

Income Based Repayment Questions and Answers (Q&A)

Prepared by Federal Student Aid
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The Questions & Answers (Q&As) that follow provide information about the Income Based Repayment (IBR) Plan that is available to most borrowers of federal student loans. We have grouped the Q&As into five categories: General Information, Eligible Loans, Determination of IBR Monthly Payment Amount, Married Borrowers, Application Process, and Other Information. Note that following each answer is the date when we posted that response. We will include a new date each time we add a question or when we update a previously posted response.

Income Based Repayment – General Information

Q1 What is Income Based Repayment?

A1 Income Based Repayment (IBR) is one of several repayment plan options for borrowers of student loans made under the William D. Ford Federal Direct Loan (Direct Loan) Program or the Federal Family Education Loan (FFEL) Program. If you qualify for IBR, your required monthly payment will be capped at an amount that is intended to be affordable based on your income and family size, and will be less than what you would have to pay under a 10-year Standard Repayment Plan. [January 5, 2010]

Q2 What are the major benefits of IBR?

A2 In addition to making your monthly loan payments more affordable, the IBR Plan offers other benefits:

- If your IBR payment amount does not cover the full amount of interest that accrues on your loans each month, the government will pay any unpaid, accrued interest on your subsidized loans for up to three consecutive years from the date you begin repaying the loans under IBR. (You are responsible for paying the interest that accrues on your unsubsidized loans during this 3-year period.)
- If you repay under IBR and meet certain other requirements, any remaining loan balance that you owe will be cancelled after 25 years.

- Payments that you make under IBR count toward the 120 payments that are required for the Direct Loan Public Service Loan Forgiveness (PSLF) Program. [January 5, 2010]

Q3 What is the difference between Income Based Repayment (IBR) and Income Contingent Repayment (ICR)?

A3 IBR and ICR share certain features, but there are also important differences between the two repayment plans.

Similarities between IBR and ICR include the following:

- Both plans are intended to provide borrowers with an affordable monthly payment amount based on income and family size.
- Under both plans, any remaining loan balance is forgiven after 25 years.
- Parent PLUS Loans may not be repaid under either IBR or ICR.
- Payments made by a Direct Loan borrower under both IBR and ICR count toward the 120 payments that are required for Public Service Loan Forgiveness.
- In both IBR and ICR, your monthly payment amount may be adjusted annually based on changes in your income.

These are some of the major differences between IBR and ICR:

- IBR is available under both the FFEL and Direct Loan programs. ICR is available only under the Direct Loan Program.
- To initially qualify for IBR, you must have a “partial financial hardship” as described in Q&A #4. There is no comparable requirement for ICR. Any Direct Loan borrower (other than a parent PLUS borrower) may choose ICR.
- The amount of your loan debt is not considered in determining your IBR payment amount *during any period when you have a “partial financial hardship”* See Q&A #4. Your monthly IBR payment amount is determined based only on your income and family size. In contrast, the monthly payment under ICR takes into account your total Direct Loan debt in addition to income and family size. The required monthly payment under ICR is generally higher than under IBR, and in some cases it may be higher than the monthly payment amount under a 10-year standard repayment plan.

- With both IBR and ICR, your calculated monthly payment may not cover the full amount of interest that accrues on your loans each month. Under IBR, the government pays the remaining unpaid accrued interest on your subsidized loans for up to three consecutive years from the date you begin repaying the loans under IBR. This benefit is not available under ICR. Under ICR, you are responsible for paying all of the interest that accrues on your loans.
- Under IBR, unpaid interest is capitalized (added to your loan principal balance) only if you are determined to no longer have a “partial financial hardship”, or if you choose to leave the IBR Plan. Under ICR, unpaid interest is capitalized annually. [January 5, 2010]

Q4 How do I qualify for IBR?

A4 To qualify for IBR, you must have a “partial financial hardship.” You have a partial financial hardship if the monthly amount you would be required to pay on your IBR-eligible loans (see Q&A #6) under a Standard Repayment Plan with a 10-year repayment period (based on the amount you owed on those loans when they initially entered repayment) is higher than the monthly amount you would be required to repay under IBR.

