BREAKOUT SESSION #5

Income Driven Repayment

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U.S. Department of Education

2023 FSA Training Conference for Financial Aid Professionals

AGENDA

1. Income Driven Repayment (IDR) Final Rule Overview
2. Early Implementation Items Effective July 30, 2023
3. Early Implementation Item Effective Prior to July 1, 2024
4. Implementation Items Effective July 1, 2024

IDR FINAL RULE OVERVIEW

Federal Register Published July 10, 2023

IDR FINAL RULE

- Notice of Proposed Rulemaking (NPRM): Improving Income-Driven Repayment for the William D. Ford Federal Direct Loan Program
  - Published in the Federal Register on January 11, 2023
  - 30-day comment period
  - Received 13,621 comments
- Final Rule published in the Federal Register on July 10, 2023

EARLY IMPLEMENTATION

Effective date of July 30, 2023

EARLY IMPLEMENTATION | JULY 30, 2023

- Designates in § 685.209(a)(1) that Revised Pay As You Earn (REPAYE) may also be referred to as the Saving on a Valuable Education (SAVE) repayment plan

- Increases the amount of income exempted from the calculation of the borrower's payment amount from 150 percent of the Federal Poverty Level (FPL) to 225 percent of FPL for borrowers on the SAVE plan 685.209(f)

EARLY IMPLEMENTATION | JULY 30, 2023

- Adjusts the treatment of spousal income in the SAVE plan for married borrowers who file separately as described in § 685.209(e)(1)(i)(A) and (B)
  - Borrowers not required to include the spouse's income to calculate a payment amount
    - If a borrower files the tax return as married filing jointly, the spouse's income is used to calculate the payment
    - If a borrower files the tax return as married filing separately, only the borrower's income is used to calculate the payment

EARLY IMPLEMENTATION | JULY 30, 2023

- Defines family size to exclude the spouse when a borrower is married and files a separate tax return for Direct Loan borrowers in Income Based Repayment (IBR) plan, Income Contingent Repayment (ICR) plan, Pay As You Earn (PAYE) plan, and SAVE in § 685.209(a)

- No remaining accrued interest is charged after the borrower's monthly payment is applied under the SAVE plan 685.209(h)

EARLY IMPLEMENTATION

Effective Date Prior to July 1, 2024

EARLY IMPLEMENTATION | PRIOR TO JULY 1, 2024

- IDR plans to allow the certain periods of deferment to count toward forgiveness
  - Cancer treatment deferment under section 455(f)(3) of the HEA;
  - Rehabilitation training program deferment under § 685.204(e);
  - Unemployment deferment under § 685.204(f);
  - Economic hardship deferment under § 685.204(g), which includes deferments for Peace Corps service;
  - Military service deferment under § 685.204(h);
  - Post-active duty student deferment under § 685.204(i);

IMPLEMENTATION

Effective July 1, 2024

IMPLEMENTATION | JULY 1, 2024

- IDR plans to allow the certain periods of forbearance to count toward forgiveness
  - National service forbearance under § 685.205(a)(4);
  - National Guard Duty forbearance under § 685.205(a)(7);
  - U.S. Department of Defense Student Loan Repayment Program forbearance under § 685.205(a)(9); and
  - Administrative forbearance under § 685.205(b)(8) and (9)
  - A bankruptcy forbearance under § 685.205(b)(6)(viii) on or after July 1, 2024 if the borrower made the required payments on a confirmed bankruptcy plan

IMPLEMENTATION | JULY 1, 2024

- Provision to allow borrowers to make catch-up payments that count toward forgiveness on ineligible deferment and forbearance periods
  - Catch-up payment option **only** available for periods starting July 1, 2024.
  - Catch-up period cannot exceed more than three years prior to when the borrower makes the catch-up payment.
  - Catch up payment amounts will equal the amount of their current IDR payment, including $0 payments.
  - The Secretary, upon request, will inform the borrower of the months eligible for catch up payments.

