to provide our contact information so if you have any

questions as you return back to your schools, please feel free to call or email us. We're always available and be happy to assist you. So we're gonna open up the floor to questions, if you have any questions. Yes.

Audience: *[Inaudible as the audience is not using a mic]*

Rosa Wright: Well with the new IBR and ICR, they're actually utilizing those more but we do have borrowers who are still using alternative and we do give the information if we see that another repayment plan is not fitting their needs.

Audience: *[Inaudible]*

Rosa Wright: It is actually documented as exceptional circumstance so we can make them aware of it and if we see that they're leaning towards it or they're requesting, then we can let them know and give them the information as needed to prove that they're eligible for it. Good morning.

Audience: *[Inaudible]*

Rosa Wright: I don't think so. It doesn't seem like we have any live ones.

Pat Moran: Maybe we'll try to repeat the questions.

Rosa Wright: Yes.

Audience: Okay. My question is ___ for verification now for adjusted growth income; we have to get tax transcripts. I was wondering with IBR is there anything *[Inaudible]* ______________, *[Inaudible]* tax transcripts _____ concerns? Any comments? *[Inaudible]*

Rosa Wright: I'll let you pass it up.

Pat Moran: Right now, there is an alternative documentation form that can be used by a FFEL lender or one of the ED loan servicers if, in fact, the adjusted gross income, which is the most recently filed AGI, does not reflect the borrower's current financial circumstances, so there is the option to use the Alternative Documentation Form. If the AGI is to be used, it could include a transcript – an IRS transcript – as well as on the FFEL side a copy of the federal income tax return. It could take either form. And I don't know, Rosa, are we doing anything directly with Internal Revenue Service in terms of access?

Rosa Wright: Not with the new servicers.

Pat Moran: Okay, not with the new servicers. Okay.

Audience: They won't – the people over at the IRS, will they be able to verify that or *[Inaudible]* ____?

Pat Moran: No, I mean, it's just that a financial – an IRS transcript would give you the AGI. So a FFEL lender trying to determine whether someone qualifies for IBR or doing the annual evaluation – if alternative income documentation is not in the picture, then they could use a copy of the person's tax return or they could utilize an IRS transcript.

Audience: I guess my point is, we're trying to go with *[Inaudible]* ___ tax transcript but *[Inaudible]*_________ tax return so you know, make sure it's accurate for *[Inaudible]* ____ is there any indication that that law will be required for borrowers to determine their monthly payments of a legitimate adjusted growth income cuz *[Inaudible]* ______?

Pat Moran: No, at this time, no. At this time, for IBR purposes, they are accepting copies of the tax return; they are using IRS transcripts in some cases or alternative documentation.

Audience: One quick question and I'll *[Inaudible]* _____ with this special consolidation; I'm not quite sure where you get the .25 additional reduction. Is that only on the commercial FFEL loan or *[Inaudible]* _____ and Direct Loan and they're gonna do this as a special consolidation and *[Inaudible]* ____.

Pat Moran: It's on the commercially held FFEL loans that are coming over into Direct Loan.

Audience: Are those borrowers doing that separate?

Pat Moran: Well, those loans retain their terms and conditions when they come over. So it's not the same as a traditional consolidation where all of the underlying loans are paid off and consolidated into one consolidation loan. Those loans will continue to have a separate identity unless the borrower subsequently does a traditional consolidation, okay? And that's the way because if you know about – we mention the fact that payments made by a FFEL borrower under IBR would count toward the 25 years even after that loan comes over to the Direct Loan side and that's because that loan will still effectively be there. Now, it's gonna change its

identity to a Direct Loan. Under normal circumstances, if you do a traditional consolidation loan, any payments you made under a FFEL loan under IBR – you would start over. Okay? For these borrowers, that will not be the case. They will get credit for any IBR – any payment period under IBR when that commercial loan comes over to the Direct Loan side. Okay?

Audience: I just want to clarify for the special consolidation. Does that include deferments for any eligible students' ___ *[Inaudible]* special consolidation if they're in school?

Rosa Wright: In school status.

Pat Moran: Well, there's a difference between in school deferment status –

Rosa Wright: Right.

Pat Moran: And in school status, okay? If a borrower is in grace or repayment, which includes to have a deferment or forbearance, you have to be in repayment. So folks who are in a in school deferment status because they did enter repayment on those loans, they would be – that loan would be in an eligible status. But not an in school status loan, where the borrower has never entered grace or repayment, okay? I mean, in that sense, it's the same as the traditional consolidation loan. There is no more in school consolidation. You have to be – the loads to be eligible to be consolidated, have to be in grace or repayment and being in repayment can also include being in a deferment status or a forbearance status.

