If loan discharge, cancellation, or forgiveness is not currently available to you, the government also offers options to lower your monthly payments, so you don’t default. Even if you do default, you can often get out of default and qualify for one of these lower payment plans (see Getting Out of Default later in this chapter).

The typical federal student loan repayment plan, called the Standard Repayment Plan, generally gives you up to ten years to repay your student loan (up to thirty years for consolidation loans). For many borrowers struggling to afford their student loans, income-driven repayment plans are the best option. These plans base monthly payments on your current income, with payments sometimes as low as $0/month, and offer forgiveness of any outstanding balance after 20–25 years of qualifying payments. Other repayment plans may lower your payments (at least initially). These plans do not reduce your total obligation, but they let you pay it off more slowly. This means that additional interest will be added to the loan, and you could end up paying more interest in exchange for more affordable monthly payments.

**Income Driven Repayment Plans.** In recent years, the government has created a range of income-driven repayment (IDR) plans. These plans calculate your monthly payment after considering your income. By lowering monthly payments—in some cases to zero—these plans help you avoid default, which prevents tax refund intercepts, wage garnishment, seizure of benefits, and high collection costs.

For these IDR plans, your loan servicer or lender will check with you every year to determine your income. If you fail to respond you will be dropped from the payment plan and your monthly payment will usually increase by a lot! In some instances, your balance continues to grow even though you make monthly payments, as interest will continue to be added to your loans. However, the government may pay a portion of the interest, depending on your loan type and repayment plan. Also, if you stay on an income-driven repayment plan for twenty or twenty-five years (depending on the plan), any remaining debt is forgiven, though some borrowers may owe taxes because of the forgiven debt.

Brief descriptions of these plans follow below. Detailed information about each of these repayment plans and a calculator to compute your payment amounts is available at [www.ibrinfo.org](http://www.ibrinfo.org) [1] or [https://studentloans.gov](https://studentloans.gov) [2]. Pay special attention to which loan types qualify for which of these repayment plans. FFEL and Parent PLUS borrowers can only access some of these plans.

**Pay As You Earn (PAYE) Repayment Plan.** This is often the best option for borrowers who qualify, particularly if you would otherwise have high student loan payments relative to your income. PAYE is only for those who had no student loan obligations as of October 1, 2007, and then received a Direct Loan disbursement on or after October 1, 2011. You pay 10% of your “discretionary income”—the amount by which your adjusted gross income exceeds 150% of the poverty line for your state and family size.

In 2018, 150% of poverty was $1,517/month for a one-person household, $2,057/month for a two-person household, and $3,137/month for a four-person household. (The numbers vary in Hawaii, Alaska, or with different family sizes.) For example, if your monthly income is $1,200 above 150% of the poverty line, you only pay $12 a month.

If you are married, your spouse’s income is included in this calculation only if you file a joint tax return. Your monthly payments can’t go higher than your payments on the Standard Repayment Plan. After twenty years of payments on PAYE, your remaining student loans are forgiven.

**Revised Pay As You Earn (REPAYE) Repayment Plan.** REPAYE incorporates many of the benefits of PAYE and makes them available to borrowers no matter when they took out their loans. Under REPAYE, you pay 10% of your discretionary income toward your student loans. However, if you are married, then your spouse’s income is included in this calculation even if you file separate tax returns. (The only exception is for spouses who are separated and borrowers who cannot reasonably access their spouse’s income information.)

Under the REPAYE plan, there is no cap on your monthly payment so that higher income borrowers could end up with payments higher than on the Standard Repayment Plan. If you only have loans from undergraduate studies, the remaining loan is forgiven after twenty years of payments. Forgiveness for loans from graduate or professional school is not available until after twenty-five years of payments.

**Income-Based Repayment (IBR) Plans.** There are different IBR plans based on how recent your student loans are. If, on July 1, 2014, you had a zero balance on any loans and then took out a Direct Loan after July 1, 2014, your rights are almost exactly the same as under a PAYE plan. Because PAYE offers more flexibility in switching plans, you may choose to use PAYE (or REPAYE) instead of IBR. However, PAYE and REPAYE are not available for FFEL loans, but those loans are eligible for
IBR.