For example, if you owed a total of \$40,000 in eligible student loans when the loans initially entered repayment, your monthly repayment amount under a 10-year Standard Repayment Plan would be \$460 (using an interest rate of 6.8%). If your IBR payment amount (calculated as explained in Q&A #11), is less than \$460, you would be eligible to repay your loans under IBR. [January 5, 2010]

Q5 How can I determine if I qualify for the IBR Plan? Where can I get an estimated IBR monthly payment amount?

A5 The Department of Education’s Student Aid on the Web site at www.studentaid.ed.gov includes an IBR calculator at <http://studentaid.ed.gov/PORTALSWebApp/students/english/IBRCalc.jsp>. The IBR calculator allows you to determine whether you are likely to qualify for the IBR Plan, and to estimate what your IBR monthly payment would be. However, for an official determination of your eligibility for IBR, or to apply for IBR, you’ll need to contact your loan servicer. Direct Loan borrowers may get additional information at www.dl.ed.gov. If you are unsure who holds your loans or who your loan servicer is, you can access the Department of Education’s National Student Loan Data System (NSLDS) website at www.nsls.ed.gov. [January 5, 2010]

Income Based Repayment – Eligible Loans

- Q6 Which Direct Loan or FFEL loan types can be repaid under IBR?
- A6 All Direct Loan and FFEL loan types *except* PLUS loans made to parents, consolidation loans that repaid PLUS loans made to parents, or defaulted loans may be repaid under IBR. [January 5, 2010]
- Q7 Are private loans taken into account when determining eligibility for IBR, and can private loans be paid under IBR?
- A7 Only non-defaulted federal loans made through the FFEL Program or the Direct Loan Program (excluding PLUS loans made to parent borrowers or consolidation loans that repaid parent PLUS loans) are used to determine eligibility for IBR and only those types of federal loans may be repaid under IBR. [January 5, 2010]
- Q8 I consolidated my Stafford loans together with parent PLUS loans that I took out to pay for my child's education. I know that parent PLUS loans may not be repaid under IBR, but am I eligible for IBR on the portion of the consolidation loan that repaid my Stafford loans?
- A8 A consolidation loan that repaid a parent PLUS loan may not be repaid under IBR even if the consolidation loan also repaid one or more Stafford Loans. [January 5, 2010]
- Q9 I consolidated my eligible federal student loans with a private lender into a private consolidation loan. Are those loans still considered eligible loans for purposes of determining my eligibility for IBR?
- A9 Eligible federal student loans that have been consolidated with a private lender are no longer federal loans and therefore are not considered when determining your eligibility for IBR, and may not be paid under IBR. [January 5, 2010]
- Q10 If my loan is in default, can I repay it under IBR?
- A10 Defaulted loans are not eligible for repayment under IBR. [January 5, 2010]

Income Based Repayment – Determination of IBR Monthly Payment Amount

- Q11 How is the IBR monthly payment amount determined?

A11 The IBR monthly payment amount is based on your annual Adjusted Gross Income (AGI) and family size. Specifically, the maximum annual amount you are required to repay under IBR during any period when you have a “partial financial hardship” (as discussed in Q&A #4 above) is 15 percent of the difference between your AGI and 150 percent of the Department of Health and Human Services’ (HHS) Poverty Guideline amount for your family size. This annual repayment amount is then divided by 12 to determine your monthly IBR repayment amount.

For example, 150 percent of the 2009 HHS poverty guideline amount for a family of three is \$27,465. If your AGI was \$40,000, the difference would be \$12,535. Fifteen percent of that is \$1,880; dividing this amount by 12 monthly results in a monthly IBR payment amount of \$157. As noted in Q&A #4 above, this compares with a monthly payment amount of \$460 under a 10-year Standard Repayment Plan. If the calculated IBR payment amount using this formula is less than \$5.00, the monthly payment amount is zero. If the calculated payment is more than \$5.00 but less than \$10.00, the monthly payment is \$10.00. [January 5, 2010]

Q12 Paying less each month under IBR seems like a good thing. Using the example above in Q&A #11, are there any downsides to paying less each month under IBR as compared to repaying under the 10-year Standard Repayment Plan.

