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REPAYE guide

The Revised Pay As You Earn program explained

WHAT IS REPAYE?

You look a little lost — maybe you've heard that the federal government just introduced a new income-based loan repayment plan, called Revised Pay As You Earn (REPAYE), and you're trying to figure out what it is? We're with you there. Having to figure out how to repay your student loans can be stressful enough, without having to figure out the fine print of all the various loan repayment programs out there.

But that's what Credible is here for! This is a guide created just for you, a resource you can keep coming back to, that will explain what income-driven repayment plans are, the different income-driven plans available, and all the details you could ever need about the newest income-driven repayment plan — REPAYE.

Cool. So, uh, what is REPAYE?

The Revised Pay As You Earn (REPAYE) plan is the newest income-driven loan repayment plan and, as the name implies, is a revised version of the Pay As You Earn **(PAYE)** plan. REPAYE officially launched on Dec. 17, 2015.

Like other income-driven repayment plans before it, REPAYE ties the size of your loan payments to your income. Under REPAYE, your monthly payments are equal to 10 percent of your discretionary income. So while your payments will increase as you earn more, they shouldn't become unmanageable.

If you're not earning enough to pay off undergraduate student loan debt in REPAYE after 20 years, it's forgiven. It takes longer — 25 years — to qualify for forgiveness of graduate school debt under REPAYE. Those extra five years can be a big deal, adding tens of thousands of dollars in total costs when repaying high-balance grad school debt, as we'll see below.

The reason REPAYE is being greeted with such excitement, though, is that it removes previous barriers to eligibility, opening up the option of an income-based repayment plan to an additional 5 million people.

But REPAYE isn't perfect. Like other income-driven repayment plans, REPAYE comes with certain qualifiers.

Hold on, I'm new to this. Let's back up — what exactly is an income-driven repayment plan and how does it work? How is it different from the 10-year Standard Repayment Plan?

Income Driven Repayment Plan versus 10-year Standard Repayment Plan

Income-driven plans are meant to be more fexible than **Standard Repayment**, and are individualized for each borrower's current financial situation. So instead of a fixed monthly payment over the course of 10 years — which is how the Standard Repayment Plan typically works — income-driven plans take into account factors like how much money you make and the size of your family. Essentially, incom-based plans can help you lower your monthly payments by capping them at 10 percent of your discretionary monthly income.*

**IBR plans for borrowers who had Direct Loans or FFELP loans on or before July 1, 2014 cap monthly payments at 15 percent of discretionary income.*

Income-driven repayment plans include the Income-Based Repayment (IBR) plan, Income-Contingent Repayment (ICR) plan, Pay As You Earn (PAYE), and now REPAYE.

	IBR		PAYE	REPAYE
	New Borrowers (on or after Jul 1, 2014)	Old Borrowers (before Jul 1, 2014)	Pay as your earn	Revised pay as you earn
What is it?	An income-driven repayment plan which calculates your monthly loan payments as a percentage of your income		An income-driven repayment plan with monthly payments at 10% of income	The newest income-based plan which limits monthly payments to 10% of your monthly income (but come with certain qualifiers)
Who is eligible?	Eligibility depends on when you received your loans & debt-to-income ratio	Eligibility depends only on debt-to-income ratio	- You're only eligible for PAYE if you have no loans prior to Oct. 1, 2007 and at least one loan on or after Oct 1, 2011 - Eligibility also depends on debt-to-income ratio	- NOT dependent on when you received your loan or debt-to-income ratio - Only Direct Loan borrowers are eligible (FFELP can consolidate into Direct Loan; Parent Plus borrowers are not eligible)
What is your monthly payment?	10% of discretionary income ** (Subject to Standard Repayment Plan cap)	15% of discretionary income ** (Subject to Standard Repayment Plan cap)	10% of discretionary income ** (Subject to Standard Repayment Plan cap)	10% of discretionary income ** (NO CAP: monthly payments can increase exponentially)
What if you're married?	Both spouses' income and eligible debt are considered (but ONLY if couple files a joint tax return. Otherwise only the borrower's income and eligible debt is considered.		Both spouses' income and eligible debt are considered (but ONLY if couple files a joint tax return. Otherwise only the borrower's income and eligible debt is considered.	Both spouses' income and eligible debt are considered, regardless of filing status (Exceptions available to victims of domestic violence or legally separated couples)
When are your loans forgiven?	After 20 years of qualifying repayment	After 25 years of qualifying repayment	After 20 years of qualifying repayment	After 20 years of qualifying repayment for undergraduate loans 25 years of qualifying repayment for graduate loans
Income requirement eligibility	Must have a "partial financial hardship"		Must have a "partial financial hardship"	Eliminates financial hardship requirment
Best if:	You have old loans originating before Oct 1, 2007		You have loans that originated after Oct 1, 2007	You're stuck with IBR because you took out your first student loan before Oct 1, 2007 and want to switch

