

# ***THE FEDERAL STUDENT LOAN FORGIVENESS LAW***

The College Cost Reduction and Access Act  
of 2007



# *The College Cost Reduction and Access Act of 2007 (P.L. #110-84)*

- Congress created important new borrower rights.
- Congress substantially cut lender and guaranty agency subsidies.



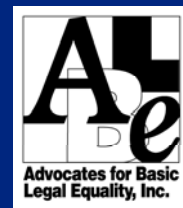
# *Key Provisions*

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



# *How Does the CCRAA Help Public Service Lawyers?*

- Significantly lowers monthly student loan payments by creating an **income-based repayment plan (IBR)**.
- Provides **loan forgiveness for public service employees** by canceling remaining debt after 10 years of income-based repayment.



# *Example*

- Jane Justice started out owing \$100,000 in qualifying debt at 6.8% interest and took a full-time public service job paying \$40,000 to start with annual increases of 5%.
- Jane stayed in public service and paid \$49,132 over 10 years under the IBR plan.
- **The federal government cancels \$118,868, the principal and interest remaining.**

*\*Calculations based on 2007 Federal Poverty Guidelines*



# *Life Before the CCRAA...*

- In 1993, Congress created the “income-contingent repayment option” for student loans
  - Federally-guaranteed and federally-extended loans
  - Borrower elects to repay over period of 25 years
  - Repayment limited to 20% of discretionary income
  - Balance of debt forgiven after 25 years of income-contingent repayments
  - Still available now



# ***CCRAA: Income Based Repayment (IBR)***

- Modeled on Contingent-Based Repayment Option
- Purpose: help high-debt/low-income borrowers afford repayment of student loans
- Congress created a method for borrowers to limit annual educational debt repayment to a reasonable, affordable amount: 15% of discretionary income
- Will go into effect on **July 1, 2009**



# *Income-Contingent Repayment v. IBR*

- IBR monthly payments lower than Income-Contingent monthly payments
- Interest:
  - Income-Contingent: caps compounding of interest when principal balance reaches 110% of original
  - IBR: Government pays unpaid interest on subsidized loans for up to 3 years after electing IBR
- Under IBR, when borrower's interest rises so high that borrower pays at standard repayment rate, unpaid interest is capitalized

# *IBR Requirements*

- Eligible student loan
- Eligible borrower

# *Which Student Loans are Eligible for IBR?*

- All federal direct loans and federally guaranteed loans are eligible including:
  - Subsidized Federal Stafford Loans
  - Unsubsidized Federal Stafford Loans
  - Federal Grad PLUS loans (but not Parent PLUS loans)
  - Federal Direct Consolidation Loans

# *Which Student Loans are Not Eligible for IBR?*

- Loans made by a state or private lender and not guaranteed by the federal government are never eligible.
- Parent PLUS loans are not eligible.
- Perkins loans are only eligible when part of a Federal Direct Consolidation loan
  - borrowers are urged to seek advice about the pros and cons regarding consolidating Perkins loans (b/c cancellation provisions).



# *How Do I Know if I Have an Eligible Loan?*

- Log on to the National Student Loan Data System (NSLDS) at [www.nslds.gov](http://www.nslds.gov)
  - You will need your Federal Student Aid Personal Identification Number (PIN)
  - If you do not currently have a PIN, you may request one at [www.PIN.ed.gov](http://www.PIN.ed.gov)
- NSLDS will clearly indicate whether you have a Federal Direct Loan



# ***IBR Requirements: Eligible Borrower***

- To be eligible for IBR, a borrower must demonstrate a Partial Financial Hardship:
  - A borrower's annual student loan payments under a ten year standard repayment plan are greater than 15% of the amount by which the borrower's adjusted gross income (and that of a spouse if applicable) exceeds 150% of poverty.

PFH if: annual amount due > (AGI – 150% pov) x .15



# *How Do I Know If I Have a “Partial Financial Hardship”?*

- 1) Look up the current federal poverty level and calculate 150% of poverty. (a)
- 2) Know or estimate the amount of student debt and calculate the annual student debt payment under the standard repayment plan for that amount of student debt. (b)
- 3) Know or estimate AGI. (c)
- 4) Subtract 150% of poverty (a) from AGI (c) to calculate the “amount by which AGI exceeds 150% of poverty” (d).  
 $c - a = d$
- 5) Calculate 15% of the amount by which AGI exceeds 150% of poverty (d).  $(.15)d = e$
- 6) If  $b > e$ , you have a “Partial Financial Hardship”.



# How To Determine Whether You Have a “Partial Financial Hardship”

2008 Poverty Guidelines  
for the 48 Contiguous States and the District of Columbia

Persons in Family	Poverty Guideline
1.....	\$10,400
2.....	14,000
3.....	17,600
4.....	21,200
5.....	24,800
6.....	28,400
7.....	32,000
8.....	35,600

For families with more than 8 persons,  
add \$3,600 for each additional person.



