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DEPARTMENT OF EDUCATION

Annual Updates to the Income Contingent Repayment (ICR) Plan Formula for 2012; 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 2012. 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 2012, 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 to the income percentage factors for the ICR plan formula, contained in this notice, are effective for the period from July 1, 2012 to June 30, 2013.

FOR FURTHER INFORMATION CONTACT: Ian Foss, U.S. Department of Education, 830 First 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 2012
- 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 2011 to December 2012. 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.

Dated: May 17, 2012

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

Attachment 1--Income Percentage Factors for 2012

INCOME PERCENTAGE FACTORS FOR 2012

[Based on annual income]

Single		Married/ Head of Household	
Income	% Factor	Income	% Factor
$10,470	55.00%	$10,470	50.52%
$14,406	57.79%	$16,520	56.68%
$18,537	60.57%	$19,687	59.56%
$22,761	66.23%	$25,737	67.79%
$26,797	71.89%	$31,884	75.22%
$31,884	80.33%	$40,048	87.61%
$40,048	88.77%	$50,225	100.00%
$50,226	100.00%	$60,409	100.00%
$60,409	100.00%	$75,682	109.40%
$72,603	111.80%	$101,129	125.00%
$92,966	123.50%	$136,758	140.60%
$131,671	141.20%	$191,263	150.00%
$150,973	150.00%	$312,539	200.00%
$268,909	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 2012 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 26, 2012 (77 FR 4034). 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 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 $40,048.

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:

- $40,048 - $11,170 = $28,878
- $28,878 × 0.20 = $5,775.60

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 ($1,626.22). To determine the monthly repayment amount, divide the annual amount by 12.

- $1,626.22 ÷ 12 = $135.52

Example 2. 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 $75,682 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 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 combined 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:

- $75,682 - $15,130 = $60,552

- $60,552 × 0.20 = $12,110.40

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 $31,884.

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

<u>Step 3</u>: 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:

- \$31,884 - \$11,170 = \$20,714
- \$20,714 × 0.20 = \$4,142.80

<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 (\$1,471.61). To determine the monthly repayment amount, divide the annual amount by 12.

- \$1,471.61 ÷ 12 = \$122.63

<u>Example 4</u>. In this example, the borrower is married and has no dependents, other than the spouse. The borrower and spouse have a combined AGI of \$40,048 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. The spouse has a Direct Loan balance of $15,000, $5,000 of which is 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:

- $1,221.30 + $1,851.09 = $3,072.39
- 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:

- $40,048 - $15,130 = $24,918
- $24,918 × 0.20 = $4,983.60

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 an 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"):

- $31,884 - $26,797 = $5,087

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 - $26,797 = $3,203

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

- $3,203 ÷ $5,087 = 0.6296

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

- 8.44 percent × 0.6296 = 5.314 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:

- 5.314 percent + 71.89 percent = 77.20 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	22	22	22	22	22	22	22	22	22	22	22	22	22	22	22	22	22	22	22
$15,000	30	44	59	64	64	64	64	64	64	64	64	64	64	64	64	64	64	64	64
$17,500	30	46	61	76	91	106	106	106	106	106	106	106	106	106	106	106	106	106	106
$20,000	32	48	64	80	95	111	127	143	147	147	147	147	147	147	147	147	147	147	147
$22,500	34	50	67	84	101	117	134	151	168	189	189	189	189	189	189	189	189	189	189
$25,000	35	53	71	88	106	124	141	159	177	212	231	231	231	231	231	231	231	231	231
$30,000	39	59	79	98	118	138	157	177	196	236	275	314	314	314	314	314	314	314	314
$35,000	43	64	85	106	128	149	170	191	213	255	298	340	383	397	397	397	397	397	397
$40,000	45	68	90	113	135	158	181	203	226	271	316	361	406	451	481	481	481	481	481
$45,000	48	72	96	120	144	168	192	216	240	288	336	384	432	480	564	564	564	564	564
$50,000	51	76	102	127	152	178	203	228	254	305	355	406	457	508	609	647	647	647	647
$60,000	51	76	102	127	153	178	204	229	254	305	356	407	458	509	611	712	814	814	814
$70,000	56	83	111	139	167	195	222	250	278	334	389	445	500	556	667	779	890	981	981
$80,000	59	89	118	148	177	207	236	266	295	354	413	472	531	591	709	827	945	1063	1147
$90,000	62	93	124	155	186	217	248	279	310	372	434	496	558	620	744	868	992	1116	1240
$100,000	64	97	129	161	193	226	258	290	322	387	451	516	580	645	774	903	1032	1161	1290

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

Family Size = 3

Income	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	15	15	15	15	15	15	15	15	15	15	15	15	15	15	15	15	15	15	15
$22,500	32	48	57	57	57	57	57	57	57	57	57	57	57	57	57	57	57	57	57
$25,000	34	51	68	85	99	99	99	99	99	99	99	99	99	99	99	99	99	99	99
$30,000	37	56	74	93	111	130	148	167	182	182	182	182	182	182	182	182	182	182	182
$35,000	41	61	81	102	122	142	163	183	203	244	265	265	265	265	265	265	265	265	265
$40,000	45	67	89	111	134	156	178	200	223	267	312	349	349	349	349	349	349	349	349
$45,000	48	71	95	119	143	167	191	214	238	286	334	381	429	432	432	432	432	432	432
$50,000	51	76	101	127	152	178	203	228	254	304	355	406	457	507	515	515	515	515	515
$60,000	51	76	102	127	153	178	204	229	254	305	356	407	458	509	611	682	682	682	682
$70,000	54	81	108	135	162	189	216	243	269	323	377	431	485	539	647	754	849	849	849
$80,000	57	86	114	143	171	200	228	257	285	342	399	456	513	570	684	798	912	1015	1015
$90,000	60	90	120	150	180	210	241	271	301	361	421	481	541	601	722	842	962	1082	1182
$100,000	63	95	127	158	190	221	253	285	316	380	443	506	569	633	759	886	1012	1139	1265

Sample repayment amounts are based on an interest rate of 6.80%

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