For older loans, IBR is not quite as generous as IBR is for newer loans. Your payments are 15% of the difference between your income and 150% of the poverty line, and forgiveness occurs after twenty-five years. In either case, as with PAYE, your spouse’s income is only included in the payment calculation if you file joint tax returns.

**Income-Contingent Repayment (ICR) Plan.** ICR usually requires higher payments than PAYE and REPAYE. But it is essentially the only income-driven repayment option for Parent PLUS borrowers. If you have an FFEL Parent PLUS Loan, you can consolidate it into a Direct Consolidation Loan to become eligible for ICR. The calculators at [https://studentloans.gov][2] estimate what your monthly payment will be on ICR.

**Extended Repayment Plan.** This option allows you to extend repayment over a longer period (usually no more than twenty-five years), thus lowering your monthly payment. These plans are generally available only if you have loans totaling more than $30,000.

**Graduated Repayment Plan.** Payments start out low and increase every two years. In most cases, however, the loan still must be paid over a ten-year period.

**Income-Sensitive Repayment Plan.** If you have an FFEL and do not want to or cannot consolidate into a Direct Loan, you best option is one of the income-driven repayment plans (discussed below) or possibly an income sensitive plan. Income-sensitive repayment allows for reduced monthly payments due to your financial circumstances. Payment is calculated based on your total gross income, rather than your discretionary income. There is no loan forgiveness under this plan even after several years of repayment.

**Alternative Repayment Plan.** If no other plan is affordable, Direct Loan borrowers who have “exceptional circumstances” can submit documentation to apply for a repayment plan that is affordable. High medical expenses or private student loan payments could be among the expenses you provide to your loan servicer. There is no loan forgiveness under this plan.

**Deferments.** If you cannot manage your monthly payment using one of the repayment options listed above, you may choose to seek a deferment instead. A loan deferment lets you temporarily delay repaying your loan, usually for up to a year, though sometimes longer. You can often renew the deferment if it ends, but if not, you must resume making payments. Deferments are not available if you are already in default, typically defined as missing nine payments. To benefit from deferment, you must first get out of default, as described later in this chapter.

Benefits from deferment depend on whether your loan is subsidized by the government. Subsidized loans are given out based on financial need. As of July 2012, graduate and professional students were no longer eligible for new subsidized loans.

For subsidized loans, the government makes interest payments for you during the deferment period. Your loan balance will be no higher after the deferment period than before. When you defer an unsubsidized loan or a PLUS Loan, you will later have to pay back the interest that accrued during the deferment period. If you can afford it, you should consider paying the interest while you are in a deferment period.

You have a legal right to a loan deferment under specified conditions. For most loans that you got after July 1, 1993, the available deferments include:

- Unemployment deferments (for up to three years);
- Economic hardship deferments (granted one year at a time for up to three years);
- In-school deferments for at least half-time study;
- Graduate fellowship deferments;
- Cancer treatment deferments;
- Rehabilitation training program deferments;
- Military service deferments (there is no time limit, but eligibility ends 180 days after demobilization or the end of active duty service); and
- Post-active duty deferments for borrowers who are enrolled in school when they are called to active duty and plan to re-enroll after their service is completed.

FFEL and Perkins Loans have somewhat different deferment rules than those for Direct Loans.
Forbearances. If you cannot qualify for a deferment, you can still request loan “forbearance,” meaning you do not have to pay for a while, and no adverse action will be taken against you during the forbearance period. Even for a subsidized loan, the government does not pay interest for you. You will eventually have to repay the full loan amount and all accrued interest. In some cases, you should be able to get a forbearance even if you’re already in default. This will not get you out of default without further action.

In some circumstances, you have a legal right to a forbearance. For example, you have a right to forbear an FFEL or Direct Loan if your total student loan payments exceed 20% of your income even if you are many months delinquent. There are limits to how many times you can automatically get this and most other forbearances. If you don’t have a right to a forbearance, loan holders still may grant you one, especially for health or other personal problems that affect your ability to make your monthly payments.

Source: National Consumer Law Center, Surviving Debt [50th NCLC Anniversary Edition], updated at www.nclc.org/library
Source URL: https://library.nclc.org/sd/1304

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