

THE FEDERAL STUDENT LOAN FORGIVENESS LAW

The College Cost Reduction and
Access Act of 2007

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).

Key Provisions of the CCRAA

- Pell Grant Increases
- Interest Rate Reductions
- **Income-Based Repayment**
- Deferment for Certain Members of the Armed Forces
- **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.

Income-Based Repayment (IBR)

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

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.

Which Student Loans are Eligible?

Income-Based Repayment

- Federal direct loans *and* federally guaranteed loans (FFEL loans).

Loan Forgiveness for Public Service Employment

- ONLY Federal Direct Loans including federal direct consolidation loans.

What Are Federal Direct Loans and Federally Guaranteed Loans?

- 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

Which Loans Are Not Federally Guaranteed Student Loans?

- 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, and borrowers are urged to seek advice about the pros and cons regarding consolidating Perkins loans.

How Do I Know What Kind of Loans I Have?

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

How Do I Know If I Am Eligible for IBR?

- IBR is available to borrowers with a “Partial Financial Hardship”.

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.

What Counts as 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.

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”.

What If I Don't Do Math?

- Finaid.org has debt payment calculators:
<http://www.finaid.org/calculators>
- Equal Justice Works resource library:
www.equaljusticeworks.org
- Ask for help from your school's financial aid office.
- Salary data is available through NALP:
www.nalp.org

What Counts As Income?

- 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.

What happens if the monthly payment does not cover interest?

- The government is authorized to pay unpaid interest for three years, only for subsidized Stafford loans.
- The rest of the unpaid interest is capitalized.

Other Key IBR Provisions

- IBR goes into effect July 1, 2009.
- 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.
- After 25 years of IBR, any remaining balance is canceled.

Loan Forgiveness for Public Service Employment

A loan forgiveness program for borrowers employed full-time for 10 years in qualifying public service jobs.

Loan Forgiveness for Public Service Employment

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

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 made \$49,132 of qualifying loan payments over 10 years under the IBR plan.
- **The federal government cancels \$118,868, the principal and interest remaining.**

What is a Qualifying Loan Payment?

- 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?

- Extended Repayment plan
- Payments while not working in full-time qualifying public service employment
- Loan payments on non-qualifying loans (e.g., FFELP loans, Federal Perkins Loans) do NOT count toward the 120-month requirement

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

Public Service Forgiveness for Direct Loans Only

- Only Direct loans are eligible for forgiveness.
- Borrowers with other government loans can consolidate with Direct Loans in order to obtain this benefit, assuming they are eligible to consolidate.

When can I start counting my service toward forgiveness?

- Borrowers who have federal direct loans or who have consolidated into federal direct consolidation loans may begin counting time in public service beginning October 1, 2007.

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.

Additional Resources

- This slideshow, summaries and updates from Heather:
www.equaljusticeworks.org
- Professor Philip Schrag's Law Review article:
<http://www.law.georgetown.edu/news/documents/Forgiveness.pdf>
- IBR monthly repayment calculator:
<http://www.finaid.org/calculators/ibr.phtml>
- Federal direct consolidation loan information and applications:
<http://loanconsolidation.ed.gov/>

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 March 31, 2008.

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