

The College Cost Reduction and Access Act of 2007

Income-Based Repayment and
Loan Forgiveness for Public Service Employment

The College Cost Reduction and Access Act of 2007 (CCRAA)

- President Bush signed the CCRAA into law on September 27, 2007 (P.L. #110-84).
- Negotiated rulemakers reached consensus on draft regulations on April 14, 2008.
- Final regulations will be issued by the Department of Education in November, 2008.

Key Provisions of the CCRAA

- Pell Grant Increases
- Interest Rate Reductions
- Deferment for Certain Members of the Armed Forces
- Income-Based Repayment
- Loan Forgiveness for Public Service Employment

How Does the CCRAA Help People With Educational Debt?

Significantly lowers monthly student loan payments by creating an **income-based repayment plan**.

Provides **loan forgiveness for public service employment** by canceling remaining debt after 10 years of income-based repayment.

Example: Typical Recent Graduate IBR with Loan Forgiveness for 10 Years in Public Service

- \$100,000 eligible debt - \$40,000 starting salary with 4% annual increases.
 - IBR monthly payment year 1: \$305
 - IBR monthly payments year 10: \$457
 - Total paid over 10 years: \$45,211
 - Total forgiven by federal government: **\$122,789**

Income-Based Repayment (IBR)

A new repayment plan in which annual payments are capped at 15% of the amount by which adjusted gross income (AGI) exceeds 150% of poverty.

Who is Eligible to Choose IBR?

- IBR is available to borrowers with a “Partial Financial Hardship”.
- Adjusted gross income (AGI): Taxable income from all sources minus specific deductions including the IRA deduction, student loan interest deduction, and alimony paid by the individual, but not standard or itemized deductions.
- A married borrower **who files a separate Federal income tax return** will have the amount of the borrower's income-based repayment calculated solely on the basis of the *borrower's* student loan debt and adjusted gross income, rather than on the combined income of the borrower and the spouse.

Who Has a Partial Financial Hardship?

AGI	Debt
\$30,000	\$15,951
\$35,000	\$21,382
\$40,000	\$26,813
\$45,000	\$32,244
\$50,000	\$37,675
\$55,000	\$43,106
\$60,000	\$48,537
\$65,000	\$53,968
\$70,000	\$59,399

AGI	Debt
\$75,000	\$64,830
\$80,000	\$70,261
\$85,000	\$75,692
\$90,000	\$81,123
\$95,000	\$86,554
\$100,000	\$91,985
\$105,000	\$97,416
\$110,000	\$102,847
\$115,000	\$108,278

Source: Jeffrey E. Hanson, PhD.
Director, Borrower Education Services
Access Group, Inc.

Income-Based Repayment (IBR)

- IBR becomes available on July 1, 2009.
- Borrowers entering repayment before the effective date may switch to IBR on or after July 1, 2009.
- The government is authorized to pay unpaid interest for three years, only for subsidized Stafford loans.
- The rest of the unpaid interest is capitalized.
- If a borrower chooses to leave IBR or no longer qualifies, his required payments will not exceed the amount he would have paid each month under a standard plan before he chose IBR.
- IBR has its own forgiveness provision after 25 years.

Sample IBR Calculation

Source: Jeffrey E. Hanson, PhD. Director, Borrower Education Services Access Group

Eligible federal loan debt	\$60,000	\$100,000	\$150,000	
Estimated monthly payment (Standard plan @ 6.8% over 10 years)	\$690	\$1,151	\$1,726	[1]
Annual amount due ([1] × 12)	\$8,280	\$13,812	\$20,712	[2]
Household size	1			
Household AGI	\$40,000			[3]
Poverty line for household size	\$10,400			[4]
150% of poverty line (1.5 × [4])	\$15,600			[5]
AGI – 150% of poverty line ([3] – [5])	\$24,400			[6]
15% of (AGI-150%) value (0.15 × [6])	\$3,660			[7]
Partial Fin. Hardship: YES or NO YES, if [7] is less than [2] NO, if [7] is equal to or greater than [2]	YES	YES	YES	
IBR monthly payment ([7] ÷ 12)	\$305	\$305	\$305	
Maximum AGI permitted in this example to qualify for IBR	\$70,800	\$107,680	\$153,680	

Loan Forgiveness for Public Service Employment

- The balance of principal and interest on eligible Federal Direct Loans is canceled by the federal government after:
 - 120 qualifying loan payments while working full-time in a qualifying public service position after October 1, 2007.

Qualifying Employment

What is Qualifying Public Service Employment?

- a **full-time job** in 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 interest law services (including prosecution or public defense or legal advocacy in low-income communities at a nonprofit organization), public child care, public service for individuals with disabilities, public service for the elderly, public library sciences, school-based library sciences and other school-based services, or at **an organization that is described in section 501(c)(3) of the IRS Code** and exempt from taxation, or teaching as a full-time faculty member at a Tribal College or University and other faculty teaching in high-needs areas, as determined by the Secretary

Draft Regulation Definition of “Full-Time”

- The current draft of the regulations defines **full-time** as:
 - employment in one or more jobs for an annual average of at least 30 hours per week, not including vacation or leave time provided by the employer, or the number of hours the employer considers full-time, whichever is greater.