* You are considered a new borrower if you have no outstanding balance on Direct Loan or Federal Family Education Loan Program (FFELP) loan when you receive a Direct Loan or FFELP loan on or after July 1, 2014.
** Payments will never be more than the 10 year Standard Repayment Plan amount.
Source: **U.S Department of Education**

Diving deeper into income-driven plans

Do income-driven plans save me money?

How REPAYE stacks up in the long-run

Income-driven plans sounds great to borrowers because they limit how much you have to pay each month, but they're not all roses. In fact, unless you are consolidating several loans, you might actually end up paying more money overall under an income-driven plan than you would under the Standard Repayment Plan.

Say what? I thought income-driven plans were based on my income and were supposed to save me money.

The key thing to remember is that income-driven plans like REPAYE might save you money, but it largely depends on factors like how much debt you have and how much you're paying off each month.

Unlike refinancing, consolidating loans into an income-driven plan doesn't actually reduce your interest rate — it simply limits your monthly payments to a percentage of your income, so that, in theory at least, you're never paying more than you can afford.

One way you might save money using REPAYE is if you are consolidating a large amount of debt, and a good chunk of it ends up being forgiven. But here's the catch: When that debt is forgiven, you could be faced with a fat tax bill.

That's because, under current tax laws, any unpaid interest and principal that's forgiven is considered income. The good news is that REPAYE provides a new interest subsidy, and only half of your unpaid interest will be counted as forgiven at the end of the loan.

When does REPAYE make sense?
The way income-driven repayment plans typically work is by extending the term of your loan, minimizing the monthly payment. These plans are geared towards borrowers who are just beginning to pay back large balances that, if paid back in just 10 years, would require sizeable monthly payments that might be unaffordable or impossible to make.

Making the lowest possible monthly payment sounds great, but there's sometimes a price to pay. Income-driven plans might make your monthly payments more manageable, but the longer you take to repay the loan, *the more you'll pay back in the long run* in interest.

Generally speaking, stretching out the term of a loan — from 10 years to 20 years, for example — can reduce your monthly payments, but result in higher total interest payments over the life of the loan.

Standard Repayment Plans for most government loans are 10 years. If you can afford to make the monthly payments on a Standard Repayment Plan, they can save you money. But if you are combining multiple loans into a single Direct Consolidation Loan or FFELP Consolidation Loan, the Standard Repayment plan works a little differently.

Instead of being fixed at 10 years, the term of a Standard Repayment Plan for consolidation loans depends on the loan balance. Your term could be stretched out up to 30 years — and you'll never qualify for forgiveness.

Keep in mind though, that borrowers with FFELP loans only have access to one income-driven repayment plan: IBR. But combining FFELP loans into a Direct Consolidation Loan gives borrowers access to the REPAYE, PAYE, and ICR plans.

Standard Repayment Plan for a Direct Consolidation Loan or FFELP Consolidation Loans

Balance (lower bound)	Balance (upper bound)	Loan term
0	$7,500	10 years
$7,500	$10,000	12 years
$10,000	$20,000	15 years
$20,000	$40,000	20 years
$40,000	$60,000	25 years
$60,000		30 years

The Department of Education has updated its student loan calculator to help you understand the pros and cons of different repayment plans for borrowers. Which plan is best for you will depend on your income, type of student loan debt, and level of debt.

