Federal Student Aid

Pay As You Earn Repayment Plan for the Direct Loan Program

StudentAid.gov

What is Pay As You Earn?

Pay As You Earn is a repayment plan for eligible Direct Loans that is designed to limit your required monthly payment to an amount that is affordable based on your income and family size.

What federal student loans are eligible to be repaid under the Pay As You Earn plan?

Only loans made under the Direct Loan Program are eligible for repayment under Pay As You Earn. Eligible loans are Direct Subsidized Loans, Direct Unsubsidized Loans, Direct PLUS Loans made to graduate or professional students, and Direct Consolidation Loans that did not repay any PLUS loans that were made to parent borrowers. Loans that are currently in default, Direct PLUS Loans made to parents, Direct Consolidation Loans that repaid PLUS loans made to parents, and Federal Family Education Loan (FFEL) Program loans are NOT eligible for repayment under Pay As You Earn.

Who is eligible for Pay As You Earn?

You must be a new borrower. You are a new borrower if you had no outstanding balance on a Direct Loan or FFEL Program loan as of Oct. 1, 2007, or if you had no outstanding balance on a Direct Loan or FFEL Program loan when you received a new Direct Loan or FFEL Program loan on or after Oct. 1, 2007. In addition, you must have received a disbursement of a Direct Subsidized Loan, Direct Unsubsidized Loan, or Direct PLUS Loan for graduate or professional students on or after Oct. 1, 2011, or you must have received a Direct Consolidation Loan based on an application that was received on or after Oct. 1, 2011.

In addition to your being a new borrower, your federal student loan debt must be high relative to your income. While your loan servicer will perform the calculation to determine your eligibility for Pay As You Earn, you can use the U.S. Department of Education's Pay As You Earn calculator at **http://studentaid.ed.gov/PayAsYouEarn** to estimate whether you would likely qualify for the Pay As You Earn plan. The calculator looks at your income, family size, and state of residence to calculate your Pay As You Earn monthly payment amount. If that amount is lower than the monthly payment you would be required to pay on your eligible loans under a 10-year Standard Repayment Plan, then you are eligible to repay your loans under the Pay As You Earn plan.

If you are married and you and your spouse file a joint federal tax return, and if your spouse also has eligible federal student loans, your spouse's eligible loan debt is taken into account when determining whether you are eligible for Pay As You Earn. In this case, the required monthly payment amount under a 10-year Standard Repayment Plan is determined based on the combined amount of your and your spouse's eligible loans. If the combined monthly amount you and your spouse would be required to pay under Pay As You Earn is lower than the combined monthly amount you and your spouse would pay under a 10-year Standard Repayment Plan, you and your spouse are eligible for Pay As You Earn.

Although only Direct Loans may be repaid under Pay As You Earn, your (and, if you are married and file a joint federal tax return, your spouse's) eligible FFEL Program loans will also be taken into account when determining whether you qualify for Pay As You Earn based on the amount of your federal student loan debt relative to your income. For this purpose, eligible FFEL Program loans are Subsidized and Unsubsidized Federal Stafford Loans, FFEL PLUS Loans for graduate or professional students, and FFEL Consolidation Loans that did not repay any PLUS loans for parents. FFEL Program loans that are currently in default, FFEL PLUS Loans for parents, and FFEL Consolidation Loans that repaid PLUS loans for parents are not counted as eligible loan debt.

What are the benefits of Pay As You Earn?

- LOWER SCHEDULED MONTHLY PAYMENT: Under Pay As You Earn, your monthly payment amount will be less than the amount you would be required to pay under a 10-year Standard Repayment Plan, and may be less than under other repayment plans.

- INTEREST PAYMENT BENEFIT: If your monthly Pay As You Earn payment amount does not cover the full amount of interest that accrues on your loans each month, the government will pay your unpaid accrued interest on your Direct Subsidized Loans (and on the subsidized portion of your Direct Consolidation Loans) for up to three consecutive years from the date you begin repaying your loans under Pay As You Earn.

- 20-YEAR CANCELLATION: If you repay under the Pay As You Earn plan, any remaining balance will be forgiven after 20 years of qualifying repayment.

- 10-YEAR PUBLIC SERVICE LOAN FORGIVENESS: On-time, full monthly payments you make under Pay As You Earn (or certain other repayment plans) while employed full-time in a public service job will count toward the 120 monthly payments that are required to receive loan forgiveness through the Public Service Loan Forgiveness (PSLF) Program. Through this program, you may be eligible to have the remaining balance of your Direct Loans forgiven after you have made the 120 qualifying payments as described above. PSLF is available only for Direct Loans, but you may be eligible to consolidate FFEL Program loans into the Direct Loan Program to take advantage of PSLF. For more information, visit **StudentAid.gov/publicservice**.

