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Expansion of Pay As You Earn Program for Student Loans

Against a backdrop of growing alarm over student loan debt and its potential impact on the economy, President Obama recently took executive action to expand the federal Pay As You Earn (PAYE) repayment program for federal student loans.

Current program

Under the PAYE program, borrowers pay 10% of their discretionary income toward their federal student loans each month, and all remaining debt is generally forgiven after 20 years of payments (10 years for those in certain public service jobs). But the program is currently limited to borrowers who took out their first loans after October 2007 and who borrowed as recently as October 2011.

What's new

In an effort to extend relief to more borrowers (5 million more by the administration's estimates), President Obama expanded the PAYE program via executive order on June 9, 2014, to include borrowers who took out federal student loans before October 2007 and those who stopped borrowing by October 2011. The new plan will be effective December 2015.

You can read the administration's fact sheet [here](#).

Questions & answers

Q. What loans are eligible for the Pay As You Earn program?

A. Federal student loans made under the federal Direct Loan Program are eligible--both undergraduate and graduate loans. Parent PLUS Loans and private student loans are *not* eligible.

Q. How is my monthly payment amount determined?

A. Under PAYE, your monthly payment is based on your income (specifically, your adjusted gross income or AGI), family size, and state of residence. If you are married and file a joint federal tax return, your AGI includes both your income and your spouse's income.

Q. Does my monthly payment stay the same for the entire repayment period under PAYE?

A. No, you must submit documentation each year on your income and family size, and your payment is readjusted accordingly each year.

Q. How does PAYE compare to Income-Based Repayment (IBR)?

A. PAYE offers more generous terms. As mentioned, under PAYE, borrowers pay 10% of their discretionary income toward their federal student loans each month, and all remaining debt is generally forgiven after 20 years of payments. IBR is another repayment option for federal student loans that came before PAYE. Under IBR, borrowers pay 15% of their discretionary income toward federal student loans, and all remaining debt is generally forgiven after 25 years of payments. (Both PAYE and IBR forgive all remaining debt for those in certain public service jobs after 10 years of repayment.) Also, IBR historically has cast a wider net regarding who is eligible for the program. But with the expansion of PAYE, both programs will be available to qualified borrowers starting in December 2015.

Q. Is every federal student loan borrower automatically eligible for PAYE or IBR?

A. No. Both PAYE and IBR require borrowers to show a "partial financial hardship." This determination is



According to the Federal Reserve Bank of New York, outstanding student loan debt climbed by \$114 billion in 2013, reaching \$1.08 trillion at the end of the year (Federal Reserve Bank of New York, Quarterly Report on Household Debt and Credit, February 2014).



rather technical. For PAYE, a partial financial hardship exists when the annual amount due on your eligible loans as calculated under the government's 10-year standard repayment plan exceeds 10% of the difference between your AGI and 150% of the poverty line for your family size in the state where you live. For IBR, a partial financial hardship exists when the annual amount due on your eligible loans under a 10-year standard repayment plan exceeds 15% of the difference between your AGI and 150% of the poverty line for your family size in the state where you live. (For both plans, the amount that would be due under a 10-year standard repayment plan is calculated based on the greater of the amount owed on your eligible loans when you originally entered repayment, or the amount owed at the time you select the PAYE or IBR option.)

Q. How can I learn more?

A. The Department of Education has more information on PAYE and IBR, including calculators that let you compare monthly payments and lifetime costs under different repayment plans, on its [website](#).

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