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DEPARTMENT OF EDUCATION

Annual Updates to the Income-Contingent Repayment (ICR)

Plan Formula for 2021--William D. Ford Federal Direct Loan

Program

AGENCY: Federal Student Aid, Department of Education.

ACTION: Notice.

SUMMARY: The Secretary announces the annual updates to the

ICR plan formula for 2021 to give notice to borrowers and

the public regarding how monthly ICR payment amounts will

be calculated for the 2021-2022 year under the William D.

Ford Federal Direct Loan (Direct Loan) Program, Assistance

Listing Number 84.063.

DATES: The adjustments to the income percentage factors

for the ICR plan formula contained in this notice are

applicable from July 1, 2021, to June 30, 2022, for any

borrower who enters the ICR plan or has his or her monthly

payment amount recalculated under the ICR plan during that

period.

FOR FURTHER INFORMATION CONTACT: Travis Sturlaugson, U.S.

Department of Education, 830 First Street, NE, room 113H3,

Washington, DC 20202. Telephone: (202) 377-4174. Email:

travis.sturlaugson@ed.gov.

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(TDD) or a text telephone (TTY), call the Federal Relay

Service, toll free, at 1-800-877-8339.

SUPPLEMENTARY INFORMATION:

Under the 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 Adjusted Gross Income (AGI), family size, loan amount, and the interest rate applicable to each of the borrower's loans.

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

A Direct Loan borrower who repays under the ICR plan pays the lesser of: (1) the monthly amount that would be required over a 12-year repayment period 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, as required by 34 CFR 685.209(b)(1)(ii)(A). 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 2021, 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 2021
- 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 updated the income percentage factors that were published in the *Federal Register* on June 02, 2020 (85 FR 33639). 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 2020 and December 2021.

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. The revised repayment amount

more accurately reflects the impact of inflation on the borrower's current ability to repay.

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

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Robin Minor,
*Acting Chief Operating
Officer, Federal Student Aid*.

Attachment 1 -- Income Percentage Factors for 2021

Income Percentage Factors for 2021			
Single		Married/Head of Household	
AGI	% Factor	AGI	% Factor
$12,596	55.00%	$12,596	50.52%
$17,332	57.79%	$19,875	56.68%
$22,302	60.57%	$23,684	59.56%
$27,385	66.23%	$30,964	67.79%
$32,238	71.89%	$38,359	75.22%
$38,359	80.33%	$48,180	87.61%
$48,180	88.77%	$60,425	100.00%
$60,426	100.00%	$72,676	100.00%
$72,676	100.00%	$91,051	109.40%
$87,347	111.80%	$121,666	125.00%
$111,844	123.50%	$164,531	140.60%
$158,410	141.20%	$230,104	150.00%
$181,631	150.00%	$376,006	200.00%
$323,516	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 amounts would be under the ICR plan. The calculator is called the "Loan Simulator" and is available at studentaid.gov/loan-simulator. Based on information entered into the calculator by the borrower (for example, income, family size, and tax filing status), 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 2021 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 2021 were published in the *Federal
Register* on February 1, 2021 (86 FR 7732).

- All of the examples use an income percentage factor
corresponding to an adjusted gross income (AGI) in the
table in Attachment 1. If an AGI is not listed in the
income percentage factors table in Attachment 1, the
applicable income percentage can be calculated 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 Briana, has a total outstanding Direct Loan debt of $60,000, of which $40,000 belongs to John and $20,000 to Briana, we would apportion 67 percent of the monthly ICR payment to John and the remaining 33 percent to Briana. 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 loan entered repayment;

- 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 expressed 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 expressed 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 1 by the result from Step 2.

- 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. In each of the examples, the Direct Loan amounts represent the outstanding principal balance at the time the loans entered repayment.

Example 1. Kesha is single with no dependents and has $15,000 in Direct Subsidized and Unsubsidized Loans. The interest rate on Kesha's loans is 6 percent, and she has an AGI of $32,238.

Step 1: Determine the total monthly payment amount based on what Kesha 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 Kesha's AGI. In this example, an AGI of $32,238 corresponds to an income percentage factor of 71.89 percent.