Qualifying Employment: 501(c)(3) – Government - AmeriCorps and

- Employment in a “public service organization” that provides specific listed services including “public interest law services” and is:
 - funded in whole or in part by a local, State, Federal, or Tribal government.”); **and**
 - is not "a business organized for profit, a labor union, a partisan political organization, or an organization engaged in religious activities, unless the qualifying activities are unrelated to religious instruction, worship services, or any form of proselytizing;"

Eligible Loans

FFEL and Federal Direct Loans

Students borrow:

- Stafford Loans, subsidized and unsubsidized
- GradPlus Loans
- Federal Consolidation Loans

From either of the two major federal student loan programs:

- Federal Family Education Loans (FFEL)
- Federal Direct Loans

Loan Forgiveness for Public Service Employment for Federal Direct Loans ONLY

- Only Federal Direct loans are eligible for forgiveness.
- Borrowers with other FFEL Loans can consolidate with Direct Loans in order to obtain this benefit.
- <http://loanconsolidation.ed.gov/borrower/bapply.shtml>

Commercial and Alternative Student Loans Are NOT Eligible

- Loans made by a state or private lender that are not FFEL Loans are not eligible for Income-Based Repayment or Loan Forgiveness for Public Service Employment.

Parent PLUS Loans are Excluded

- Parent PLUS loans are not eligible for Income-Based Repayment or Loan Forgiveness for Public Service.
- Beware of including Parent PLUS loans in a Federal Consolidation Loan.

Perkins Loans are Special

- Federal Perkins Loans are only eligible when part of a Federal Consolidation Loan, and borrowers are urged to seek advice about the pros and cons regarding consolidating Perkins loans.

How Do People Find Out What Kinds of Loans They Have?

- National Student Loan Data System:
<http://www.nslds.ed.gov/>
- Federal Student Aid Information Center:
1-800-4-FED-AID
- AnnualCreditReport.com

Qualifying Payments

What is a Qualifying Loan Payment?

- A person must be working **full-time** in an eligible public service position AND making monthly loan payments for 120 months on eligible Federal Direct Loans as part of:
 - Income Contingent Repayment (ICR) plan, or
 - Income Based Repayment (IBR) plan, or
 - Standard Repayment plan based on a 10-year repayment schedule, or
 - Repayment plan where the monthly amount paid was not less than the monthly amount required under Standard Repayment over a 10-year repayment period.

What is NOT a Qualifying Loan Payment?

- These payments do NOT count toward the 120-month requirement:
 - Payments made under an Extended Repayment plan
 - Payments made while not working in full-time qualifying public service employment
 - Payments made on non-qualifying loans (e.g., FFEL loans, commercial loans, Parent PLUS loans)

Other Key Public Service Forgiveness Provisions

- Qualifying payments do NOT have to be consecutive
- You must still be in qualifying public service position when you request forgiveness
- Loan payments made before October 1, 2007 do NOT count toward the 10 years

Real World Examples

Example: Hypothetical 2009 Graduate *IBR with Loan Forgiveness for 10 Years in Public Service*

- \$100,000 eligible debt - \$40,000 starting salary with 4% annual increases.
 - IBR monthly payment year 1: \$305
 - IBR monthly payments year 10: \$457
 - Total paid over 10 years: \$45,211
 - Total forgiven by federal government: **\$122,789**

Example: Hypothetical 2003 Graduate **IBR with Loan Forgiveness for 10 More Years in Public Service**

- \$65,000 starting eligible debt. Paid \$455 fixed monthly payments for first 5 years.
- Has paid \$27,277 principle and interest so far, has \$59,556 remaining eligible debt.
- \$48,666 estimated current salary (\$40,000 with 4% annual increases).
 - IBR monthly payment year 1: \$413
 - IBR monthly payments year 10: \$611
 - Total paid over next 10 years: \$60,818
 - Total forgiven by federal government: \$32,646

Example: Hypothetical 1998 Graduate

- \$65,000 starting eligible debt. Paid \$455 fixed monthly payments for first 10 years
- Has paid \$54,554 principle and interest so far, has \$51,049 remaining eligible debt
- \$69,266 estimated current salary (\$40,000 with 4% annual increases)
- Ineligible for IBR. Will make \$455 monthly payments for 15 more years – no loan forgiveness

Other Key Public Service Forgiveness Provisions

- Qualifying payments do NOT have to be consecutive.
- You must still be in qualifying public service position when you request forgiveness.
- Loan payments made before October 1, 2007 do NOT count toward the 10 years.

Tax Consequences

- The amount cancelled may or may not be taxable income.
- Advocates are working to establish whether current law exempts public service loan forgiveness from taxation.

Pending Legislation

- The John R. Justice Prosecutor and Defender Incentive Program
 - \$10,000 per year, up to a maximum amount of \$60,000
 - three year service commitment
- Legal aid lawyer's program
 - \$6,000 per year, up to a maximum of \$40,000
 - three year service commitment
- Higher Education Act bills need to be reconciled, current HEA extension expires April 30, 2008.

More Information

- These slides and more from Heather at: EqualJusticeWorks.org
- Schrag, Philip G., "Federal Student Loan Repayment Assistance for Public Interest Lawyers and other Employees of Governments and Nonprofit Organizations". *Hofstra Law Review*, Vol. 36, Fall 2007.
- Calculators available at: Finaid.Org/calculators
- IBRinfo.org

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