

## **LOAN REPAYMENT STRATEGIES FOR PUBLIC INTEREST AND PUBLIC SECTOR LAWYERS**

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### **The Good News!**

- ☐ New loan forgiveness programs
- ☐ New Income-Based Repayment (IBR) option

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### **A New Federal Loan Forgiveness Program**

- ☐ Public Service Loan Forgiveness Program (PSLF)

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### **Additional Programs for Prosecutors & Legal Aid Attorneys**

Following federal programs are subject to annual federal budget appropriations for funding and awards to be made to eligible borrowers:

- John R. Justice Student Loan Repayment Program
- Civil Legal Assistance Attorney Student Loan Repayment Program

Visit Equal Justice Works at [www.EqualJusticeWorks.org](http://www.EqualJusticeWorks.org) for more information about these two programs

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### **Loan Forgiveness**

#### **Public Service Loan Forgiveness Program (PSLF)**

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### **Key Points**

- DIRECT Loans only
- Full-time public service employment for 10 years
- IBR

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## PSLF

### To qualify for loan forgiveness:

- Eligible DIRECT Loans cannot be in default, **AND**
- Must have worked full-time for 120 months\* in qualifying public service position, **AND**
- Must have made 120 qualifying loan payments on DIRECT Loans during period of qualifying employment.

**\*Months do not need to be consecutive**

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## Eligible Loans

### Following loans are eligible for PSLF:

- Federal DIRECT Sub/Unsub Loans
- Federal DIRECT Grad PLUS Loans
- Federal DIRECT Consolidation Loans

**Check your loans at: [www.nslds.ed.gov](http://www.nslds.ed.gov)**

FFEL loans must be consolidated in the Federal Direct Loan Program at [www.LoanConsolidation.ed.gov](http://www.LoanConsolidation.ed.gov) to be eligible for PSLF

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## NSLDS

### To access, enter:

- SSN
- First two letters of last name
- Birthdate
- Dept. of Ed PIN



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## FFEL vs. Direct

### Federal Family Education Loan Program (FFEL)

- ☐ Lender was private institution
- ☐ FFEL loans can be sold to another entity
- ☐ Loans may be serviced by lender or 3<sup>rd</sup> party
- ☐ FFEL loans sold to Dept. of Education do not become Direct Loans—must be consolidated in Direct Program to be eligible for Public Service Loan Forgiveness

### Federal Direct Loan Program (Direct)

- ☐ Lender was U.S. Department of Education (ED)
- ☐ Direct loans won't be sold
- ☐ Loans are serviced by one of five federal contractors
- ☐ Only Direct Loans are eligible for Public Service Loan Forgiveness

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## Qualifying Employment

### Must be **FULL-TIME** employment in:

- ☐ 501(c)(3) organization exempt from taxation under section 501(a) of the IRS Code of 1986, **OR**
- ☐ Government (federal, state, local, tribal) agency in U.S.

#### Full-time employment is defined as greater of:

- 30 hours/week, or
- Employer's definition of full-time

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## Qualifying Payments

### Payments must be made using:

- ☐ Income Based Repayment (IBR)
- ☐ Income Contingent Repayment (ICR)
- ☐ Standard Repayment (10-year fixed plan)

### **OR**

- ☐ Amount paid each month must be no less than payment based on a 10-year loan period

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## Potential Pros and Cons of PSLF

### Pros

- Increases financial feasibility of pursuing a public interest/ public sector legal career if you have student loan debt
- Portion of eligible federal student loan debt may be forgiven
- Entitlement

### Cons

- “All or nothing” benefit; you must put in full 10 years/120 months of qualifying public service employment/loan payments
- Only Direct Loan debt can be forgiven
- Currently no process to confirm eligibility prior to completing 120 months of qualifying employment

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## Suggested Steps to Participate in PSLF

- Consolidate any FFEL program loans in the Federal Direct Loan Program at:  
**[www.LoanConsolidation.ed.gov](http://www.LoanConsolidation.ed.gov)**
- Use IBR or ICR to repay your eligible loan(s)
- Make 120 payments (on-time) while working full-time in qualifying public service position(s)
- Keep good records regarding all qualifying employment
- Apply for PSLF after 120 months of qualifying activity has been completed

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## Suggested Employment Records for PSLF

- Documentation that you worked full-time every month you made a qualifying payment on your Federal Direct Loan debt
- Documentation of what your employer(s) consider “full-time” employment
- Documentation that your employer(s) is/are an eligible employer

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## Repayment Option

### Income-Based Repayment (IBR)

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## IBR Basics

- Must have “Partial Financial Hardship” (PFH) to enter IBR
- PFH exists when:
  - the annual amount paid under the Standard Payment plan is greater than 15% of your “disposable income”
  - “Disposable income” is that portion of your household’s adjusted gross income (AGI) that exceeds 150% of the federal poverty guideline for your household size and state of residence
  - In essence, borrowers who have total federal student loan debt in excess of their household AGI likely have PFH**
- Payment while in PFH is based on:
  - Household AGI
  - Household size
  - HHS Federal Poverty Guideline for your state

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## IBR Definitions

- Household Adjusted Gross Income (AGI)
  - Your AGI
  - Your spouse’s AGI (if married) only if filing a joint federal tax return

*NOTE: Eligible debt will include spouse’s eligible debt if AGI included*
- Household size
  - You
  - Your spouse (if married)
  - Dependent children residing in household
  - Other dependents living in household who receive at least 50% of their support from borrower