Audience: But *[Inaudible]*_____ student who took out loans, not in school, went into repayment and then the bank *[Inaudible]* _____ the older loan *[Inaudible]*____ going to the program or the new loan *[Inaudible]*___

Pat Moran: Correct. And that may still leave some borrowers with in school FFEL loans that they've never gone into grace on and repayment but you know, it will get a large number of commercially held FFEL loans for split borrowers over to the Direct Loan side so that they can have a single servicer.

Audience: Just *[Inaudible]*_____ under income based repayments, the calculations – a month *[Inaudible]* ________ .We can give them work assistance and actual *[Inaudible]*____ what they're using, whether or not they're going to use last year's tax returns or if they're gonna *[Inaudible]* ____. Somehow their income situation's different now *[Inaudible]* ___. What we're trying to

counsel these students on borrow/repayment, what they're gonna expect for their first year of repayment is difficult and is a service that *[Inaudible]* ___________.

Rosa Wright: Thank you for sharing that and we are gonna take that back. We've heard that a couple of times. This week – and actually in the servicing on how to navigate – so the servicers are all taking that back and we are putting that on the agenda. But we have been working through IBR because there was a couple of other issues that were brought up in the last recent months so we are working on everything to bring them all consistent on that. Thank you. And let me specifically say, that is for the fed loan ED servicers. Okay. Thank you.

Audience: *[Inaudible]*

Pat Moran: ICR, right. Because those changes – the reduction from 25 to 20 and from 15 to 10 that were enacted into law by the Congress into IBR – the secretary has no authority to accelerate the implementation date of those changes. Those are statutory, okay? What the secretary does have the ability to do, is to regulate ICR because the authority in the law, in the Higher Education Act, for Income Contingent Repayment, basically just authorizes the secretary to provide for an income sensitive type of repayment that provides for payment of – for a period not to exceed 25 years. So that's very general language that gives us authority to regulate ICR in whatever way the secretary deems is most beneficial to borrowers. So what really Pay as you Earn is going to involve is through the negotiated rule making process, we will be revising Income Contingent Repayment to capture some of these benefits at an earlier date for a certain group of borrowers than they otherwise would have experienced it under strict IBR.

Audience: I have a *[Inaudible]* ____ now. It will no longer be *[Inaudible]* ___. It will be?

Pat Moran: It will be something else, okay? Now borrowers who are currently paying under current ICR – as long as they remain in that plan, will be allowed to remain in that plan. If they exit that plan, then they will not be able to go back into it. But that's what we've done at other points where there were changes in law that affected the repayment plans. As long as a borrower remains in an existing repayment plan, that's fine. Unless they exit that plan. But for borrowers going forward, it will be whatever the revised ICR looks like that would be available to them.

Audience: ICR would be –

Pat Moran: And IBR would stay – unless we decide to make some regulatory changes in the process for IBR when we do the next negotiated rule making which we're gonna start in the second week of January. Of course, we'll go and fold in those statutory changes so that when you look at the reg, you will see that differential between 25 and 20 for new borrowers on or after – cuz that's not reflected in the regs right now, but that's just folding the statutory change into the regulations. We could conceivably consider making some additional process changes or whatever in IBR itself, but the Pay as you Earn is a regulatory initiative that we're gonna accomplish through revising ICR.

Audience: Thank you. One more quick question. *[Inaudible]*

Pat Moran: Well, I think that the Pay as you Earn was announced to be borrowers who were first time borrowers in 2008 and who had a new loan in 2012, okay? That's different that the statutory change made on IBR side which says the 20 percent reduction down to two 10 percent from 15 applies to new borrowers on or after July 1 of 2014. Okay?

Audience: I'm gonna follow up on her question in effect. Okay. I have students graduating this year who are gonna have FFEL loans and Direct Loans. Now, they can't pay for the FFEL loans cuz of the IBR, correct, but if they consolidate them into Direct Loans, can they then bring them in to an IBR program or are they looking at the underlying loan of that Direct Consolidation?

Pat Moran: If you're talking about the Pay as you Earn, right? Okay. I would say that's going to be subject to negotiated rule making, okay, as to how you would define a new borrower in 2008.

Audience: But I'm not – take the new borrower out. That they have a FFEL loan that they consolidate loan into a Direct. Do they then take that Direct Consolidation loan into an IBR with their other Direct Loans?

Pat Moran: Well, currently right now, putting aside Pay as you Earn, if a FFEL borrower consolidates into the Direct Loan program, and it has a direct consolidation loan, they can request Income Contingent Repayment. Yes. Okay. One last question.

Audience: I work at Community College ___ Michigan so most of our students have no loan balances and just to get an idea, do most

people do the standard plans if they have a loan balance or do most people have income based – I'm not sure ____ talking –

Pat Moran: Well, I think it depends upon the borrowers circumstances. They are offered at the time – say somewhat in the grace period, regardless of whether you're a FFEL borrower or prior FFEL borrower or a Direct Loan borrower, you're gonna be contacted about selecting your repayment plans.

