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DEPARTMENT OF EDUCATION

Annual Updates to the Income Contingent Repayment (ICR) Plan Formula for 2016--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 2016, as required by 34 CFR 685.209(b)(1)(ii)(A), to give notice to Direct Loan borrowers and the public regarding how monthly ICR payment amounts will be calculated for the 2016-2017 year.

DATES: The adjustments to the income percentage factors for the ICR plan formula contained in this notice are effective from July 1, 2016, to June 30, 2017, for any borrower who enters the ICR plan or has his or her monthly payment amount recalculated under the ICR plan during that period.

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If you use a telecommunications device for the deaf or a text telephone, call the Federal Relay Service, toll free, at 1–800–877–8339.

SUPPLEMENTARY INFORMATION:

Under the William D. Ford Federal Direct Loan (Direct Loan) Program, borrowers may choose to repay their non-defaulted loans (Direct Subsidized Loans, Direct Unsubsidized Loans, Direct PLUS Loans made to graduate or professional students, and Direct Consolidation Loans) under the ICR plan. The ICR plan bases the borrower's repayment amount on the borrower's income, family size, loan amount, and the interest rate applicable to each of the borrower's loans.

ICR is one of the income-driven repayment plans. Other income-driven repayment plans include the Income-Based Repayment (IBR) plan, the Pay As You Earn (PAYE) Repayment plan, and the Revised Pay As You Earn (REPAYE) Repayment plan. The IBR, PAYE, and REPAYE plans provide lower payment amounts than the ICR plan for most borrowers.

A Direct Loan borrower who repays his or her loans under the ICR plan pays the lesser of: (1) the amount that he or she would pay over 12 years with fixed payments

multiplied by an income percentage factor; or (2) 20 percent of discretionary income.

Each year, to reflect changes in inflation, we adjust the income percentage factor used to calculate a borrower's ICR payment. We use the adjusted income percentage factors to calculate a borrower's monthly ICR payment amount when the borrower initially applies for the ICR plan or when the borrower submits his or her annual income documentation, as required under the ICR plan. This notice contains the adjusted income percentage factors for 2016, examples of how the monthly payment amount in ICR is calculated, and charts showing sample repayment amounts based on the adjusted ICR plan formula. This information is included in the following three attachments:

- Attachment 1--Income Percentage Factors for 2016
- Attachment 2--Examples of the Calculations of Monthly Repayment Amounts
- Attachment 3--Charts Showing Sample Repayment Amounts for Single and Married Borrowers

In Attachment 1, to reflect changes in inflation, we have updated the income percentage factors that were published in the Federal Register on March 25, 2015 (80 FR

15757). 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 between the not-seasonally-adjusted Consumer Price Index for all urban consumers for December 2015 and December 2016.

The 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 is the same as in the prior year. However, the revised repayment amount more accurately reflects the impact of inflation on the borrower's current ability to repay.

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Attachment 1--Income Percentage Factors for 2016

Income Percentage Factors for 2016			
Single		Married/ Head of Household	
Income	% Factor	Income	% Factor
$11,382	55.00%	$11,382	50.52%
$15,662	57.79%	$17,959	56.68%
$20,152	60.57%	$21,402	59.56%
$24,745	66.23%	$27,979	67.79%
$29,131	71.89%	$34,661	75.22%
$34,661	80.33%	$43,536	87.61%
$43,536	88.77%	$54,601	100.00%
$54,602	100.00%	$65,671	100.00%
$65,671	100.00%	$82,275	109.40%
$78,929	111.80%	$109,938	125.00%
$101,065	123.50%	$148,672	140.60%
$143,142	141.20%	$207,925	150.00%
$164,125	150.00%	$339,766	200.00%
$292,335	200.00%	-	-

Attachment 2--Examples of the Calculations of Monthly Repayment Amounts

General notes about the examples in this attachment:

- We have a calculator that borrowers can use to estimate what their payment amount would be under the ICR plan. The calculator is called the "Repayment Estimator" and is available at StudentAid.gov/repayment-estimator. This calculator provides a detailed, individualized assessment of a borrower's loans and repayment plan options, including the ICR plan.

- The interest rates used in the examples are for illustration only. The actual interest rates on an individual borrower's Direct Loans depend on the loan type and when the postsecondary institution first disbursed the Direct Loan to the borrower.

