

How The College Cost Reduction and Access Act of 2007 Public Service Loan Forgiveness Program Can Help Attorneys Working in Public Service

- **Income-Based (IBR) Repayment and Pay-As-You-Earn Repayment** for low to mid-salary attorneys employed in public service
- **Federal Loan Forgiveness** after 10 years (and 120 student loan payments) for attorneys employed full-time in public service

THE PROBLEM

A lower-income attorney with \$120,000 in debt at 7.3%, in 10-year Standard Repayment

\$58,000 salary

\$43,700 after taxes

\$19,416 in student loan payments per year

This leaves the borrower with only \$24,284 annual income.

from the office of

Senator Edward M. Kennedy

of Massachusetts



- **THE SOLUTION**
- CCRAA became law on October 1, 2007
- CCRAA provides for the cancellation of the remaining balance due on eligible federal student loans after the borrower has made 120 monthly payments on those loans under certain plans while employed in certain public service fields.



THE SPECIFICS OF FEDERAL LOAN FORGIVENESS

- Only non-defaulted student loans made under the William D. Ford Federal Direct Loan Program are eligible for loan forgiveness.
- Borrowers with student loans made under other the *Federal Family Educational Loan Program* (federal student loans from banks) must consolidate their loans with a Direct Consolidation Loan.
- Student loan payments made prior to October 1, 2007 are not eligible to count toward loan forgiveness.
- The first cancellations of loan balances will be granted in October 2017.

Eligible Public Service Jobs

- Emergency management
- Government
- Military service
- Public safety
- Law enforcement
- Public health
- Public education (including early childhood education)
- Social work in a public child or family service agency
- Public child care
- Public and school-based library sciences
- Other school-based services
- Public service for individuals with disabilities
- Public interest law services, including prosecution or public defense or legal advocacy in low-income communities at a non-profit organization - 501(c)3
- Public service for the elderly
- Certain tax-exempt organizations
- Faculty teaching in high-need areas as determined by the Secretary
- Full-time faculty member at a University or Tribal College

MORE DETAILS ON LOAN FORGIVENESS

- The borrower must be employed full-time, or be employed in two part-time positions that equal full-time hours.
- Temporary employees are not eligible. Independent consultants are not eligible.
- Breaks in service are allowed, but forgiveness will not be earned until 10 years (making 120 loan payments) have been served in public service employment.
- Qualifying debt: Direct Loans, Direct Consolidation Loans, Federal Perkins Loans (note: Perkins has its own loan forgiveness program for certain legal positions).
- Private Loan are not eligible for loan forgiveness.
- Qualifying jobs: All government employees (city, state, and federal) and employees of not-for-profit 501(c)(3) organizations.
- Eligibility extends to numerous professions, including attorneys.

Eligible Loan Repayment Options

Types of Payments That Count Toward Forgiveness

- Income Based Repayment Plan (IBR)
- Pay-As-You-Earn Repayment Plan
- Income Contingent Plan (ICR)
- Standard Repayment with a 10-year repayment period.

<http://studentaid.ed.gov/repay-loans/understand/plans/>

Note: Borrowers who transition into in Standard Repayment because of income increases are still eligible for loan forgiveness even though they are no longer in IBR.

Income Based Repayment (IBR)

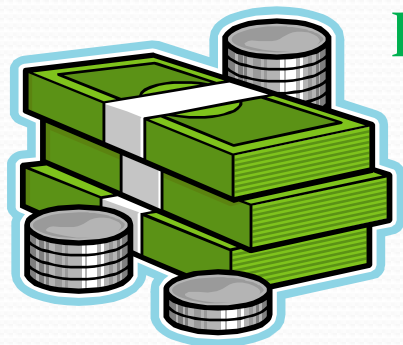
Section 203 of the CCRAA

- Available to all low to mid-income borrowers as of July 1, 2009. It is not limited to those who work in public service.
- Repayment is based on 15% of discretionary income (AGI minus 150% of poverty level for the borrower's family size) *regardless of debt size*, until debt is paid.
- If IBR payments don't cover all the interest on the subsidized loans, or the subsidized portion of the consolidation loan, the government will pay the interest for the first three years of repayment.
- Any remaining balance is forgiven after 25 years if the borrower is not employed in the public service for 10 years.

Pay-As-You-Earn Repayment

- Available to all low to mid-income borrowers as of Dec. 21, 2012. It is not limited to those who work in public service.
- Eligible borrowers are those with partial financial hardship.
- Eligible borrowers are those who are new borrowers as of Oct. 1, 2007
- Eligible borrowers must have had at least one loan disbursement on or after October 1, 2011
- Repayment is based on 10% of discretionary income *regardless of debt size*, until debt is paid.
- If the payments don't cover all the interest on the subsidized loans, or the subsidized portion of the consolidation loan, the government will pay the interest for the first three years of repayment.
- Any remaining balance is forgiven after 20 years if the borrower is not employed in the public service for 10 years.