- 0.7189 × $146.38 = $105.23

Step 3: Now, determine the monthly payment amount equal to 20 percent of Kesha's 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 HHS Poverty Guideline amount for a family of one from Kesha's AGI, multiply the result by 20 percent, and then divide by 12:

- $32,238 - $12,880 = $19,358

- $19,358 × 0.20 = $3,871.60

- $3,871.60 ÷ 12 = $322.63

Step 4: Compare the amount from Step 2 with the amount from Step 3. In this example, Kesha would pay the amount calculated under Step 2 ($105.23), since this is the lesser of the two payment amounts.

Note: Kesha would have a lower payment under other income-driven repayment plans. Specifically, Kesha's payment would be $107.65 under the PAYE and REPAYE plans. However, Kesha's payment would be $161.48 under the IBR plan, which is higher than the payment she would have under the ICR plan.

Example 2. Paul is married to Jesse and they have no dependents. They file their Federal income tax return jointly. Paul has a Direct Loan balance of $10,000, and Jesse has a Direct Loan balance of $15,000. Each of their Direct Loans has an interest rate of 6 percent.

Paul and Jesse have a combined AGI of $91,051 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 Paul's and Jesse'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 Paul and Jesse 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, their 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 Paul and Jesse's combined AGI. In this example, the combined AGI of $91,051 corresponds to an income percentage factor of 109.40 percent.

- 1.094 × $243.96 = $266.90

Step 4: Now, determine the monthly payment amount equal to 20 percent of Paul and Jesse'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 then divide by 12:

- $91,051 - $17,420 = $73,631

- $73,631 × 0.20 = $14,726.20

- $14,726.20 ÷ 12 = $1,227.18

Step 5: Compare the amount from Step 3 with the amount from Step 4. Paul and Jesse would jointly pay the amount calculated under Step 3 ($266.90), since this is the lesser of the two amounts.

Note: For Paul and Jesse, the ICR plan provides the lowest monthly payment of any income-driven repayment plan available. Paul and Jesse would not be eligible for the IBR or PAYE plans, and they would have a combined monthly payment under the REPAYE plan of $541.01.

Step 6: Because Paul and Jesse are jointly repaying their Direct Loans under the ICR plan, the monthly payment amount calculated under Step 5 applies to Paul's and Jesse's combined 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. Paul has a Direct Loan debt of $10,000 and Jesse has a Direct Loan debt of $15,000. For Paul, the monthly payment amount will be:

- $10,000 ÷ ($10,000 + $15,000) = 40 percent

- 0.40 × $266.90 = $106.76

For Jesse, the monthly payment amount will be:

- $15,000 ÷ ($10,000 + $15,000) = 60 percent

- 0.60 × $266.90 = $160.14

Example 3. Santiago is single with no dependents and has a combined balance of $60,000 in Direct Subsidized and Unsubsidized Loans. Each of Santiago's loans has an interest rate of 6 percent, and Santiago's AGI is $38,359.

Step 1: Determine the total monthly payment amount based on what Santiago 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 Santiago's AGI. In this example, an AGI of $38,359 corresponds to an income percentage factor of 80.33 percent.

- $0.8033 \times \$585.51 = \$470.34$

Step 3: Now, determine the monthly payment amount equal to 20 percent of Santiago's 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 HHS Poverty Guideline amount for a family of one from Santiago's AGI, multiply the result by 20 percent, and then divide by 12:

- $\$38,359 - \$12,880 = \$25,479$

- $\$25,479 \times 0.20 = \$5,095.80$

- $\$5,095.80 \div 12 = \$424.65$

Step 4: Compare the amount from Step 2 with the amount from Step 3. In this example, Santiago would pay the amount calculated under Step 3 ($424.65), since this is the lesser of the two amounts.

Note: Santiago would have a lower payment under each of the other income-driven plans. Specifically, Santiago's payment would be $158.66 under the PAYE and REPAYE plans and $237.99 under the IBR plan.

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

Step 1: Find the closest AGI listed that is less than Jocelyn's AGI of $50,000 ($48,180) and the closest AGI listed that is greater than Jocelyn's AGI of $50,000 ($60,426).