- The Poverty Guideline amounts used in the examples are from the 2016 U.S. Department of Health and Human Services (HHS) Poverty Guidelines for the 48 contiguous States and the District of Columbia. Different Poverty Guidelines apply to residents of Alaska and Hawaii. The Poverty Guidelines for 2016 were published in the Federal Register on January 25, 2016 (81 FR 4036).

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

- Married borrowers may repay their Direct Loans jointly under the ICR plan. If a married couple elects this option, we add the outstanding balance on the Direct

Loans of each borrower and we add together both borrowers' AGIs to determine a joint ICR payment amount. We then prorate the joint payment amount for each borrower based on the proportion of that borrower's debt to the total outstanding balance. We bill each borrower separately.

- For example, if a married couple, John and Sally, has a total outstanding Direct Loan debt of $60,000, of which $40,000 belongs to John and $20,000 to Sally, we would apportion 67 percent of the monthly ICR payment to John and the remaining 33 percent to Sally. 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 to the borrower's Federal loan servicer.

Calculating the monthly payment amount using a standard amortization and a 12-year repayment period.

The formula to amortize a loan with a standard schedule (in which each payment is the same over the course of the repayment period) is as follows:

$$M = P \times <(I \div 12) \div [1 - \{1 + (I \div 12)\}^{-N}]>$$

In the formula--

- M is the monthly payment amount;

- P is the outstanding principal balance of the loan at the time the calculation is performed;
- I is the annual interest rate on the loan, expressed as a decimal (for example, for a loan with an interest rate of 6 percent, 0.06); and
- N is the total number of months in the repayment period (for example, for a loan with a 12-year repayment period, 144 months).

For example, assume that Billy has a $10,000 Direct Unsubsidized Loan with an interest rate of 6 percent.

Step 1: To solve for M, first simplify the numerator of the fraction by which we multiply P, the outstanding principal balance. To do this divide I, the interest rate, as a decimal, by 12. In this example, Billy's interest rate is 6 percent. As a decimal, 6 percent is 0.06.

- 0.06 ÷ 12 = 0.005

Step 2: Next, simplify the denominator of the fraction by which we multiply P. To do this divide I, the interest rate, as a decimal, by 12. Then, add one. Next, raise the sum of the two figures to the negative power that

corresponds to the length of the repayment period in months. In this example, because we are amortizing a loan to calculate the monthly payment amount under the ICR plan, the applicable figure is 12 years, which is 144 months. Finally, subtract the result from one.

- 0.06 ÷ 12 = 0.005
- 1 + 0.005 = 1.005
- 1.005 ^ -144 = 0.48762628
- 1 – 0.48762628 = 0.51237372

Step 3: Next, resolve the fraction by dividing the result from step one by the result from step two.

- 0.005 ÷ 0.51237372 = 0.0097585

Step 4: Finally, solve for M, the monthly payment amount, by multiplying the outstanding principal balance of the loan by the result of step 3.

- $10,000 × 0.0097585 = $97.59

The remainder of the examples in this attachment will only show the results of the formula.

Example 1. Brenda is single with no dependents and has $15,000 in Direct Subsidized and Unsubsidized Loans. The interest rate on Brenda's loans is 6 percent, and she has an AGI of $29,131.

Step 1: Determine the total monthly payment amount based on what Brenda would pay over 12 years using standard amortization. To do this, use the formula that precedes Example 1. In this example, the monthly payment amount would be $146.38.

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 Brenda's AGI. In this example, an AGI of $29,131 corresponds to an income percentage factor of 71.89 percent.

- 0.7189 × $146.38 = $105.23

Step 3: Determine 20 percent of Brenda's discretionary income and divide by 12 (discretionary income is AGI minus the HHS Poverty Guideline amount for a borrower's family size and State of residence). For Brenda, subtract the Poverty Guideline amount for a family

of one from her AGI, multiply the result by 20 percent, and then divide by 12:

- $29,131 - $11,880 = $17,251
- $17,251 × 0.20 = $3,450.20
- $3,450.20 ÷ 12 = $287.52

Step 4: Compare the amount from Step 2 with the amount from Step 3. The lower of the two will be the monthly ICR payment amount. In this example, Brenda will be paying the amount calculated under Step 2 ($105.23).