Rosa Wright: And some counseling.

Pat Moran: Right, and in the exit counseling, it will be reviewed, or do you do the selection as part of exit counseling?

Rosa Wright: They can select. Actually, at the exit counseling part for Direct Loans and FFEL actually, now, because we actually have counseling on the NSLDS website – they're gonna get all this information on the repayment plans. And also, a repayment plan calculator will be there, so they can see here a report all the loans that they have because we're using NSLDS so they'll have all the information to make a good decision on what repayment plan they want to do. Like Pam mentioned, those repayment calculators – you're able to sit here and look at each repayment amount under each plan so they can compare and contrast and get a good feel of which one. It's hard to say which is more popular, however, the standard is the default so, if a repayment plan is not selected, they will go on standard. But because you have so many – a new borrower coming out of school, they may not have the right job that they're looking for so they may go for graduated, because it will give them a lower amount starting out. Or if they're interested in public loan forgiveness, then they'll go for ICR or IBR so right now, it's like all of them – they're there.

Audience: *[Inaudible]*

Rosa Wright: They actually can select it at that time or their servicer will contact them during the grace period and they will have the option to select it there as well. They are always able to change repayment plans. They do not have to stay. Our servicers – we have the flexibility of changing a repayment plan at any time. So they can actually – if that repayment amount once they get all their information and disclosures – does not work for them, they can always call and request a new payment plan.

Audience: Can I ask a personal question? I need a loan and so all the terms *[Inaudible]* ____ where do I start? I'll be graduating from law school with lots of loans and __ mentioned consolidating them and he said he had to come back to us and he gets some of our information and he's able to consolidate the loan and that didn't sound like *[Inaudible]* ____.

Rosa Wright: No, that doesn't sound right to us, either.

Audience: *[Inaudible]*

Rosa Wright: Is he looking to consolidate – he's doing a Direct Loan consolidation and went to the loancosolidation.ed.gov website to begin the process?

Pat Moran: The only possibility I could think of there is that he has not only federal loans but private education loans, and the private education loan provides for some kind of consolidation and that's why. And if you co-signed in some way or his eligibility for those private loans was based on something that had to do with you, then that could be what's going on there. But that would not be anything applicable to a federal Direct Consolidation Loan. And we don't – his parent's situation is not of interest to us in that regard. But it may be for some kind of consolidation that may be offered on a private education loan product. Yes.

Audience: *[Inaudible]* Is there any discussion about the subsidized loans? I thought it was going to back to at least 6.8 percent as of July 1st. Is there any exceptions as to whether they're going to not go to 6.8?

Pat Moran: It would require a statutory change by the Congress. Well, I mean, I'm sure that this is something that's going to be brought to their attention. They're probably already aware of and that they're going to have to look at, but whether – right now the way the law is written, those loans will go back to that fixed interest rate unless the Congress takes steps to extend what we have experienced in terms of reduced rates on the subsidized side over the last few years.

Audience: And another question – and it's pretty basic, but I've never quite knew the answer. Will students leave school for not for too long past time, and go into their grace period and then they come back the following semester and they go back to in school status, when they leave school again, do they just get the remainder of that six month grace period or do they get a new six month grace period?

Pat Moran: They get the full six month grace period. They're viewed as not having used their grace period. If they return to full time or at least half time enrollment without the grace period expiring or being used, then they have that full six months again when they drop to less than half time or graduate.

Audience: Okay, so they do get a grace period, they don't have to repay until *[Inaudible]* ___ months *[Inaudible]* ____, and then some time passes and they had to make one of those payments, then they go back and they won't get a new grace period?

Pat Moran: Correct, because then they what would have while they're in school is an in school deferment but they would have entered repayment. They would get an in school deferment, but they have used their grace, so when they exit school, or drop to less than half time, then they would go back into immediate repayment. There would be no – there's no additional grace. Okay. Once you've used up the full six months – but in a normal pattern of attendance, if somebody is just taking off, like in a traditional setting, taking off the summer months – they would not effectively used any portion of their grace period as long as they returned back to enrollment on at least a half time basis before that six month period expired. But if the whole grace period expires before they resume enrollment, then they will have entered repayment and then if they are back in school at least half time, they can get an in school deferment, but they have used their grace and entered repayment and that grace doesn't come back to them.

Audience: So if they get a new loan, the new loan would have a grace period –

Pat Moran: But the old ones would not because the new loans would be in an in school status, the old loans would be in an in school deferment status, because they entered repayment and then they went back to school. Okay. Thank you for hanging in there. We hope you enjoyed it. I hope it was informational.