A12 As with any loan or credit program, having a lower monthly payment normally means that payments will be made for a longer period of time. This means that you will pay more total interest under IBR than you would pay under a 10-year Standard Repayment Plan. [January 5, 2010]

Q13 I claim my child every other year on my taxes as a dependent, but my ex-spouse has physical custody. I also pay child support and health insurance for my child. Do I count my child when reporting my family size?

A13 The IBR definition of family size specifies that a borrower’s children are included if the child receives more than half of their support from the borrower. You may count your child when determining your family size if you provide more than half of the child’s financial support, regardless of who claims the child for tax purposes or who has physical custody. If you do not provide more than one-half of your child’s support you may not include the child in your family size for IBR purposes. [January 5, 2010]

Q14 Will I always pay the same amount each month under IBR?

A14 Each year, your loan holder will review your current income and family size. If your income or family size has changed from the prior year, your monthly IBR payment amount may increase or decrease as a result of using the new income or family size information in the calculation described in Q&A 11 above. [January 5, 2010]

Q15 What happens if my income increases so much that I no longer have a “partial financial hardship” as described in Q&A #4 above? Do I then lose eligibility to repay under IBR?

A15 If your IBR payment amount increases to the point where it is more than the monthly amount you would be required to repay under a 10-year Standard Repayment Plan, you would no longer be considered to have a “partial financial hardship. In this situation, you may remain on the IBR Plan (to take advantage of some of the other IBR benefits, as described in Q&A #2), but your monthly payment will no longer be based on your income. Instead, you will be required to pay the amount you would have been required to pay under a 10-year Standard Repayment based on the amount of your eligible loans that were outstanding when you began repaying under IBR. Your repayment period based on this recalculated amount may be more than 10 years. [January 5, 2010]

Q16 If I am repaying under IBR and my income increases so that I no longer have a partial financial hardship, but I stay in IBR and make the required, recalculated 10-year standard payment amount, is it still possible for me to receive loan forgiveness after 25 years?

A16 As long as you remain on the IBR Plan (even if you no longer have a partial financial hardship) and you otherwise meet the requirements for loan forgiveness, you will qualify for forgiveness of any remaining loan balance at the end of the 25-year period. [January 5, 2010]

Q17 What happens if, after it is determined that I no longer have a “partial financial hardship” and I am no longer making income-based payments (as explained in Q&A #15), my income goes down?

A17 If your income later decreases so that your calculated IBR payment amount is once again less than what you would be required to repay under a 10-year Standard Repayment Plan, you will return to making income-based payments, as described in Q&A #11 above.

Q18 If my income goes down after I filed my most recent federal tax return (for example, because I lost my job or am now working part time), does my loan holder have discretion to use my current income to determine my IBR payment amount, rather than the higher AGI amount that is shown on my most recent tax return?

A18 If your loan holder believes that your most recent AGI does not reasonably reflect your current income, your loan holder is authorized to use alternative documentation of your income that you provide. You should inform your loan holder of the change in your financial circumstances. [January 5, 2010]

Q19 What happens if my income as reported on my federal tax return changes after I begin repaying under IBR?

A19 As long as you remain on the IBR Plan, your loan holder will annually review your current income to determine whether you continue to have a “partial financial hardship” and, if applicable, to adjust your monthly IBR payment amount. If your income increases or decreases, there will generally be a corresponding increase or decrease in your required monthly payment amount. [January 5, 2010]

Q20 What happens if my income significantly decreases well before the regularly scheduled annual review of my income? Do I have to wait until the annual review before my IBR payment can be adjusted?

