

By CANDICE CHOI, AP Personal Finance Writer – 52 mins ago

NEW YORK – Repaying a student loan could soon be a little less painful.

Starting this week, anyone with a federal student loan can apply for a program, run by the Department of Education, that caps monthly payments based on income, and forgives remaining balances after 25 years. Those choosing to work in public service could have their loans forgiven after just 10 years.

Eligibility for income-based repayment (IBR) is determined by a person's income and loan size. A calculator at <http://www.ibrinfo.org> can help borrowers determine their eligibility for the plan, which becomes available Wednesday.

"It's a way to borrow for college without going to the poor house," said Lauren Asher, president of the Institute for College Access & Success, a California-based nonprofit that runs the Project on Student Debt.

The program stems from the Education Department's College Cost Reduction and Access Act, signed in 2007, which authorized the creation of a new income-based repayment plan for both Federal Family Education Loan (FFEL) and Direct Loan borrowers on all Stafford and graduate PLUS loans.

Monthly payments would amount to less than 10 percent of income for most of the estimated 1 million people expected to enroll, experts say. Payments would never exceed 15 percent of any income above about \$16,000 a year (or 150 percent of the poverty level).

Those who earn less than \$16,000 would not have to make any monthly payments.

The new payment option is intended to provide relief for those who earn modest salaries and struggle under the weight of student loans for years on end. By stretching repayment over a longer period, monthly payments are kept at a reasonable portion of income, though most people would not see any savings on the total cost of the loan.

IBR "can lower costs and provides light at the end of the tunnel" for such borrowers, said Asher of the Institute for College Access & Success. That gives borrowers greater financial flexibility to save for retirement, buy a home or even pay for their own children's education, she said.

The program isn't for everyone, however.

In some cases, accruing interest could push the cost of the loan higher. And since loans are likely to be paid off within 25 years, the loan forgiveness aspect of the program won't apply to most people. To save on interest costs, those who could afford to would be better served paying off loans faster, said Mark Kantrowitz, publisher of FinAid.org, which tracks the college financial aid industry.

If a salary jump eventually disqualifies a borrower for the capped monthly payments, they would still be responsible for the cost of the loan and the interest that accrued up to that point. Monthly payments still couldn't exceed what they would be under a standard 10-year repayment plan. Of course, borrowers could opt to pay off debts faster if they chose.

There are already some options for those who can't afford big monthly payments, such as long-term payment plans spanning up to 30 years. But eligibility requirements are stricter, and monthly payments can still be high.

The government also offers a program similar to IBR called the income-contingent repayment plan. That plan is not as lenient as the new one, however, with payments capped at 20 percent of income beyond 100 percent of the poverty level. And it's also only available for direct federal loans.

The new program will be available for direct federal loans, as well as federal loans administered through private lenders. Most of those enrolled in the income-contingent plan are expected to switch over to the new program.

Parent PLUS loans, the federal loans parents can take out to pay for their children's education, are not eligible for either payment plan.