# *But, I'm a lawyer! Lawyers don't do math!*

- Start with your law school financial aid office
- Equal Justice Works resource library:  
[www.equaljusticeworks.org](http://www.equaljusticeworks.org)
- Finaid.org has debt payment calculators:  
<http://www.finaid.org/calculators>
- Salary data is available through NALP:  
[www.nalp.org](http://www.nalp.org)



# *What is 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.

# Calculating Partial Financial Hardship

1) Current federal poverty level:  
\$10,210. 150% of that amount is  
\$15,315.

$$a = \$15,315$$

2) Estimated student debt: \$30,000.  
Annual student debt payment  
under the standard repayment  
plan for \$30,000 is \$4,800.

$$b = \$4,800$$

3) Estimated AGI \$45,000.

$$c = \$45,000$$

4) Subtract 150% of poverty (a) from  
AGI (c) to calculate the “amount  
by which AGI exceeds 150% of  
poverty” (d).

$$c - a = d$$

$$\$45,000 - \$15,315 = \$29,685$$

5) Calculate 15% of the amount by  
which AGI exceeds 150% of  
poverty (d).

$$(.15)d = e$$

$$(.15)(\$29,685) = \$4,452.75$$

6) If  $b > e$ , you have a “Partial  
Financial Hardship”.

$$\$4,800 > \$4,452.75$$

**Partial Financial Hardship**



# Calculating Monthly Payments

- Annual IBR payment is capped at “15% of the amount by which AGI exceeds 150% of poverty”.

$$\text{Annual IBR} = (\text{AGI} - 150\% \text{ poverty}) \times .15$$

- To calculate monthly student loan payments:  
divide by 12
- In our example with estimated student debt of \$30,000 and estimated AGI of \$45,000, the annual IBR payment is \$4,452.75.
- $\$4,452.75 / 12 = \$371$



# *Another Example*

Jane Justice owes \$100,000 in qualifying debt at 6.8% interest and takes a job paying \$40,000 to start.

She elects the income-based repayment (IBR) plan. In her first year, **Jane's monthly payments under IBR are \$309 (as opposed to \$1151 under standard ten-year repayment).**

As Jane gets annual salary increases of 5%, her monthly payments under IBR gradually rise, until in year 10 her monthly payments are \$526.

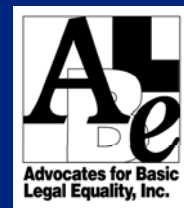


# *What happens if the monthly payment does not cover interest?*

- The government will pay unpaid interest on subsidized Stafford loans for three years
- The rest of the interest is capitalized.
- The borrower's standard ten year payments are calculated on the balance due prior to capitalization.

# *When a Borrower Leaves IBR*

- If a borrower chooses to leave IBR or no longer qualifies, his payments at that point must not exceed the amount he would have paid each month under a standard plan before he chose IBR.



# *Public Service Forgiveness*

- The federal government will forgive the unpaid loan balance of interest and principal
- Requirements:
  - eligible loan
  - eligible loan payments
  - eligible employment
  - eligible employment at time of forgiveness



# *Public Service Forgiveness: Eligible Loans*

- Federal Direct Loan
- If Stafford loan or Grad PLUS loan, must consolidate into “Federal Direct Consolidation Loan”
- Must be eligible to consolidate



# *Public Service Forgiveness: Eligible Loan Payments*

- 120 Loan Payments
- One or more:
  - IBR payments
  - Payments under 10-year standard repayment plan
  - Payments under standard repayment plan not less than 10-year plan monthly amount
  - Income-contingent payments
- 120 payments v. 10 years
  - 10 continuous years of public service NOT required
- Only eligible payments made after October 1, 2007 can count towards requirement



# ***Public Service Forgiveness: Eligible Employment***

- Payments must be made while employed in full-time public service
- “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 Internal Revenue Code of 1986 and exempt from taxation under section 501(a) of such Code**; or teaching as a full-time faculty member at a Tribal College or University as defined in section 316(b) and other faculty teaching in high-needs areas, as determined by the Secretary”



# *Tax Consequences*

- The amount cancelled will be taxable income in the year of forgiveness
- Advocates are working to establish whether current law exempts public service loan forgiveness from taxation

# *Putting It All Together...*

- Elect IBR and perform 10 years of public service: substantial savings
- Elect IBR but do not perform 10 years public service: remaining debt forgiven after 25 years (like income-contingent option)
  - Periods of deferment count; forbearance does not