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

- $60,426 - $48,180 = $12,246

Step 3: Determine the difference between the two income percentage factors that correspond to the AGIs 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 Jocelyn's AGI the closest AGI shown on the chart that is less than Jocelyn's AGI of $50,000:

- $50,000 - $48,180 = $1,820

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

- $1,820 ÷ $12,246 = 14.86 percent

Step 6: Multiply the result of Step 5 by the income percentage factor interval that was calculated in Step 3:

- 11.23 percent × 14.86 percent = 1.67 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 an AGI of $50,000:

- 1.67 percent + 88.77 percent = 90.44 percent

(rounded to the nearest hundredth)

The result is the income percentage factor that we will use to calculate Jocelyn'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 AGIs under each of the income-driven repayment plans and the 10-Year Standard Repayment Plan. 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

calculations in Attachment 3 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 and that the borrower's spouse does not

have Federal student loans. A field with a "-" character

indicates that the borrower in the example would not be

eligible to enter the applicable income-driven repayment

plan based on the borrower's AGI, loan debt, and family

size.

Sample First-Year Monthly Repayment Amounts for a Single Borrower							
Family Size = 1							
	AGI	Plan	$20,000	$40,000	$60,000	$80,000	$100,000
Initial Debt	$20,000	ICR	$116	$160	$195	$207	$230
		IBR	$9	–	–	–	–
		PAYE	$6	$172	–	–	–
		REPAYE	$6	$172	$339	$506	$672
		10-Year Standard	$222	$222	$222	$222	$222
	$40,000	ICR	$119	$319	$390	$413	$460
		IBR	$9	$259	–	–	–
		PAYE	$6	$172	$339	–	–
		REPAYE	$6	$172	$339	$506	$672
		10-Year Standard	$444	$444	$444	$444	$444
	$60,000	ICR	$119	$452	$586	$620	$690
		IBR	$9	$259	$509	–	–
		PAYE	$6	$172	$339	$506	–
		REPAYE	$6	$172	$339	$506	$672
		10-Year Standard	$666	$666	$666	$666	$666
	$80,000	ICR	$119	$452	$781	$827	$920
		IBR	$9	$259	$509	$759	–
		PAYE	$6	$172	$339	$506	$672

		$20,000	$40,000	$60,000	$80,000	$100,000
	REPAYE	$6	$172	$339	$506	$672
	10-Year Standard	$888	$888	$888	$888	$888
$100,000	ICR	$119	$452	$785	$1,033	$1,150
	IBR	$9	$259	$509	$759	$1,009
	PAYE	$6	$172	$339	$506	$672
	REPAYE	$6	$172	$339	$506	$672
	10-Year Standard	$1,110	$1,110	$1,110	$1,110	$1,110

Sample First-Year Monthly Repayment Amounts for a Married or Head-of-Household Borrower						
Family Size = 3						
	AGI	Plan	$20,000	$40,000	$60,000	$80,000	$100,000

	AGI	Plan	$20,000	$40,000	$60,000	$80,000	$100,000
Initial Debt	$20,000	ICR	$0	$151	$195	$202	$222
		IBR	$0	$88	–	–	–
		PAYE	$0	$59	–	–	–
		REPAYE	$0	$59	$226	$392	$559
		10-Year Standard	$222	$222	$222	$222	$222
	$40,000	ICR	$0	$301	$390	$405	$445
		IBR	$0	$88	$338	–	–
		PAYE	$0	$62	$226	$392	–
		REPAYE	$0	$62	$226	$392	$559
		10-Year Standard	$444	$444	$444	$444	$444
	$60,000	ICR	$0	$301	$586	$607	$667
		IBR	$0	$88	$338	$588	–
		PAYE	$0	$59	$226	$392	$559
		REPAYE	$0	$59	$226	$392	$559
		10-Year Standard	$666	$666	$666	$666	$666
	$80,000	ICR	$0	$301	$634	$810	$890
		IBR	$0	$88	$338	$588	$838
		PAYE	$0	$59	$226	$392	$559
		REPAYE	$0	$59	$226	$392	$559
		10-Year Standard	$888	$888	$888	$888	$888
	$100,000	ICR	$0	$301	$634	$967	$1,112
		IBR	$0	$88	$338	$588	$38
		PAYE	$0	$59	$226	$392	$559
		REPAYE	$0	$59	$226	$392	$559
		10-Year Standard	$1,110	$1,110	$1,110	$1,110	$1,110

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