IMPLEMENTATION | JULY 1, 2024

Under the SAVE plan -

- The share of discretionary income is lowered to 5% for borrowers with undergraduate loans
- Other outstanding loans the share of discretionary income to be used to calculate payments would be 10%
- Loans in both categories the share of discretionary income to be use is a weighted average between 5% and 10% that will be calculated based on the original principal balances

IMPLEMENTATION | JULY 1, 2024

- Aligns the definition of "family size" in the Federal Family Education Loan (FFEL) program with the definition of "family size" in the Direct Loan Program
  - Borrowers who file their tax returns as **married filing jointly** can **include** their spouse in the family size
  - Borrowers who file their tax returns as **married filing separately** must **exclude** the spouse from the family size

IMPLEMENTATION | JULY 1, 2024

- Under the SAVE plan, borrowers whose original total Direct Loan principal balances are –
  - less than or equal to $12,000, forgiveness starts at 10 years, and
  - for each additional $1,000 added to their original principal balance above $12,000, forgiveness increases by one year
- Forgiveness caps at 20 years for borrowers with $22,000 in undergraduate loans and at 25 years for borrowers with $27,000 that includes graduate loans
- For borrowers who add loans later, forgiveness time increases accordingly based on total sum of original principal balances

IMPLEMENTATION | JULY 1, 2024

- Borrowers may receive credit toward forgiveness for payments made prior to consolidating their loans
  - The number of payments to be counted toward forgiveness is based on a weighted average between loans included in the consolidated loan
  - Borrowers with joint spousal consolidation loans who separated them in accordance with the Joint Consolidation Loan Separation Act, each borrower receives credit for the number of months equal to the number of months that was credited prior to the separation

IMPLEMENTATION | JULY 1, 2024

- Automatic enrollment into an IDR plan for borrowers who have not made a scheduled payment on the loan for at least 75 days or are in default
    - Only for borrowers who have provided consent to the Department to retrieve Federal tax information from the IRS
    - If the borrower is eligible and the payment amount is lower than their current payment amount
    - **Not eligible** for auto-enrollment if subject to a Federal offset, administrative wage garnishment under section 488A of the Act, or a judgment secured through litigation

IMPLEMENTATION | JULY 1, 2024

- IBR modification to clarify borrowers in default are eligible to make payments under the plan
  - A borrower will receive credit toward forgiveness for payments made in default while in the IBR plan, including calculated payments of $0
  - A borrower will receive credit toward forgiveness if the amount collected through administrative wage garnishment or federal offset is equivalent to the amount a borrower would owe under an IBR plan

IMPLEMENTATION | JULY 1, 2024

- IBR modification to clarify borrowers in default are eligible to make payments under the plan (continued)
  - A borrower will receive credit toward forgiveness for amount collected through administrative wage garnishment or Federal Offset that is equivalent to the amount a borrower would owe on the 10-year standard plan
  - Adjustment was made in § 685.211(f) (rehabilitation of defaulted loans) indicating the Secretary initially considers the borrower's reasonable and affordable payment amount to be an amount equal to the minimum payment required under the IBR plan, except that if this amount is less than $5, the borrower's monthly payment is $5

IMPLEMENTATION | JULY 1, 2024

- Removes borrowers from default in the limited circumstances laid out in § 685.209(n) -
  - The borrower provides enough information to calculate a payment under the SAVE plan
  - The payment amount calculated under the SAVE plan is $0
  - The income information used to calculate the payment includes the point at which the loan defaulted

IMPLEMENTATION | JULY 1, 2024

- New provision under § 685.210(b)(3) and § 685.211(f)(13) for defaulted borrowers who are in an IBR plan, but successfully rehabilitated the loan and is good standing, allows the Secretary to automatically place the borrower into the SAVE plan

IMPLEMENTATION | JULY 1, 2024

- A borrower who makes 60 monthly payments on SAVE may no longer switch from SAVE to IBR
  - This is to prevent borrowers who have made 240 lower payments in a SAVE plan that includes graduate loans from switching to an IBR plan thereafter to receive immediate forgiveness

IMPLEMENTATION | JULY 1, 2024

- Modifies alternative plan for 10-year amortization with 12 of those payments counting toward forgiveness
  - Borrower payments are based on a 10-year standard repayment plan based on the current loan balances and interest rates on the loans at the time the borrower is removed from the SAVE plan.
  - Only 12 of these payments can be attributable toward forgiveness

IMPLEMENTATION | JULY 1, 2024

- Limit enrollment in ICR to currently enrolled borrowers who continue to pay and borrowers whose loans include Direct Consolidation loan that repaid parent PLUS loan
- Limit enrollment in PAYE to currently enrolled borrowers who continue to pay

RESOURCES

- Final Rule: Improving Income Driven Repayment for the William D. Ford Federal Direct Loan Program and the Federal Family Education Loan (FFEL) Program, published on July 10, 2023

https://www.federalregister.gov/documents/2023/07/10/2023-13112/improving-income-driven-repayment-for-the-william-d-ford-federal-direct-loan-program-and-the-federal

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