

# REPAYE 2 (The Other Loan Forgiveness Plan)

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# About You



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# WASFAA

- Wisconsin Association of Financial Aid Administrators
- 388 Active members
  - 324 Regular members
  - 55 Associate members
  - Representing 85 different organizations
- WASFAA roles
  - Member at large
  - Co-chair, legislative advocacy and initiatives committee
  - President-elect 2021-22
  - President 2022-23

# Current State of Loan Forgiveness

- The loan forgiveness plan
  - The Biden Administration proposal
    - Forgive \$10,000 of student loan principal for every borrower:
      - AGI  $\leq$  \$125,000 for single filers
      - AGI  $\leq$  \$250,000 for married couples
    - Additional \$10,000 of loan principal forgiveness if the borrower received a Pell Grant.
- Current status
  - Over 20 Million applications
  - Plan “vacated” (i.e. ruled unconstitutional) by order of a Federal district court judge
  - Judge’s order was upheld by the 5<sup>th</sup> Circuit Court of Appeals
  - Supreme Court has granted certiorari, heard arguments and a ruling is pending.
- Prediction: SCOTUS will uphold the order vacating the Biden proposal

# The “other” loan forgiveness proposal

- Notice of Proposed Rulemaking January 11, 2023 (NPRM)
  - Resulting from the Negotiated Rulemaking sessions of October-December 2021
  - Affordability and Student Loans negotiated rulemaking committee
  - Changes to REPAYE and related repayment regulations were **not** part of the rules issued July 13, 2022
- Purpose of the NPRM
  - Expand the benefits of the REPAYE plan
  - Streamline and standardize the Direct Loan repayment regulations

# What is REPAYE?

- REPAYE
  - One of several “income-driven” repayment plans
    - Income Based Repayment
    - Income Contingent Repayment
    - Pay As You Earn (PAYE)
    - Revised Pay As You Earn (REPAYE)
  - Based on borrower income and family size
  - Differ from standard, extended and graduated repayment plans
    - Fixed loan periods
    - Standard amortization schedules
    - Slightly modified amortization schedules
    - **Accruing interest = minimum monthly payment amount**

# How does REPAYE currently work?

- Monthly payment determined by income and household size
- Discretionary income
  - AGI, less
  - 150% of poverty guideline for household size and state of residence (AK and HI have modified guidelines)
- Percentage of discretionary income
  - 10%
  - Divided by 12 to arrive at a monthly payment amount
- Interest waiver
  - Waiver of unpaid interest for first 3 years (Subsidized loans only)
  - Waiver of 50% of unpaid interest (Unsubsidized and Subsidized loans after 3 years)

# Case Study – Current REPAYE program

- Freddy Falcon
  - Graduated UWRF in Spring 2021, lives in River Falls Wisconsin
  - Borrowed \$25,000 (\$19,000 sub, \$6,000 unsub)
  - 2022 AGI is \$35,000
  - Family size is 1
- Poverty guideline 2022/HHS = 1
  - \$13,590



# Case Study – Current REPAYE program

- Calculate discretionary income
  - AGI – 150% of PLG
    - $\$35,000 - 1.5 * 13,590$
    - $\$35,000 - \$20,385$
    - =  $\$14,615$  (Discretionary income)
- Calculate annual payment
  - $\$14,615 * .10$
  - =  $\$1,462$
- Calculate monthly payment
  - $\$1,462 / 12$
  - =  $\$121.79$  (Monthly Payment Current REPAYE)

# Case Study – Current REPAYE program

- Compare to Standard repayment
  - Outstanding Principal Balance at repayment
    - \$25,500 (Wait, What?)
    - Interest rate (weighted average) 4%
    - Time to repay: 120 months
  - Monthly payment
    - **\$258.18**
      - Interest \$85
      - Principal \$173.18

# Standard v. REPAYE payments

- Interest accrued (first month)
  - \$85
- Principal balance reduction (first month)
  - \$173.18
- REPAYE
  - Principal balance reduction (first month)
    - \$36.79
- Freddy's monthly savings
  - \$136.39

# Notes – with big assumption

- Interest accrued first month
  - \$85
- Negative Amortization
  - None
- Time to repay
  - Standard 120 months/10 years
    - Principal paid = \$25,500
    - Interest paid = \$5,481
  - REPAYE 240 months/20 years
    - Principal paid = \$13,540
    - Interest paid = \$15,719
    - Balance forgiven = \$11,960
- Lifetime savings
  - **\$1,722 under REPAYE (IF payment doesn't increase)**

# How will REPAYE 2 work?

- Monthly payment determined by income and household size (same)
- Discretionary income
  - AGI, less
  - **225%** of poverty guideline for household size and state of residence (AK and HI have modified guidelines)
- Percentage of discretionary income
  - **5%** for undergraduate loans
  - 10% for graduate loans (same)
  - **Weighted average (5%-10%)** for combined undergraduate and graduate loans
  - Divided by 12 to arrive at a monthly payment amount
- Interest waiver
  - 100% of unpaid interest each month is **waived**
- Maximum Term
  - 20 years for undergraduate loans
  - 25 years for graduate and combined undergraduate/graduate loans