# IBR Examples Without Public Service Employment

Examples WITHOUT Public Service \$100,000 debt @ 6.8% Standard repayment would be \$1,151/month for 10 years						
Starting Income (AGI)	Annual Increases	Monthly Payments Year 1	Monthly Payments Year 10	Monthly Payments Year 25	Total Amount Paid	Amount Forgiven by Federal Government after 25 Years Service
\$35,000	3%	\$246	\$321	\$500	\$107,655	\$162,345
\$40,000	3%	\$309	\$403	\$627	\$135,000	\$134,858
\$40,000	4%	\$309	\$462	\$893	\$166,119	\$97,975
\$40,000	5%	\$309	\$526	\$1,151	\$201,650	\$48,672
\$50,000	3%	\$434	\$566	\$881	\$189,688	\$68,012
\$50,000	4%	\$434	\$640	\$1,151	\$227,701	\$7,951

Source: Schrag, Philip, *Federal Student Loan Repayment Assistance for Public Interest Lawyers and Other Employees of Governments and Nonprofit Organizations*, 36 Hofstra L. Rev. 27 (Fall, 2007)  
[http://www.law.georgetown.edu/news/releases/documents/Forgiveness\\_000.pdf](http://www.law.georgetown.edu/news/releases/documents/Forgiveness_000.pdf)



# *Should I Choose IBR if I Do Not Expect to Receive Accelerated Forgiveness?*

- Do the math based on your situation
- Might be beneficial for high-debt, low-income borrowers:
  - Long-term low income expected:
    - May ease repayment burden
    - But total payments will increase
    - Forgiveness after 25 years
  - Expect income to rise substantially over time:
    - May ease repayment burden temporarily
    - But total repayment will increase
    - Likely repay before 25 years, no forgiveness



# IBR Examples Including Accelerated Public Service Employment Forgiveness

Examples WITH Public Service \$100,000 debt @ 6.8% Standard repayment would be \$1,151/month for 10 years						
Starting Income (AGI)	Annual Increases	Monthly Payments Year 1	Monthly Payments Year 10	Total Amount Paid During 10 Years	For Purposes of Comparison, Total Paid w/o Public Service over 25 Years	Amount Forgiven by Federal Government after 10 Years
\$35,000	3%	\$246	\$321	\$33,850	\$107,655	\$134,150
\$40,000	3%	\$309	\$403	\$42,448	\$135,000	\$125,552
\$40,000	4%	\$309	\$462	\$45,701	\$166,119	\$122,299
\$40,000	5%	\$309	\$526	\$49,132	\$201,650	\$118,868
\$50,000	3%	\$434	\$566	\$59,644	\$189,688	\$108,356
\$50,000	4%	\$434	\$640	\$63,710	\$227,701	\$104,160
\$55,000	4%	\$486	\$729	\$72,715	\$213,228	\$56,019

Source: Schrag, Philip, *Federal Student Loan Repayment Assistance for Public Interest Lawyers and Other Employees of Governments and Nonprofit Organizations*, 36 Hofstra L. Rev. 27 (Fall, 2007)

[http://www.law.georgetown.edu/news/releases/documents/Forqiveness\\_000.pdf](http://www.law.georgetown.edu/news/releases/documents/Forqiveness_000.pdf)



# *What Steps Should I Take?*

It depends...

- Borrowers who graduated and entered loan repayment before October 1, 2007
- Borrowers who graduate after October 1, 2007 but before July 1, 2008
- Borrowers who graduate after July 1, 2008 and before July 1, 2009
- Borrowers who graduate after July 1, 2009



# ***Borrowers Who Graduated and Entered Loan Repayment Before October 1, 2007***

- Federal Direct Loans
  - Immediately elect ICR, switch to IBR on 7/1/09
  - ICR payments after 10/1/07 count toward forgiveness
- Government-Guaranteed Loans
  - Elect ICR by consolidating into federal direct consolidation loan, switch to IBR on 7/1/09
  - Consolidation restrictions apply



# ***Borrowers Who Graduate After October 1, 2007 but Before July 1, 2008***

- Elect income-contingent repayment, switch to IBR on 7/1/09
- All qualifying payments after 10/1/07 will count toward forgiveness
  - Must consolidate before payments will count



# ***Borrowers Who Graduate After July 1, 2008 and Before July 1, 2009***

- Elect income-contingent repayment, switch to IBR on 7/1/09
- All qualifying payments will count toward forgiveness
  - Must consolidate before payments will count
  - Consolidation restrictions apply



# *Borrowers Who Graduate After July 1, 2009*

- The law will be fully effective
- Elect IBR
  - Again, those with government-guaranteed loans must consolidate



# *Additional Resources*

- Professor Philip Schrag's Law Review article:  
[http://www.law.georgetown.edu/news/releases/documents/Forgiveness\\_000.pdf](http://www.law.georgetown.edu/news/releases/documents/Forgiveness_000.pdf)
- IBR monthly repayment calculator:  
<http://www.finaid.org/calculators/ibr.phtml>
- Federal direct consolidation loan information and applications: <http://loanconsolidation.ed.gov/>



# Questions?

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