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DEPARTMENT OF EDUCATION

Annual Updates to the Income Contingent Repayment (ICR) Plan Formula for 2011; William D. Ford Federal Direct Loan Program

AGENCY: Federal Student Aid, Department of Education.

ACTION: Notice.

Catalog of Federal Domestic Assistance (CFDA) Number: 84.063.

SUMMARY: The Secretary announces the annual updates to the ICR plan formula for 2011. Under the William D. Ford Federal Direct Loan (Direct Loan) Program, borrowers may choose to repay their loans (Direct Subsidized Loans, Direct Unsubsidized Loans, Direct PLUS Loans made to graduate or professional students, and Direct Consolidation Loans) under the ICR plan, which bases the repayment amount on the borrower's income, family size, loan amount, and the interest rate applicable to each loan. Each year, we adjust the formula for calculating a borrower's ICR payment to reflect changes due to inflation. This notice contains the adjusted income percentage factors for 2011, examples of how the calculation of the monthly

ICR amount is performed, a constant multiplier chart for use in performing the calculations, and charts showing sample repayment amounts based on the adjusted ICR plan formula. The adjustments for the ICR plan formula contained in this notice are effective for the period from July 1, 2011 to June 30, 2012.

FOR FURTHER INFORMATION CONTACT: Ian Foss, U.S. Department of Education, 830 1st St. NE, room 114I1, Washington, DC 20202. Telephone: (202) 377-3681 or by e-mail: ian.foss@ed.gov.

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SUPPLEMENTARY INFORMATION: Direct Loan Program borrowers may choose to repay their Direct Subsidized Loans, Direct Unsubsidized Loans, Direct PLUS Loans made to graduate or professional students, and Direct

Consolidation Loans under the ICR plan. This notice contains the following four attachments:

- Attachment 1--Income Percentage Factors for 2011
- Attachment 2--Constant Multiplier Chart for Use in Calculating the Monthly ICR Amount
- Attachment 3--Examples of the Calculations of Monthly Repayment Amounts
- Attachment 4--Charts Showing Sample Repayment Amounts for Single and Married Borrowers

In Attachment 1, we have updated the income percentage factors to reflect changes based on inflation. Specifically, we have revised the table of income percentage factors by changing the dollar amounts of the incomes shown by a percentage equal to the estimated percentage change in the Consumer Price Index for all urban consumers from December 2010 to December 2011. In Attachment 2, we provide a constant multiplier chart for a 12-year loan amortization. Further, in Attachment 3, we provide examples of monthly repayment amount calculations. Finally, in Attachment 4, we provide two charts that show sample repayment amounts for single and married or head-of-household borrowers at various income and debt levels based on the updated income percentage factors.

The updated income percentage factors reflected in Attachment 1 may cause a borrower's payments to be lower than they were in prior years (even if the borrower's income remains the same as the prior year). However, the revised repayment amount more accurately reflects the impact of inflation on a borrower's current ability to repay.

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Program Authority: 20 U.S.C. 1087 et seq.

James W. Runcie,
Chief Operating Officer,
Federal Student Aid.

Attachment 1--Income Percentage Factors for 2011

INCOME PERCENTAGE FACTORS FOR 2011

[Based on annual income]

Single		Married, filing jointly or separately/ Head of Household	
Income	% Factor	Income	% Factor
$10,249	55.00%	$10,249	50.52%
$14,102	57.79%	$16,171	56.68%
$18,146	60.57%	$19,271	59.56%
$22,280	66.23%	$25,192	67.79%
$26,230	71.89%	$31,210	75.22%
$31,210	80.33%	$39,201	87.61%
$39,201	88.77%	$49,164	100.00%
$49,165	100.00%	$59,132	100.00%
$59,132	100.00%	$74,082	109.40%
$71,069	111.80%	$98,991	125.00%
$91,001	123.50%	$133,867	140.60%
$128,887	141.20%	$187,220	150.00%
$147,781	150.00%	$305,931	200.00%
$263,224	200.00%	-	-

Attachment 2--Constant Multiplier Chart for use in calculating the monthly ICR amount

CONSTANT MULTIPLIER CHART FOR 12-YEAR AMORTIZATION

Interest rate (%)	Annual constant multiplier
3.500	0.102174
4.000	0.105063
4.500	0.108001
5.000	0.110987
5.500	0.114021
6.000	0.117102
6.800	0.122130
7.000	0.123406
7.900	0.129237
8.000	0.129894
8.250	0.131545

Attachment 3--Examples of the Calculations of Monthly Repayment Amounts

General notes about the examples in this attachment:

- The interest rates used in the examples are for illustration only. Actual interest rates vary depending on loan type and when a loan was first disbursed.