To give you an idea of how repayment plans can differ, we've run the numbers for a hypothetical borrower with $50,000 in adjusted gross income (AGI) carrying different levels of debt ranging from $10,000 to $150,000. We'll assume that the hypothetical borrower has combined all of their loans into a direct, unsubsidized consolidation loan at 6.4 percent interest. As you can see from the charts below, for this particular borrower, PAYE and REPAYE beat the Standard Repayment Plan for all loan balances.

Standard repayment plan (for direct consolidation loans)

Debt	Monthly payment	Total paid (principal & interest)	Total forgiven
$10,000	$87 (x180)	$15,581	0
$30,000	$222 (x240)	$53,258	0
$50,000	$334 (x300)	$100,346	0
$100,000	$626 (x360)	$225,182	0
$150,000	$938 (x360)	$337,773	0

PAYE income-driven plan (20-year maximum)

Debt	Monthly payment	Total paid (principal & interest)	Total forgiven*
$10,000	$270 - $326 (x39)	$11,120	0
$30,000	$270 - $339 (x131)	$42,262	0
$50,000	$270 - $565 (x202)	$88,188	0
$100,000	$270 - $824 (x240)	$121,045	$106,955
$150,000	$270 - $824 (x240)	$121,045	$220,955

REPAYE income-driven plan (25-year maximum)

Debt	Monthly payment	Total paid (principal & interest)	Total forgiven*
$10,000	$270 - $326 (x39)	$11,120	0
$30,000	$270 - $466 (x117)	$41,553	0
$50,000	$270 - $696 (x197)	$87,933	0
$100,000	$270 - $1,086 (x300)	$179,599	$64,076
$150,000	$270 - $1,086 (x300)	$179,599	$174,780

**Forgiven debt is considered taxable income by the Internal Revenue Service.*

At modest levels of student loan debt, monthly payments under the Standard Repayment Plan are less than what you might comfortably afford. PAYE and REPAYE, which set monthly payments according to what you can afford, allow you pay off a $10,000 loan in just over 3 years, instead of the 15-year term for the Standard Repayment Plan.

In these low-balance scenarios, it's the Standard Payment Plan that stretches out smaller monthly payments over a longer term, which costs you more in total interest payments.
In high-balance scenarios, PAYE and REPAYE not only protect you from monthly payments that might strain your budget at the outset, but offer loan forgiveness that can save you tens of thousands of dollars. Those savings could be partially offset by taxes, as we'll see below.

What are the differences between PAYE and REPAYE?

PAYE and REPAYE are very similar if you're tackling a reasonable amount of debt that you can comfortably pay off before you qualify for forgiveness. The differences between the programs become more apparent when your debt burden is high enough that you won't be able to pay it off before you qualify for forgiveness — after 20 years in the PAYE program, or 25 years for grad school debt paid back under REPAYE. One of the biggest differences between PAYE and REPAYE is the fact that graduate school debt doesn't qualify for forgiveness until you've made 25 years of payments. Forgiveness for all loans in PAYE is available after 20 years.

So total interest and principal payments on $100,000 in consolidated debt at 6.4 percent interest will be $121,045 over 20 years in PAYE, compared to $179,599 in REPAYE — a difference of nearly $60,000.

One more thing to keep in mind is that, outside of special programs for some public servants, forgiven student loan debt is considered taxable income by the IRS.

One helpful feature of REPAYE though, is an interest subsidy — only half of the unpaid interest you rack up is counted as forgiven debt. So in the scenario above, the interest subsidy, plus 5 years of additional payments, reduces the total amount forgiven under REPAYE — and the tax bill you'll get hit with at the end of your loan.

Our hypothetical borrower paying back $100,000 under PAYE will have $106,955 in debt forgiven, while the REPAYE borrower will have just $64,076 forgiven. Assuming that forgiven debt is taxed as income at 25 percent, the PAYE borrower will be starting a $26,700 tax bill in the face at the end of their loan, compared to about $16,000 under REPAYE.

Once you factor taxes in, some of the savings advantages of the PAYE program can evaporate. Our borrower's total cost to pay back a $100,000 loan in PAYE ends up being about $147,700, compared to around $195,600 under REPAYE. That's a difference of about $48,000 between the two programs, compared to $60,000 before taxes are factored in.

