CONSOLIDATION & INCOME-DRIVEN REPAYMENT (IDR)

In order to keep your payments affordable, you have submitted an application to consolidate your loans into the Direct Loan Program.

COMPLETING THE CONSOLIDATION APPLICATION

If your tax return was transferred to your consolidation application, and this tax return reflects your current income, you do not need to take any further steps to complete your application.

You will receive a letter shortly after your consolidation application is received, advising you to review the information submitted in the application and to notify your servicer if you wish to make any changes or cancel the consolidation. Review this letter to confirm the information is accurate.

If the IRS website did NOT transfer your tax return to your consolidation application, or if your tax return does not reflect your current income, you will need to submit proof of income. If your tax return does reflect your current income, you can send a copy of your tax return from one of the last two years. If your tax return does NOT reflect your current income, alternative proof of income could include two recent pay stubs or a letter from your employer listing your income.

You will send your proof of income along with the **IBR / Pay As You Earn / ICR Repayment Plan Request form** to your servicer. Since you have already completed the electronic **IBR / Pay As You Earn / ICR Request**, there is a pre-populated copy of this document that can be found under **My Loan Documents: Direct Consolidation Loan Applications** on www.studentloans.gov.

You can either mail or fax this documentation to your new loan servicer. You can find your servicer's contact information in Addendum B attached at the end of this document.

Maintaining Income-Based Payments

To maintain your income-driven payments, you will need to re-certify your income each year. You can do this at www.studentloans.gov by selecting the "Electronic IBR/Pay As You Earn/ICR Request." When the system prompts you to select the reason for submitting the request, you would select: "*I am submitting annual documentation for recalculation of my monthly payment amount under my current repayment plan*."

You should receive notification from your servicer when you have to re-certify your income each year, but it is strongly recommended that you set your own reminder, so that you remember to re-certify 60 days prior to this anniversary.

Understanding Your Repayment Options

Consolidation

Benefits

- **Simplicity**: You will have one monthly payment and one lender.
- **Lower Payments**: If you extend the length of your repayment term with a consolidation loan, your total monthly payment could be lower than your current combined monthly loan payments.
- **Multiple Repayment Options**: A Direct Consolidation Loan may be eligible for a number of federal repayment or forgiveness programs, including Income-Based and Income-Contingent Repayment (ICR), Pay As You Earn, and Public Service Loan Forgiveness.
- **Maintain Subsidy Benefits**: If you consolidate a subsidized loan you will keep any subsidy benefits for the portion of your consolidation loan that repays your subsidized loan.
- **Postponement Options**: If you have already exhausted your deferment and forbearance options on your individual loans, a consolidation loan may renew those postponement options.
- **Defaulted Loans**: If your loan has defaulted, you may be able to renew your loan's eligibility for certain federal repayment programs through consolidation.

Drawbacks

- **Interest Costs**: While a Direct Consolidation Loan can help you secure a fixed interest rate for your loans, you may pay more in interest over the life of the loan if you extend your repayment term.
- **Loss of Benefits**: You may lose special benefits attached to your original loans if you consolidate. For instance, Perkins loans have cancellation benefits and subsidy benefits that are lost if consolidated.

Income-Driven Repayment Plans

<u>Benefits</u>

- Payments are capped based on your discretionary income and family size.
- Any outstanding balance is forgiven after 20 or 25 years of qualifying payments (20 years under Pay As You Earn and 25 years under IBR or ICR).
- If you work in certain public service positions, you could receive loan forgiveness after 10 years under the Public Service Loan Forgiveness Program.

<u>Drawbacks</u>

- By extending your repayment term, the amount of interest you pay over the life of the loan may be higher than under the Standard Repayment Plan.
- Your payments may be so small that your balance may increase. For subsidized loans enrolled in Pay As You Earn or IBR, the government will waive any interest that accrues above the monthly payment for the first three years on the program. For unsubsidized loans, the interest may be capitalized (added to your balance). For borrowers on ICR, interest capitalization is capped once the balance is 10% higher than the original balance when the loan entered repayment. However, this can be offset by the loan forgiveness after 20 or 25 years.
- If you do receive loan forgiveness after 20 or 25 years, you may need to pay income tax on the forgiven balance.

Other Recommendations

- If your payments on the IBR plan increase and you need a lower payment, you may qualify for the **Pay As You Earn Plan** in the future. President Obama recently announced a plan to expand PAYE to more borrowers starting at the end of 2015. You can contact your servicer at that time to ask if you qualify for the PAYE Plan.
- If you return to school, you also qualify for an in-school deferment. Be sure to contact your servicer to request this deferment.
- Set up payments on automatic-debit to take advantage of a 0.25% reduction in your interest rate.
- Stay in touch with your loan servicer and update your contact information if you move so you do not miss any important paperwork.
- You may consider speaking with a tax advisor to ask about taking advantage of tax deductions related to the repayment of your student loans.
- Stay organized. Keep all of your student loan paperwork for your records.