- In the examples, the Poverty Guideline amounts used are from the 2011 U.S. Department of Health and Human Services (HHS) Poverty Guidelines for the 48 contiguous States and the District of Columbia, as published in the Federal Register on January 20, 2011 (76 FR 3637). Different Poverty Guidelines apply to residents of Alaska and Hawaii.

- The "constant multiplier" included in each example is a factor used to calculate amortized payments at a given interest rate over a fixed period of time. Refer to the constant multiplier chart provided in Attachment 2 to this notice to determine the constant multiplier that should be used for a specific interest rate. If an interest rate is not listed in the constant multiplier chart in Attachment 2, use the next highest rate for estimation purposes.

- All examples use an income percentage factor corresponding to the borrower's adjusted gross income (AGI). If the AGI is not listed in the income percentage factors table in Attachment 1, calculate the applicable income percentage factor for the AGI by following the instructions under the Interpolation heading later in this attachment.

- For married borrowers, the outstanding balance on the loans of each borrower and both borrowers' AGIs are added together to determine the ICR payment amount. The amount of each payment applied to each borrower's Direct Loan debt is the proportion of the payments that equals the same proportion as that borrower's debt to the total outstanding balance. Each borrower is billed separately. For example, if a married couple has a total outstanding Direct Loan debt of $60,000, $40,000 of which belongs to one spouse, and $20,000 of which belongs to the other spouse, 67 percent of the monthly ICR payment would be apportioned to the spouse with the outstanding debt of $40,000, with the remaining 33 percent of the monthly ICR payment being apportioned to the spouse with $20,000 of debt. To take advantage of a joint ICR payment, married couples need not file taxes jointly; they may file separately and subsequently provide the other spouse's tax information.

Example 1. This example assumes that the borrower is a single with no dependents, and has $15,000 in Direct Subsidized and Unsubsidized Loans. The interest rate on these loans is 6.80 percent, and the borrower has an AGI of $39,201.

Step 1: Determine the total annual payment amount based on what the borrower would pay over 12 years using standard amortization. To do this, multiply the loan balance by the constant multiplier for the applicable interest rate. In this example, the interest rate is 6.80 percent, for which the constant multiplier is 0.122130.

- 0.122130 × $15,000 = $1,831.95

Step 2: Multiply the result of Step 1 by the income percentage factor shown in the income percentage factors table (see Attachment 1 to this notice) that corresponds to the AGI and then divide the result by 100:

- 88.77 × $1,831.95 ÷ 100 = $1,626.22

Step 3: Determine 20 percent of the borrower's discretionary income (discretionary income is AGI minus the U.S. Department of Health and Human Services (HHS) Poverty Guideline amount for the borrower's family size and state of residence). To do this, subtract the Poverty Guideline amount for a family of one, for this example, from the borrower's AGI and multiply the result by 20 percent:

- $39,201 - $10,890 = $28,311
- $28,311 × 0.20 = $5,662.20

<u>Step 4</u>: Compare the amount from Step 2 with the amount from Step 3. The lower of the two will be the annual payment amount. In this example, the borrower will be paying the amount calculated under Step 2 ($1,626.22). To determine the monthly repayment amount, divide the annual amount by 12.

- $1,626.22 ÷ 12 = $135.52

<u>Example 2</u>. In this example, the borrower is married and has no dependents, other than a spouse. The borrower has a Direct Loan balance of $10,000, and the spouse has a Direct Loan balance of $15,000. The interest rate on all of the loans is 6.80 percent.

The borrower and spouse have a combined AGI of $74,082 and are repaying their loans jointly under the ICR plan (for general information regarding joint ICR payments for married couples, see the fifth bullet under the heading entitled "General notes about the examples" in this attachment).

Step 1: Add the borrower's and the borrower's spouse's Direct Loan balances together to determine their combined aggregate loan balance:

- $10,000 + $15,000 = $25,000

Step 2: Determine the combined total annual payment amount for these borrowers based on what the both borrowers would pay over 12 years using standard amortization. To do this, multiply the combined loan balance by the constant multiplier for the applicable interest rate. In this example, the interest rate is 6.80 percent, for which the constant multiplier is 0.122130.

- 0.122130 × $25,000 = $3,053.25

Step 3: Multiply the result of Step 2 by the income percentage factor shown in the income percentage factors table in Attachment 1 that corresponds to the borrower's and the borrower's spouse's AGI and then divide the result by 100:

- 109.40 × $3,053.25 ÷ 100 = $3,340.26

Step 4: Determine 20 percent of discretionary income. To do this, subtract the Poverty Guideline amount for a family of two, in this example, from the combined AGI and multiply the result by 20 percent:

- $74,082 - $14,710 = $59,372

- $59,372 × 0.20 = $11,874.40

Step 5: Compare the amount from Step 3 with the amount from Step 4. The lower of the two will be the annual payment amount for the borrower and the borrower's spouse. The borrower and the borrower's spouse will jointly pay the amount calculated under Step 3 ($3,340.26). To determine the monthly repayment amount, divide the annual amount by 12.

