

# Graduates get option to repay student loans based on income

By Sandra Block, USA TODAY

What's worse than graduating from college with no job and no prospects of finding one anytime soon?

Graduating from college with no job, no prospects and thousands of dollars in student loans.

That's the grim outlook for thousands of graduates who are looking for work in a take-no-prisoners job market. The average undergraduate leaves college with more than \$22,000 in debt. Many graduate and professional students leave with loan balances of \$100,000 or more.

Most borrowers are required to start repaying the loans within six months after graduation. If you're unemployed or suffering other economic hardship, you can apply to have payments deferred for up to three years. But depending on the type of loan, interest may continue to accrue during that period, which means you'll have an even bigger balance when you resume payments.

Starting July 1, borrowers will have a new option: a repayment program that caps monthly payments based on income. It targets borrowers who would have a hard time paying basic living expenses if they had to make standard monthly payments on their loans, says Lauren Asher, acting president for the Project on Student Debt.

Under the income-based repayment program, such borrowers will never have to spend more than 15% of their discretionary income — an amount based on federal poverty guidelines — on student loan payments. Most who qualify for the program won't spend more than 10% of their income on student loans. Those whose income falls below 150% of the poverty level (see box) won't be required to make any payments, Asher says.

**STUDENT LOANS:** [You're never too old for financial aid](#)

**MOUNTING DEBT:** [Many college graduates struggle to repay student loans](#)

**PAYING FOR COLLEGE:** [Tips on where to look for scholarships](#)

Here's an example of how it would work: Suppose you have \$30,000 in student loans, and you estimate that your 2009 income will be \$25,000. Assuming your loans have a fixed interest rate of 6.8%, your monthly payment under the income-based repayment program would be \$110, vs. \$345 under a standard 10-year repayment plan.

If your income rises in the future, your payments will, too.

For some borrowers, the reduced payments won't cover the interest on their loans. For those with subsidized Stafford loans — which are provided to students who demonstrate economic hardship — the government will pay the interest for the first three years of the program. For unsubsidized loans, the interest will be added to the balance, so you could come out of the program with a larger loan balance.

However, any amount you owe after 25 years of qualifying payments will be forgiven. This is significant, because in the past, it was nearly impossible for borrowers to get out from under their student loan debts. Under current bankruptcy laws, borrowers must demonstrate "undue hardship" before a bankruptcy court will discharge a student loan, a costly and difficult standard to meet.

"Most folks will see their incomes rise, and most will pay (the student loan) off, but for those who can't, there is a light at the end of the tunnel," Asher says.

## Not all qualify

Unfortunately, not all borrowers are eligible to participate in the income-based repayment plan, even if they're experiencing economic hardship. You're ineligible if:

•**You have private student loans.** The income-based repayment program is limited to federal Stafford, Grad Plus and federal consolidated loans.

That's important to remember if you're starting college this fall and plan to borrow. In 2007-08, 14% of undergraduate students took out private student loans, up from 5% in 2003-04, according to a recent analysis by the Project on Student Debt.

Many students use these loans to make up the difference between federal student loans and the cost of college. But private loans are typically more expensive than federal loans and have less flexible repayment plans. Limits on federal student loans were increased last year, so make sure you take full advantage of these loans before venturing into the private market.

•**You've defaulted on your student loans.** The income-based repayment program is available for all federal student loans, no matter when you took them out, but you must be in good standing to qualify, Asher says. Most student loans are considered in default after you've failed to make payments for nine months.

To enroll in the income-based repayment program, you'll need to contact your lender. The Project on Student Debt has set up a website with information and updates about the program. Find it at [www.ibrinfo.org](http://www.ibrinfo.org).

*To suggest columns, e-mail: [sblock@usatoday.com](mailto:sblock@usatoday.com). Follow on Twitter: [www.twitter.com/sandyblock](http://www.twitter.com/sandyblock)*