Note: Brenda would have a lower payment under other income-driven repayment plans. Specifically, Brenda's payment would be $89.31 under the PAYE and REPAYE repayment plans. However, Brenda's payment would be $133.96 under the IBR plan, which is higher than the payment she would have under the ICR plan.

Example 2. Joseph is married to Susan and has no dependents. They file their Federal income tax return jointly. Joseph has a Direct Loan balance of $10,000, and Susan has a Direct Loan balance of $15,000. The interest rate on all of the loans is 6 percent.

Joseph and Susan have a combined AGI of $82,275 and are repaying their loans jointly under the ICR plan (for general information regarding joint ICR payments for married couples, see the fifth and sixth bullets under the heading "General notes about the examples in this attachment").

Step 1: Add Joseph's and Susan's Direct Loan balances to determine their combined aggregate loan balance:

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

Step 2: Determine the combined monthly payment amount for Joseph and Susan based on what both borrowers would pay over 12 years using standard amortization. To do this, use the formula that precedes Example 1. In this example, the combined monthly payment amount would be $243.96.

Step 3: Multiply the result of Step 2 by the income percentage factor shown in the income percentage factors table (see Attachment 1 to this notice) that corresponds to Joseph and Susan's combined AGI. In this example, the combined AGI of $82,275 corresponds to an income percentage factor of 109.40 percent.

- 1.094 × $243.96 = $266.90

Step 4: Determine 20 percent of Joseph and Susan's combined discretionary income (discretionary income is AGI

minus the HHS Poverty Guideline amount for a borrower's family size and State of residence). To do this subtract the Poverty Guideline amount for a family of two from the combined AGI, multiply the result by 20 percent, and divide by 12:

- $82,275 - $ 16,020 = $66,225
- $66,225 × 0.20 = $13,251
- $13,251 ÷ 12 = $1,104.25

Step 5: Compare the amount from Step 3 with the amount from Step 4. The lower of the two will be Joseph and Susan's joint monthly payment amount. Joseph and Susan will jointly pay the amount calculated under Step 3 ($266.90).

Note: For Joseph and Susan, the Income-Contingent Repayment plan provides the lowest monthly payment of all of the income-driven repayment plans. Joseph and Susan would not be eligible for the IBR or Pay As You Earn Repayment plans, and would have a combined monthly payment under the REPAYE Repayment plan of $485.38.

Step 6: Because Joseph and Susan are jointly repaying their Direct Loans under the ICR plan, the monthly payment amount calculated under Step 5 applies to both Joseph's and

Susan's loans. To determine the amount for which each borrower will be responsible, prorate the amount calculated under Step 4 by each spouse's share of the combined Direct Loan debt. Joseph has a Direct Loan debt of $10,000 and Susan has a Direct Loan Debt of $15,000. For Joseph, the monthly payment amount will be:

- $10,000 ÷ ($10,000 + $15,000) = 40 percent
- 0.40 × $266.90 = $106.76

For Susan, the monthly payment amount will be:

- $15,000 ÷ ($10,000 + $15,000) = 60 percent
- 0.60 × $266.90 = $160.14

Example 3. David is single with no dependents and has $60,000 in Direct Subsidized and Unsubsidized Loans. The interest rate on all of the loans is 6 percent, and David's AGI is $34,661.

Step 1: Determine the total monthly payment amount based on what David would pay over 12 years using standard amortization. To do this, use the formula that precedes Example 1. In this example, the monthly payment amount would be $585.51.

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 David's AGI. In this example, an AGI of $34,661 corresponds to an income percentage factor of 80.33 percent.

- 0.8033 × $585.51 = $470.34

Step 3: Determine 20 percent of David's discretionary income and divide by 12 (discretionary income is AGI minus the HHS Poverty Guideline amount for a borrower's family size and State of residence). To do this subtract the Poverty Guideline amount for a family of one from David's AGI, multiply the result by 20 percent, then divide by 12:

- $34,661 - $11,880 = $22,781
- $22,781 × 0.20 = $4,556.20
- $4,556.20 ÷ 12 = $379.68

Step 4: Compare the amount from Step 2 with the amount from Step 3. The lower of the two will be David's monthly payment amount. In this example, David will be paying the amount calculated under Step 3 ($379.68).