The tax implications of forgiven debt are even more significant on a $150,000 loan. Our borrower could be looking at a $55,200 tax bill under PAYE, bringing the total cost of repaying the loan to about $176,300. REPAYE will set her back $223,300 after $43,700 in taxes are factored in.

While Congress could someday decide not to tax forgiven student loan debt as income, the charts we've run illustrate a potential problem that could arise. When payments are income-based and part of a loan ends up in forgiveness, it doesn't cost the borrower a thing to take on even more debt, if forgiveness isn't taxed.

Under REPAYE, for example, the total the borrower pays back on a $100,000 loan — $179,599 — is exactly what they pay back for a $150,000 loan. So once borrowers reach a certain level of indebtedness, there's no penalty for taking out more — unless there are tax implications.

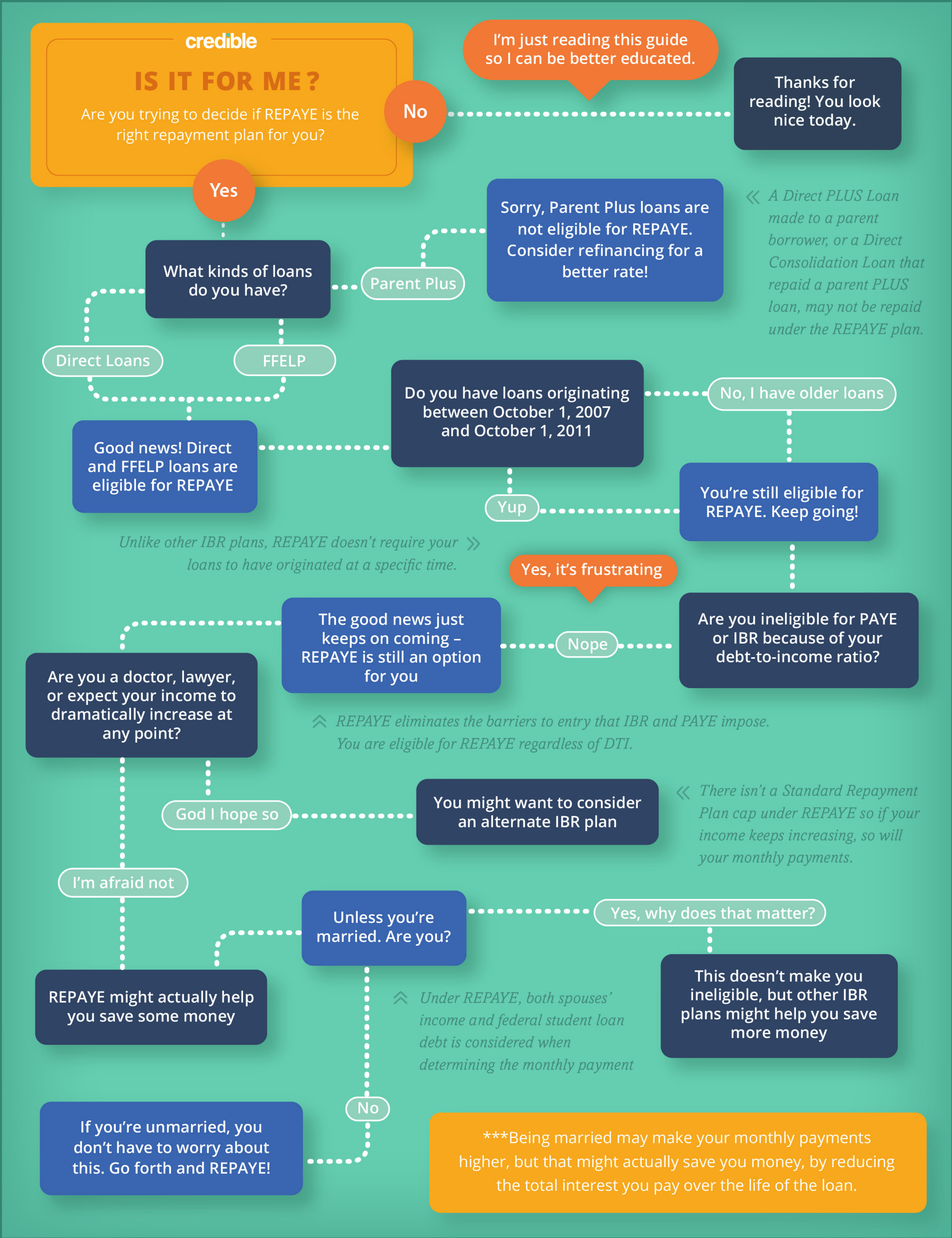
REPAYE: PROS AND CONS

Okay, so REPAYE could save me money, but if I have a lot of debt, I could end up paying more? Why would I opt for REPAYE?

PROS	CONS
• No time-based or debt-to-income based eligibility requirements • Loan forgiveness after 20 years for undergraduate loans, and 25 years for graduate or professional loans Note: Student loan debt forgiven at the end of an income-driven repayment plan, including unpaid interest, is currently treated by the IRS as taxable income.	• Available only for those who have Direct Loans. Parent PLUS loans are not eligible • No Standard Repayment cap on how much monthly payments can increase • For married borrowers, both partners' income is considered when calculating the minimum monthly payment

Okay, got it. Income-based plans can be helpful, as long as you keep in mind all the various criteria. How do I know if I'm eligible for REPAYE or if it's the right repayment plan for me?

It can get a little bit complicated, so we put together a handy flowchart to quickly help you figure out if REPAYE might be a good option for you.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IS IT FOR ME?
Are you trying to decide if REPAYE is the right repayment plan for you?
No
I'm just reading this guide so I can be better educated.
Thanks for reading! You look nice today.
Yes
What kinds of loans do you have?
Parent Plus
Sorry, Parent Plus loans are not eligible for REPAYE. Consider refinancing for a better rate!
A Direct PLUS Loan made to a parent borrower, or a Direct Consolidation Loan that repaid a parent PLUS loan, may not be repaid under the REPAYE plan.