- $3,340.26 ÷ 12 = $278.36

Example 3. This example assumes that the borrower is single with no dependents and has $15,000 in Direct Subsidized and Unsubsidized Loans. The interest rate on all of the loans is 6.80 percent, and the borrower's AGI is $31,210.

Step 1: Determine the total annual payment amount based on what the borrower would pay over 12 years using standard amortization. To do this, multiply the loan balance by the constant multiplier for the applicable interest rate. In this example, the interest rate is 6.80 percent, for which the constant multiplier is 0.122130.

- 0.122130 × $15,000 = $1,831.95

Step 2: Multiply the result of Step 1 by the income percentage factor shown in the income percentage factors table in Attachment 1 that corresponds to the borrower's income and then divide the result by 100:

- 80.33 × $1,831.95 ÷ 100 = $1,471.61

Step 3: Determine 20 percent of discretionary income (discretionary income is the borrower's AGI minus the HHS Poverty Guideline amount for the borrower's family size). To do this, subtract the Poverty Guideline amount for a family of one, in this example, from AGI and multiply the result by 20 percent:

- $31,210 - $10,890 = $20,320
- $20,320 × 0.20 = $4,064

Step 4: Compare the amount from Step 2 with the amount from Step 3. The lower of the two will be the annual payment amount. In this example, the borrower will be paying the amount calculated under Step 2 ($1,471.61). To determine the monthly repayment amount, divide the annual amount by 12.

- $1,471.61 ÷ 12 = $122.63

Example 4. In this example, the borrower is married and has no dependents, other than the spouse. The borrower and spouse have a combined AGI of $39,201 and are repaying their loans under the ICR plan (for general information regarding joint ICR payments for married couples, see the fifth bullet under the heading entitled "General notes about the examples" in this attachment). The borrower has a Direct Loan balance of $10,000, $5,000 of which is at an interest rate of 6.80 percent and $5,000 of which is at an interest rate of 7.0 percent, and the spouse has a Direct Loan balance of $5,000 at an interest rate of 6.80 percent and $10,000 of which is at an interest rate of 7.0 percent.

Step 1: Add the borrower's and the borrower's spouse's Direct Loan balances that have the same interest rate together to determine combined aggregate loan balances by interest rate:

- 6.8 percent: $5,000 + $5,000 = $10,000
- 7.0 percent: $5,000 + $10,000 = $15,000

Step 2: Determine the annual payment based on what would be paid over 12 years using standard amortization for each interest rate-based group of combined aggregate loan balances. To do this, multiply each group of combined aggregate loan balances by the constant multiplier for the applicable interest rate. For 6.80 percent, the constant multiplier is 0.122130. For 7.0 percent, the constant multiplier is 0.123406.

- 0.122130 × $10,000 = $1,221.30
- 0.123406 x $15,000 = $1,851.09

Step 3: Add the products of Step 2 together, multiply that total by the income percentage factor shown in the income percentage factors table in Attachment 1 that corresponds to the borrower's and the borrower's spouse's combined AGI, and then divide the result by 100:

- 87.61 × $3,072.39 ÷ 100 = $2,691.72

Step 4: Determine 20 percent of discretionary income. To do this, subtract the Poverty Guideline amount for a family of two, in this example, from the combined AGI and multiply the result by 20 percent:

- $39,201 - $14,710 = $24,491
- $24,491 × 0.20 = $4,898.20

Step 5: Compare the amount from Step 3 with the amount from Step 4. The lower of the two will be the annual payment amount. In this example, the borrower and the borrower's spouse will jointly pay the amount calculated under Step 3 ($2,691.72). To determine the monthly repayment amount, divide the annual amount by 12.

- $2,691.72 ÷ 12 = $224.31

Interpolation. If the borrower's income is not included on the income percentage factor table, calculate the income percentage factor through interpolation. For example, assume that the borrower is single with income of $30,000.

Step 1: Find the closest income listed that is less than $30,000 and the closest income listed that is greater than $30,000.

Step 2: Subtract the lower amount from the higher amount (for this discussion, we will call the result the "income interval"):

- $31,210 - $26,230 = $4,980

Step 3: Determine the difference between the two income percentage factors that correspond to the incomes used in Step 2 (for this discussion, we will call the result the "income percentage factor interval"):

- 80.33 percent - 71.89 percent = 8.44 percent

Step 4: Subtract from the borrower's income the closest income shown on the chart that is less than the borrower's income of $30,000:

- $30,000 - $26,230 = $3,770

Step 5: Divide the result of Step 4 by the income interval determined in Step 2:

- $3,770 ÷ $4,980 = 0.757

Step 6: Multiply the result of Step 5 by the income percentage factor interval:

- 8.44 percent × 0.757 = 6.389 percent

Step 7: Add the result of Step 6 to the lower of the two income percentage factors used in Step 3 to calculate the income percentage factor interval for $30,000 in income:

- 6.389 percent + 71.89 percent = 78.28 percent

(rounded to the nearest hundredth)

The result is the income percentage factor that will be used to calculate the monthly repayment amount under the ICR plan.

