

Issue #10 - Direct Loan IDR Repayment Simplification

Issue and Proposed Solution

- Current Direct loan IDR plans provide helpful relief to borrowers having difficulty making payment.
- Loan servicers have extensive experience with providing IDR plans to assist borrowers with making payment and prevent loan default.
- The primary problem with existing plans is the complexity due to overlapping and confusing plan feature variations each with its own nuances (e.g., payment calculation, qualifications, enrollment criteria, forgiveness period).
- The complexity negatively impacts borrower understanding of repayment plan options which requires lengthy and complex forms and communications (e.g., currently a 10 page IDR application).
- Combining the best features of the existing Direct loan income-driven repayment plans into a single plan for Direct loan borrowers (summarized below) is the right next step to resolving the complexity and improving borrower understating of the income driven repayment option.

New ICR Plan Summary

Feature	New Plan Requirement
Eligible loans	Direct, except parent PLUS. Consolidated parent PLUS that are subsequently re-consolidated may qualify.
Partial financial hardship (PFH)	No requirement to demonstrate a hardship.
Discretionary income	Amount by which income exceeds 150% of Poverty Guideline. Includes spouse income if taxes filed jointly, unless separated, or cannot access spouse's income.
Family size	Includes spouse, unless spouse income is excluded (i.e., separated, or cannot access spouse's income).
IDR payment	10% of discretionary income.
Maximum payment cap for increased income	Payment may not exceed 10-year standard payment using balance at start of plan.
Untimely recertification	10-year standard payment using balance at start of plan.
Recertification frequency	Annual.
Leaving and changing of plans	May change plans any time. No catch-up payment when IDR resumes.
Interest capitalization during IDR and when leaving IDR	No capitalization for failure to recertify or change plans.
Interest capitalization at end of deferment or forbearance	No capitalization after forbearance. Capitalization after deferment (i.e., according to issue #3).
Interest capitalization limit	Not to exceed 10% of the loan balance when the loan enters the IDR plan.

Feature	New Plan Requirement
Interest subsidy	<u>Subsidized loans</u> : 100% of unpaid interest for first consecutive 3 years when payment calculation is less than accrued interest. 50% thereafter. <u>Unsubsidized loans</u> : 50% of unpaid interest when payment calculation is less than accrued interest.
Loan forgiveness	20 years of qualified Direct loan repayment.