A20 You should alert your loan holder to your changed circumstances. If your loan holder believes that your AGI does not reasonably reflect your current income, your loan holder is authorized to use alternative documentation of your income that you provide, and may adjust your required monthly IBR payment at any time during the year based on that documentation. [January 5, 2010]

Q21 Do Social Security disability payments count as income for IBR?

A21 Social Security disability payments would be counted as income only if they are included as part of your AGI on your federal tax return in accordance with IRS requirements. [January 5, 2010]

Q22 I have loans with more than one lender. How does each lender determine if I have a partial financial hardship, as discussed in Q&A #2, and if I have a partial financial hardship, how is my IBR payment calculated by each lender?

A22 If you wish to repay all of your loans under IBR, you must apply to each lender/servicer separately. When you apply each lender will use the full amount of all of your eligible loans to determine if you have a partial financial hardship, even if some of the loans are held by other lenders. Each lender will adjust your IBR payment amount by multiplying your calculated IBR payment by the percentage of the total outstanding principal amount of your eligible loans that are held by that loan holder. For example, if 60% of your total outstanding eligible loan balance is held by Lender A and 40% is held by Lender B, and your calculated monthly IBR payment amount is \$140, you would be required to pay \$84 per month to Lender A and \$56 to Lender B. [January 5, 2010]

Income Based Repayment – Married Borrowers

Q23 Is my spouse's income included in the determination of my eligibility for IBR?

A23 Under the current IBR regulations, if you are married and file a joint federal tax return and you and your spouse both have eligible student loans, your eligibility for IBR will be determined separately based on your joint income. However, only your own individual eligible loan debt will be considered. For married borrowers who file separate federal tax returns, IBR eligibility is determined based on each individual spouse's income and eligible loan debt.

Under changes made to the IBR regulations that will take effect July 1, 2010, married borrowers who file joint tax returns and who both have eligible student loan debt will have their individual IBR eligibility determined based on their joint income and the combined eligible loan debt of both spouses. [January 5, 2010]

Q24 My spouse and I file a joint federal tax return, but my spouse does not have any IBR eligible student loans. Can my spouse's other indebtedness be included in determining my IBR legibility?

A24 Only eligible federal student loan debt is taken into consideration when determining your eligibility for IBR. Private loans and non-loan debt (either yours or your spouse's) are not considered. In addition, if you are married and file a joint federal tax return with your spouse, only your own eligible student loan debt is a factor in determining IBR eligibility under current regulations. See Q & A #23. [January 5, 2010]

Q25 My spouse and I have a joint consolidation loan. My spouse is not employed, but the majority of the joint consolidation loan is attributable to loans that were originally borrowed by my spouse. Will the fact that my spouse has no income be considered when determining our eligibility to repay the joint consolidation loan under IBR?

A25 If you and your spouse file a joint federal tax return, your combined income will be used to determine your eligibility for IBR and your IBR payment amount. Joint consolidation loan borrowers must each request IBR since both individuals are jointly responsible for the full amount of the loan. Each borrower's eligibility for IBR is determined using joint income, the same family size, and the full amount of the joint consolidation loan. [January 5, 2010]

Q26 My spouse and I have separate student loans, and my spouse's calculated IBR monthly payment amount is \$40/month. Does that payment also cover my student loans?

A26 Spouses must apply separately for determination of eligibility for IBR and for calculation of each spouse's IBR payment amount. [January 5, 2010]

Q27 My spouse and I want to consolidate our loans together into a single joint consolidation loan and then apply for IBR. Is that possible?

A27 The law no longer allows married borrowers to consolidate their loans together into a single joint consolidation loan. If you want to repay under IBR, you and your spouse must apply separately to your individual loan holders. [January 5, 2010]

Income Based Repayment – Application Process

Q28 How do I apply for IBR?

A28 You must contact each of the servicers that handles your loans to apply for IBR. Direct Loan borrowers can go to www.dl.ed.gov. If you are unsure who holds your loans or who your loan servicer is, you can access the Department of Education's National Student Loan System (NSLDS) website at website at www.nsls.ed.gov. [January 5, 2010]

Q29 How long will it take my loan servicer to process my IBR application and determine if I am eligible to repay my student loans under IBR?