EXAMPLE OF INCOME-BASED REPAYMENT



Joe borrowed **\$120,000** in federal loans at 7.3%.
By the time he goes into repayment, he will
owe **\$137,520**

Joe's AGI is **\$58,000**

Standard Repayment: **\$1,618** per month

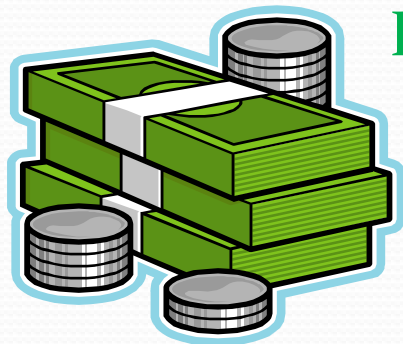
With IBR:

(year one) **\$516** per month

(year ten) **\$673** per month

(assuming the borrower receives raises of 3% per year)

EXAMPLE OF PAY-AS-YOU-EARN REPAYMENT



Joe borrowed **\$120,000** in federal loans at 7.3%.
By the time he goes into repayment, he will
owe **\$137,520**

Joe's AGI is **\$58,000**

Standard Repayment: **\$1,618** per month

With Pay-As-You-Earn:

(year one) **\$344** per month

(year ten) **\$448** per month

(assuming the borrower receives raises of 3% per year)

Public Service Loan Forgiveness Profile

Borrowed \$120,000, Debt of \$137,520 at Repayment

Starting AGI	Annual salary increases	Monthly payments, year 1 IBR	Monthly payments, year 10 IBR	120 Payments IBR	Total Amount Forgiven IBR
\$58,000	3%	\$516	\$673	\$70,924	\$166,985
\$65,000	3%	\$603	\$786	\$82,961	\$154,906
Starting AGI	Annual salary increases	Monthly payments, year 1 PE	Monthly payments, year 10 PE	120 Payments PE	Total Amount Forgiven PE
\$58,000	3%	\$344	\$448	\$47,283	\$190,626
\$65,000	3%	\$402	\$525	\$55,307	\$182,135

Example: Public Service Forgiveness



Jane borrowed \$150,000 in student loans while in law school.

- Jane owes \$171,900 at repayment
- She makes: \$58,000 (with a 3% annual increase)
- Her 1st year monthly IBR payment: \$516
- Her 10th year monthly IBR payment: \$673
- Total repayment in 10 years: \$70,924
- Federal Loan Forgiveness: \$217,868

If a Borrower Earns a Higher Salary and is No Longer Eligible for IBR

- When the IBR payment equals or exceeds the standard payment plan, the borrower is no longer eligible for the IBR plan, and will make payments based on the standard repayment plan for the remainder of their 120 payments prior to loan forgiveness
- If a borrower leaves Public Service prior to receiving federal loan forgiveness, will have accrued significantly more in interest than he would have accrued on a standard repayment plan. The loan balance will be much higher than it would have been on standard repayment.

Effective Dates

- Direct Loan payments (Income-contingent or standard) made after October 1, 2007 count toward loan forgiveness.
- Direct Loan Income-Based (IBR) payments made July 1, 2009 and later count toward loan forgiveness.
- Direct Loan Pay-As-You-Earn payments made after December 21, 2012 count toward loan forgiveness
- FFELP loans and FFELP consolidation loans that are consolidated into a Federal Direct Consolidation Loan after July 1, 2009 count toward loan forgiveness.

Issues Now Resolved

- The IRS has determined that the total amount forgiven is **NOT** taxable income to the borrower at the end of the 10-year period. However, loan forgiveness is taxable for those on the 20-year or 25-year period (not working in public service).
- If the borrower is married, the spouse's adjusted gross income will not be included in determining the IBR amount, if the borrower files taxes separately.
- Under certain circumstances it may benefit a married couple to file jointly if each has significant student loan debt and comparable salaries. Such borrowers should contact their servicer for further information.

Action Checklist

- You will need your Federal PIN. If you can't remember your PIN, go to www.pin.ed.gov
- Look up your federal student loans in the National Student Loan Data System at www.nslds.ed.gov
- If all of your loans are Federal Direct Loans, you do not need to consolidate.
- You must consolidate or reconsolidate all FFEL loans into a Direct Consolidation Loan in order for those loans to be eligible for loan forgiveness at www.loanconsolidation.ed.gov
- Choose your repayment plan (IBR or Pay-As-You-Earn). *Extended and Graduated repayments are not eligible for loan forgiveness.*
- **FedLoan Servicing** is the official servicer for borrowers in the Public Service Loan Forgiveness Program <http://www.fedloanservicing.org>

Action Checklist 2

- On Studentaid.ed.gov refer to: [Instructions for Completing Employment Certification for Public Service Loan Forgiveness](#)
- Complete the [Employment Certification for Public Service Loan Forgiveness Form](#)
- Set up Direct Deposit on your student loan payment because late payments do not count toward your required 120 payments for loan forgiveness.
- Make qualifying payments each month for 10 years while working in public service full-time.
- Apply for loan forgiveness. The Department of Education will develop a form to fill out and will require supporting documents.
- Keep accurate, annual records to verify your employment and your eligibility for loan forgiveness. You are responsible to submit proof that you worked in eligible employment at the time you made your payments.

RESOURCES

Identify each of your loans: at www.nslds.ed.gov

For the best information on PSLF, IBR, Pay-As-You-Earn, and all loan repayment issues: www.studentaid.ed.gov

To calculate your repayment and forgiveness details: www.finaid.org/calculators/

To Consolidate FFELP loans into a Direct Consolidation Loan, or to consolidate all of your Direct Loans into the Direct Consolidation Loan:
www.loanconsolidation.ed.gov and www.studentloans.gov

Equal Justice Works IBR Info and Help: www.ibrinfo.org

Equal Justice Works Resources: www.equaljusticeworks.org

For a copy of his presentation email: nancy.zahzam@brooklaw.edu

OTHER RESOURCES

Calculate your repayment schedules:

www.finaid.org/calculators/ibr.phtml

Equal Justice Works IBR Info and Help:

www.ibrinfo.org

Equal Justice Works Resources:

www.equaljusticeworks.org

To consolidate your loans:

www.loanconsolidation.ed.gov

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