Are there any disadvantages to repaying under Pay As You Earn?

- YOU MAY PAY MORE INTEREST: The faster you repay your loans, the less interest you pay. Because a reduced monthly payment under the Pay As You Earn plan generally extends your repayment period, you may pay more total interest over the life of the loan than you would under other repayment plans.

- YOU MUST SUBMIT ANNUAL DOCUMENTATION: To set your payment amount each year, your loan servicer needs updated information about your income and family size. If you do not provide the documentation, your monthly payment amount will be the amount you would be required to pay under a 10-year Standard Repayment Plan, based on the amount you owed when you began repaying under Pay As You Earn.

How is the Pay As You Earn amount determined?

Under Pay As You Earn, the amount you are required to repay each month is based on your adjusted gross income (AGI) and family size. If you are married and file a joint federal tax return with your spouse, your AGI includes both your income and your spouse's income. The annual Pay As You Earn repayment amount is 10 percent of the difference between your AGI and 150 percent of the Department of Health and Human Services Poverty Guideline for your family size and state. This amount is then divided by 12 to get the monthly Pay As You Earn repayment amount.

The following chart shows the maximum Pay As You Earn monthly payment amounts for a sample range of incomes and family sizes using the Poverty Guidelines that were in effect as of Jan. 26, 2012, for the 48 contiguous states and the District of Columbia.

Pay As You Earn Monthly Payment Amounts

	Family Size						
Annual Income	1	2	3	4	5	6	7
$10,000	$0	$0	$0	$0	$0	$0	$0
$15,000	$0	$0	$0	$0	$0	$0	$0
$20,000	$27	$0	$0	$0	$0	$0	$0
$25,000	$69	$19	$0	$0	$0	$0	$0
$30,000	$110	$61	$11	$0	$0	$0	$0
$35,000	$152	$103	$53	$0	$0	$0	$0
$40,000	$194	$144	$95	$45	$0	$0	$0
$45,000	$235	$186	$136	$87	$37	$0	$0
$50,000	$277	$228	$178	$129	$79	$30	$0
$55,000	$319	$269	$220	$170	$121	$71	$33
$60,000	$360	$311	$261	$212	$162	$113	$95
$65,000	$402	$353	$303	$254	$204	$155	$105

After the determination of your eligibility for Pay As You Earn, your payment may be adjusted each year based on changes in your income and family size. However, as long as you remain on the Pay As You Earn repayment plan, your required monthly payment amount will never be more than what you would be required to pay under a 10-year Standard Repayment Plan.

Are there examples of borrowers who are eligible for Pay As You Earn and borrowers who are not?

Example 1: Based upon the Pay As You Earn repayment formula, a borrower with a family size of one and an AGI of $30,000 would have a Pay As You Earn calculated payment amount of $110 per month. If this borrower had total eligible student loan debt of $25,000 when the loans initially entered repayment, and the loan balance had increased to $30,000 when the borrower requested Pay As You Earn, the calculated monthly repayment amount under a 10-year standard plan would be based on the higher of the two amounts. Using an interest rate of 6.8%, the 10-year standard payment amount for $30,000 would be $345. Since the $110 Pay As You Earn calculated amount is less than the 10-year plan amount of $345, the borrower would be eligible to repay under Pay As You Earn at a monthly amount of $110. However, if this borrower's total eligible loan debt used to calculate the 10-year standard amount was only $5,000, the 10-year standard payment would be $58 per month, which is less than the Pay As You Earn amount of $110. Therefore, the borrower would not be eligible.

Example 2: A borrower with a family size of four and income of $50,000 would have a Pay As You Earn calculated monthly payment amount of $129. If this borrower had total eligible student loan debt of $20,000 when the loans initially entered repayment, and this amount had not changed when the borrower requested Pay As You Earn, the calculated monthly repayment amount under a 10-year standard plan would be based on $20,000. Using an interest rate of 6.8%, the 10-year standard repayment amount for $20,000 would be $230. Since the $129 Pay As You Earn calculated amount is less than the 10-year plan amount of $230, the borrower would be eligible to repay under Pay As You Earn at a monthly amount of $129. However, if the borrower's total eligible loan debt used to calculate the 10-year standard amount was only $10,000, the 10-year calculated amount would be $115 per month, which is less than the Pay As You Earn amount of $129. Therefore, the borrower would not be eligible.

For more information on other repayment plans and links to calculators, visit **StudentAid.gov/repay-loans/understand/plans**.

How do borrowers apply for Pay As You Earn?

This fact sheet provides only a summary of the basic requirements of the Pay As You Earn Repayment Plan. For more information and to apply for Pay As You Earn, contact the servicer(s) of your student loan(s). Not sure who services your loan? Check **www.nslds.ed.gov**.

Updated November 2012