A29 The time varies, but it may take a few weeks since the servicer will need to obtain documentation of your income and family size. If you can't afford to continue making loan payments under your current repayment plan while your IBR application is being processed, contact your loan holder to discuss options such as a deferment or forbearance. [January 5, 2010]

Q30 How will my loan servicer get the income and family size information it will need to determine if I am eligible for IBR, and if I am eligible, how much my monthly payment amount will be?

A30 Each loan servicer will have its own documentation process. However, you will be required to either submit copies of your most recent IRS tax return and/or a release form for the loan servicer to obtain your tax information directly from the IRS. [January 5, 2010]

Q31 If I am providing a tax return to my loan holder, does it have to include an original signature, or is a photocopy of my signed return acceptable?

A31 An original signature is not required. You may provide your loan holder with a photocopy of the original signed tax return that you submitted to the IRS. If your copy of your tax return was not signed (for example, if you submitted an electronic return), you may print a copy of the return, sign it, and then submit the signed return (or a photocopy) to your loan holder. Most lenders will also allow you to submit your return by fax or by e-mailing a scanned copy of the signed return. [January 5, 2010]

Income Based Repayment – Other Information

Q32 Is it true that if I am repaying under IBR and I receive an economic hardship deferment, I will lose eligibility for IBR because I am no longer in repayment?

A32 If you are repaying your loans under IBR and you receive an economic hardship deferment (or any other type of deferment or forbearance), you are still considered to be in repayment under IBR. A deferment or forbearance simply allows you to temporarily stop making payments and does not affect your eligibility to remain on the IBR Plan or any other repayment plan.

[January 5, 2010]

Q33 Can I apply for IBR while I am in an economic hardship deferment?

A33 You may apply for IBR during a period of economic hardship deferment, or during a period of any other type of deferment or forbearance. However, you would not begin making payments under IBR until the end of the deferment or forbearance period. [January 5, 2010]

Q34 Because I was in deferment and forbearance status for a number of years, my outstanding principal balance owed is now much higher than the original amount I borrowed as a student. My income is very low. If I start repaying my loans under IBR, will any of my past payments and periods of deferment or forbearance count toward the 25 years of repayment under IBR that are required to receive forgiveness of my remaining loan balance?

A34 Generally, payments or periods of economic hardship deferment before July 1, 2009 (the date IBR first became available) do not count toward the 25-year period necessary for forgiveness of any remaining loan balance under IBR. However, if you made payments under the Direct Loan Program's Income Contingent Repayment (ICR) Plan at any time before entering IBR, the 25-year period would begin on the date you began making payments under ICR. [January 5, 2010]

Q35 Q&A #2 stated that the government may pay some of the interest on my subsidized loans for the first 3 years. How does this work?

A35 Under the IBR Plan, your monthly payment amount may not cover all of the interest that accrues on your loans each month. (This is called "negative amortization.") If this happens, the government will pay the remaining unpaid accrued interest that is due each month on your subsidized loans (including the subsidized portion of a consolidation loan) for up to three consecutive years from the date you begin repaying your loans under IBR. For example, if the monthly interest that accrues on your subsidized loans is \$40, but your monthly IBR payment only covers \$25 of this amount, the government will pay the remaining \$15.

You are responsible for paying all of the interest that accrues on your unsubsidized loans, as well as all of the interest that accrues on your subsidized loans after the end of the 3-year interest subsidy period. Interest that is not covered by your monthly payment will continue to accumulate and will be capitalized (added to your loan principal balance) when you are determined to no longer have a “partial financial hardship”, or if you leave the IBR Plan.