Note: David would have a lower payment under each of the other income-driven plans. Specifically, David's payment would be $140.34 under the PAYE and REPAYE repayment plans and $210.51 under the IBR plan.

Interpolation. If an income is not included on the income percentage factor table, calculate the income percentage factor through linear interpolation. For example, assume that Joan is single with an income of $50,000.

Step 1: Find the closest income listed that is less than Joan's income ($50,000) and the closest income listed that is greater than Joan's income ($50,000).

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

- $54,602 - $43,536 = $11,066

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"):

- 100.00 percent – 88.77 percent = 11.23 percent

Step 4: Subtract from Joan's income the closest income shown on the chart that is less than Joan's income of $50,000:

- $50,000 - $43,536 = $6,464

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

- $6,464 ÷ $11,066 = 58.41 percent

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

- 11.23 percent × 58.41 percent = 6.56 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 $50,000 in income:

- 6.56 percent + 88.77 percent = 95.33 percent (rounded to the nearest hundredth)

The result is the income percentage factor that we will use to calculate Joan's monthly repayment amount under the ICR plan.

Attachment 3--Charts showing sample income-driven repayment amounts for single and married borrowers

Below are two charts that provide first-year payment amount estimates for a variety of loan debt sizes and incomes

under all of the income-driven repayment plans. The first chart is for single borrowers who have a family size of one. The second chart is for a borrower who is married or a head of household and who has a family size of three. The ICR plan calculations assume that the loan debt has an interest rate of 6 percent. For married borrowers, the calculations assume that the borrower files a joint Federal income tax return with his or her spouse. A field with a "-" character indicates that the borrower in the example would not be eligible to enter the applicable repayment based plan based on the borrower's income, loan debt, and family size.

Sample First-Year Monthly Repayment Amounts for a Single Borrower							
Family Size = 1							
	Income	Plan	$20,000	$40,000	$60,000	$80,000	$100,000
Initial Debt	$20,000	ICR	$118	$167	$195	$219	$240
		IBR	$27	-	-	-	-
		PAYE	$18	$185	-	-	-
		REPAYE	$18	$185	$352	$518	$685
	$40,000	ICR	$135	$333	$390	$439	$480
		IBR	$27	$277	-	-	-
		PAYE	$18	$185	$352	-	-
		REPAYE	$18	$185	$352	$518	$685
	$60,000	ICR	$135	$469	$586	$658	$720
		IBR	$27	$277	$527	-	-
		PAYE	$18	$185	$352	$518	-
		REPAYE	$18	$185	$352	$518	$685
	$80,000	ICR	$135	$469	$781	$877	$960

		IBR	$27	$277	$527	$777	-
		PAYE	$18	$185	$352	$518	$685
		REPAYE	$18	$185	$352	$518	$685
	$100,000	ICR	$135	$469	$802	$1,097	$1,200
		IBR	$27	$277	$527	$777	$1,027
		PAYE	$18	$185	$352	$518	$685
		REPAYE	$18	$185	$352	$518	$685

Sample First-Year Monthly Repayment Amounts for a Married or Head-of-Household Borrower							
Family Size = 3							
	Income	Plan	$20,000	$40,000	$60,000	$80,000	$100,000
Initial Debt	$20,000	ICR	$0	$161	$195	$211	$233
		IBR	$0	$122	-	-	-
		PAYE	$0	$81	-	-	-
		REPAYE	$0	$81	$248	$415	$581
	$40,000	ICR	$0	$323	$390	$422	$466
		IBR	$0	$122	$372	-	-
		PAYE	$0	$81	$248	$415	-
		REPAYE	$0	$81	$248	$415	$581
	$60,000	ICR	$0	$331	$586	$633	$699
		IBR	$0	$122	$372	$622	-
		PAYE	$0	$81	$248	$415	$581
		REPAYE	$0	$81	$248	$415	$581
	$80,000	ICR	$0	$331	$664	$844	$932
		IBR	$0	$122	$372	$622	$872
		PAYE	$0	$81	$248	$415	$581
		REPAYE	$0	$81	$278	$415	$581
	$100,000	ICR	$0	$469	$664	$997	$1,165
		IBR	$0	$277	$372	$622	$872
		PAYE	$0	$185	$248	$415	$581
		REPAYE	$0	$185	$248	$415	$581

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