# Case Study – REPAYE 2 program

- Calculate discretionary income
  - AGI – 225% of PLG
    - $\$35,000 - 2.25 * 13,590$
    - $\$35,000 - \$30,578$
    - =  $\$4,422$  (Discretionary income)
- Calculate annual payment
  - $\$4,422 * .05$
  - =  $\$221$
- Calculate monthly payment
  - $\$221 / 12$
  - =  $\$18.43$  (Monthly Payment REPAYE 2)

# Case Study – REPAYE 2 program

- Compare to Standard repayment
  - Outstanding Principal Balance at repayment
    - \$25,500 (Wait, What?)
    - Interest rate (weighted average) 4%
    - Time to repay: 120 months
  - Monthly payment
    - **\$258.18**
      - Interest \$85
      - Principal \$173.18

# Standard v. REPAYE 2 payments

- Interest accrued (first month)
  - \$85
- Principal balance reduction (first month)
  - \$173.18
- REPAYE 2
  - Principal balance reduction (first month)
    - \$0
- Freddy's monthly savings
  - \$239.75

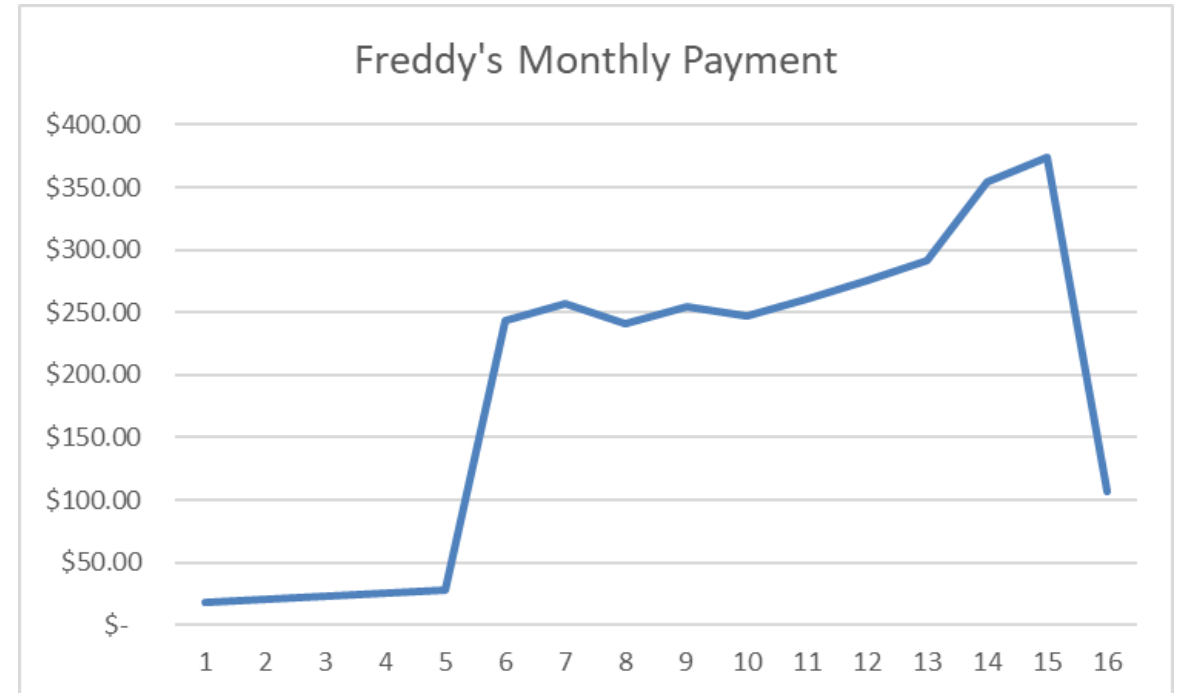


# Notes – with big assumption

- Interest accrued first month
  - \$85
- Negative Amortization
  - - **\$66.57 (100% waived)**
- Time to repay
  - Standard 120 months/10 years
    - Principal paid = \$25,500
    - Interest paid = \$5,481
  - REPAYE 240 months/20 years
    - Principal paid = \$0
    - Interest paid = \$4,423.20
    - Balance forgiven = \$25,500
- Lifetime savings
  - **\$26,558 under REPAYE 2 (IF payment doesn't increase)**

# A more realistic analysis

- Freddy's income
  - 5% average annual income increases for 5 years
  - Gets married in year 6
  - First child in year 8
  - Second child in year 10
  - Major increase in income year 14
  - Loan repaid by year 16
- Total repaid \$36,273
  - Principal \$25,500
  - Interest \$10,773



# In conclusion

- REPAYE 2 will be the main IDR payment after July 1, 2024\*
- Other IDR payments will be phased out
- All Direct Loans are eligible for REPAYE 2 payment plan
  - Exception: PLUS loans and Consolidation loans which include a PLUS loan
- Borrowers who become 75 days or more delinquent will be automatically enrolled in REPAYE 2
- Most deferment and some forbearance periods will be counted as payments toward forgiveness

\* *Assumes final regs are published by November 1, 2023*



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