Attachment 4--Charts showing sample repayment amounts for single and married borrowers

Sample First-Year Monthly Repayment Amounts for a Single Borrower at Various Income and Debt Levels																			
	Initial Debt																		
Income	$5,000	$7,500	$10,000	$12,500	$15,000	$17,500	$20,000	$22,500	$25,000	$30,000	$35,000	$40,000	$45,000	$50,000	$60,000	$70,000	$80,000	$90,000	$100,000
$5,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
$6,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
$7,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
$8,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
$9,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
$10,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
$12,500	27	27	27	27	27	27	27	27	27	27	27	27	27	27	27	27	27	27	27
$15,000	30	45	59	69	69	69	69	69	69	69	69	69	69	69	69	69	69	69	69
$17,500	31	46	61	76	92	107	110	110	110	110	110	110	110	110	110	110	110	110	110
$20,000	32	48	64	80	96	112	128	145	152	152	152	152	152	152	152	152	152	152	152
$22,500	34	51	68	85	102	119	135	152	169	194	194	194	194	194	194	194	194	194	194
$25,000	36	54	71	89	107	125	143	161	178	214	235	235	235	235	235	235	235	235	235
$30,000	40	60	80	100	120	139	159	179	199	239	279	319	319	319	319	319	319	319	319
$35,000	43	64	86	107	129	150	172	193	215	257	300	343	386	402	402	402	402	402	402
$40,000	46	68	91	114	137	160	183	205	228	274	319	365	411	456	485	485	485	485	485
$45,000	48	73	97	121	145	170	194	218	242	291	339	388	436	485	569	569	569	569	569
$50,000	51	76	102	127	153	178	204	229	254	305	356	407	458	509	611	652	652	652	652
$60,000	51	77	103	128	154	180	205	231	257	308	359	411	462	513	616	719	819	819	819
$70,000	56	85	113	141	169	197	225	254	282	338	394	451	507	564	676	789	902	985	985
$80,000	60	89	119	149	179	208	238	268	298	357	417	476	536	596	715	834	953	1072	1152
$90,000	63	94	125	156	188	219	250	281	313	375	438	500	563	625	751	876	1001	1126	1251
$100,000	65	97	130	162	195	227	260	292	325	390	455	520	585	650	780	910	1040	1170	1300
Sample repayment amounts are based on an interest rate of 6.80%																			

Sample First-Year Monthly Repayment Amounts for a Married or Head-of-Household Borrower at Various Income and Debt Levels																			
Income	Family Size = 3																		
	Initial Debt																		
$5,000	$5,000	$7,500	$10,000	$12,500	$15,000	$17,500	$20,000	$22,500	$25,000	$30,000	$35,000	$40,000	$45,000	$50,000	$60,000	$70,000	$80,000	$90,000	$100,000
$6,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
$7,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
$8,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
$9,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
$10,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
$12,500	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
$15,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
$17,500	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
$20,000	25	25	25	25	25	25	25	25	25	25	25	25	25	25	25	25	25	25	25
$22,500	33	49	65	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66
$25,000	34	52	69	86	103	108	108	108	108	108	108	108	108	108	108	108	108	108	108
$30,000	38	56	75	94	113	131	150	169	188	191	191	191	191	191	191	191	191	191	191
$35,000	41	62	83	103	124	144	165	186	206	248	275	275	275	275	275	275	275	275	275
$40,000	45	68	90	113	135	158	180	203	225	271	316	358	358	358	358	358	358	358	358
$45,000	48	72	97	121	145	169	193	217	241	290	338	386	434	441	441	441	441	441	441
$50,000	51	76	102	127	153	178	204	229	254	305	356	407	458	509	525	525	525	525	525
$60,000	51	77	102	128	153	179	205	230	256	307	358	409	460	512	614	691	691	691	691
$70,000	54	82	109	136	163	190	217	245	272	326	381	435	489	544	652	761	858	858	858
$80,000	58	86	115	144	173	201	230	259	288	345	403	460	518	576	691	806	921	1025	1025
$90,000	61	91	121	152	182	213	243	273	304	364	425	486	547	607	729	850	972	1093	1191
$100,000	64	96	128	160	192	223	255	287	319	383	447	511	575	638	766	894	1021	1149	1277
Sample repayment amounts are based on an interest rate of 6.80%																			

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