The interest subsidy benefit for subsidized loans applies only for the first three consecutive years beginning on the date you enter IBR. Periods of economic hardship deferment are not included in the consecutive 3-year period, but periods of any other type of deferment or forbearance are counted. For example, if you receive the interest subsidy benefit for your first year of repayment under IBR, and then receive an economic hardship deferment for two years, you would still have two consecutive years of remaining eligibility for the interest subsidy benefit when the economic hardship deferment ends. However, if instead of receiving an economic hardship deferment, you return to school and receive an in-school deferment for two years following your first year of repayment under IBR, you would have no remaining eligibility for the interest subsidy benefit at the end of the deferment period. [January 5, 2010]

Q36 Does IBR have any effect on the 6-month grace period for my Stafford Loans?

A36 Choosing IBR (or any other repayment plan) has no effect on your 6-month grace period. You do not enter repayment until after your grace period has ended. If you want to repay your loans under IBR when you enter repayment, you should apply for IBR at least two months before the end of your grace period to allow time for application processing. [January 5, 2010]

Q37 Will my choice to repay my loans under IBR affect the interest rate of my loans?

A37 Your choice of repayment plan, including IBR, does not affect the interest rate of your loans. However, with IBR or any repayment plan that provides for a longer repayment period, you may pay more interest over the life of your loans. [January 5, 2010]

Q38 If I repay under IBR, will this affect my credit score or show up on my credit report?

A38 The repayment plan that you select is not reported to credit bureaus and has no effect on your credit score. However, your loan will be identified on your credit report as a student loan, and your loan holder will report the status of your loan account (e.g., whether you are repaying on time or are delinquent or in default) to credit reporting organizations. Failure to repay your student loans on time may negatively affect your credit score. [January 5, 2010]

Q39 Can I claim student loan interest that I paid under IBR on my tax return?

A39 Regardless of your repayment plan, under current federal tax law you may deduct interest that you paid on qualified student loans in accordance with IRS rules. Your lender will send you a Form 1098-E showing the amount of interest that you paid. However, you are responsible for monitoring IRS materials and websites for any changes in federal tax law. [January 5, 2010]

Q40 I have both Stafford and Graduate PLUS loans. My Stafford loans are in grace and I have been making payments on the Graduate PLUS loans. Should I apply for a deferment on my Graduate PLUS loans until the grace period ends on my Stafford loans before entering IBR? How would this affect payments already made on my Graduate PLUS loans?

A40 If you are having difficulty making payments on your Graduate PLUS loans, you may request a deferment or forbearance on the repayment of those loans. You could then request the IBR Plan for all of your loans at the time when the grace period ends on your Stafford Loans. Note that only payments that you made on your Graduate PLUS Loans after July 1, 2009 will count toward the 25 years of qualifying payments for IBR loan forgiveness.

If you request IBR on your Graduate PLUS loans now and then begin repaying your Stafford Loans under IBR when they enter repayment at the end of the grace period, the 25-year period for IBR loan forgiveness will be tracked separately for the two loan types. [January 5, 2010]

Q41 When I make my required monthly IBR payment, can I specify how I want the payment to be applied between my subsidized and unsubsidized loans? For example, can I specify that I want all of my payment to be applied to my unsubsidized loans?

A41 You may not specify how payments are to be applied. If you have both subsidized and unsubsidized loans, your monthly payments will be applied proportionately to both loan types. [January 5, 2010]

Q42 If I am not making my minimum required monthly payment, am I eligible to remain on the IBR Plan?

A42 As with any other repayment plan, you are required to make the full required IBR payment each month, unless you have received a deferment or forbearance. While failure to make a full required payment will not automatically remove you from IBR, it could result in delinquency or default. Defaulted loans are not eligible for IBR or any other regular repayment plan.
[January 5, 2010]

Q43 What are the penalties for late payments in the IBR program?

A43 Regardless of which repayment plan you choose, you are expected to make on-time payments. If you are delinquent in making payments, your loan holder may charge late fees in accordance with the terms and conditions of your promissory note. Late payments will not terminate your eligibility for IBR, but there may be other adverse consequences such as negative reporting to credit bureaus. Also, if you are repaying under IBR and planning to apply for Public Service Loan Forgiveness (PSLF), only on-time payments may be counted toward the required 120 PSLF payments.
[January 5, 2010]