Direct Loans
FFELP
Good news! Direct and FFELP loans are eligible for REPAYE
Do you have loans originating between October 1, 2007 and October 1, 2011
No, I have older loans
Yup
You're still eligible for REPAYE. Keep going!
Unlike other IBR plans, REPAYE doesn't require your loans to have originated at a specific time.
Are you ineligible for PAYE or IBR because of your debt-to-income ratio?
Yes, it's frustrating
Nope
The good news just keeps on coming – REPAYE is still an option for you
REPAYE eliminates the barriers to entry that IBR and PAYE impose. You are eligible for REPAYE regardless of DTI.
Are you a doctor, lawyer, or expect your income to dramatically increase at any point?
God I hope so
You might want to consider an alternate IBR plan
There isn't a Standard Repayment Plan cap under REPAYE so if your income keeps increasing, so will your monthly payments.
I'm afraid not
REPAYE might actually help you save some money
Unless you're married. Are you?
Yes, why does that matter?
This doesn't make you ineligible, but other IBR plans might help you save more money
Under REPAYE, both spouses' income and federal student loan debt is considered when determining the monthly payment
No
If you're unmarried, you don't have to worry about this. Go forth and REPAYE!
***Being married may make your monthly payments higher, but that might actually save you money, by reducing the total interest you pay over the life of the loan.

THANK YOU!

We'd love to hear from you!

Credible is here to help you with all your student loans needs. See how much you can save by refinancing your student loans with Credible at www.credible.com! If you have any questions about refinancing, or you just want to chat about what options are available to you, please contact us directly at **415.801.0482** or email us at support@credible.com.

We look forward to hearing from you!

—The Credible Team

About Credible

Credible's founding principle is to provide borrowers the level of transparency they deserve.

As a multi-lender marketplace that allows borrowers to receive competitive loan offers from its vetted lenders, Credible empowers consumers to take control of their student loans. Borrowers can fill out one form, then receive and compare personalized offers from numerous lenders and choose which best serves their individual needs.

Credible is fiercely independent, committed to delivering fair and unbiased solutions in student lending.

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