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## Sample IBR Payments

Household AGI	2011 Monthly PFH Payment in 48 states		
	HH Size = 1	HH Size = 2	HH Size = 3
\$0	\$0	\$0	\$0
\$10,000	\$0	\$0	\$0
\$20,000	\$46	\$0	\$0
\$30,000	\$171	\$99	\$28
\$40,000	\$296	\$224	\$153
\$50,000	\$421	\$349	\$278
\$60,000	\$546	\$474	\$403
\$70,000	\$671	\$599	\$528
\$80,000	\$796	\$724	\$653
\$90,000	\$921	\$849	\$778
\$100,000	\$1,046	\$974	\$903

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## Potential Benefits and Costs of IBR

Benefits	Costs
<ul style="list-style-type: none"> <li>□ Could provide lowest initial monthly loan payment</li> <li>□ Government will pay unpaid interest on subsidized Stafford/Direct Loans for up to 3 years</li> <li>□ Loan cancellation after 25 years of eligible payments if not eligible for PSLF</li> <li>□ Entitlement</li> </ul>	<ul style="list-style-type: none"> <li>□ Increased interest will accrue and may have negative amortization</li> <li>□ If married might need to file separate tax returns</li> <li>□ Unpaid interest will be capitalized at some point</li> <li>□ Annual income and family size verification required</li> <li>□ Monthly payments likely will change each year</li> </ul>

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## PSLF

### Sample Case Study

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The SmartStudent Guide to Financial Aid

Income-Based Repayment Calculator (15% version)

This calculator compares the cost of repaying federal student loans using the Income-Based Repayment (IBR) plan and the standard repayment plan, including the 10% payment cap of the IBR plan.

The Income-Based Repayment plan was introduced as part of the College Cost Reduction and Access Act of 2007 and became available on July 1, 2009.

The monthly loan payments are capped at 15% of discretionary income with forgiveness of any remaining debt (including accrued but unpaid interest) after 25 years. Discretionary income is defined as the amount by which adjusted gross income exceeds the poverty line.

The Health Care and Education Reconciliation Act of 2010 established an enhanced version of the Income-Based Repayment plan for new borrowers of new loans made on or after July 1, 2010. The required income-based repayment plan rules the monthly loan payments by one third from 15% of discretionary income to 10% of discretionary income and maximum loan forgiveness from 20 years to 25 years. Please use the 15% version of the Income-Based Repayment calculator for borrowers who qualify for the enhanced income-based repayment plan.

Please click on the link below for help in using this calculator. For more information about repayment plans, see also the discussion of all federal loans.

**IBR/PSLF Calculator**

**[www.FinAid.org/calculators](http://www.FinAid.org/calculators)**

You can use this calculator to estimate monthly payments using Income-Based Repayment (IBR) and to estimate the amount of loan forgiveness you might receive from the Public Service Loan Forgiveness Program if you satisfy all of the eligibility requirements.

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## PSLF – Sample Case

Assumptions	
Eligible federal student loan debt	\$141,600
1 <sup>st</sup> year Household Adjusted Gross Income (AGI)	\$58,000
Assumed annual increase in AGI	3%
Assumed annual increase in poverty guideline	3%
Assumed AGI in 10 <sup>th</sup> year	\$75,677

IBR Payment Information	
IBR monthly payment in 1 <sup>st</sup> month	\$521
IBR monthly payment in 120 <sup>th</sup> month (max)	\$681
Total amount paid in IBR over 10 years	\$71,801

Estimated Loan Forgiveness	
Total accrued interest forgiven after 10 years	\$35,097
Total principal forgiven after 10 years	\$141,600
Total amount forgiven after 10 years	\$176,697

Calculations made using 2010 poverty guideline and IBR calculator at: [FinAid.Org/calculators](http://FinAid.Org/calculators)

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## Loan Repayment Calculators

**Calculators are available online, e.g.,**

- [StudentLoans.gov](http://StudentLoans.gov)
- [FinAid.org](http://FinAid.org)
- [SallieMae.com](http://SallieMae.com)
- [IBRinfo.org](http://IBRinfo.org)
- [MappingYourFuture.org](http://MappingYourFuture.org)

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<b>Loan Repayment</b>
<b>Final Comments</b>

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<b>Loan Repayment</b> <b>"Top Ten" Vocabulary List</b>										
<b>Do you now know what these mean?</b>										
<table border="0"> <tr> <td><input type="checkbox"/> Grace</td> <td><input type="checkbox"/> Standard</td> </tr> <tr> <td><input type="checkbox"/> FFELP</td> <td><input type="checkbox"/> Extended</td> </tr> <tr> <td><input type="checkbox"/> Direct</td> <td><input type="checkbox"/> IBR</td> </tr> <tr> <td><input type="checkbox"/> Servicer</td> <td><input type="checkbox"/> Consolidation</td> </tr> <tr> <td><input type="checkbox"/> NSLDS</td> <td><input type="checkbox"/> Prepayment</td> </tr> </table>	<input type="checkbox"/> Grace	<input type="checkbox"/> Standard	<input type="checkbox"/> FFELP	<input type="checkbox"/> Extended	<input type="checkbox"/> Direct	<input type="checkbox"/> IBR	<input type="checkbox"/> Servicer	<input type="checkbox"/> Consolidation	<input type="checkbox"/> NSLDS	<input type="checkbox"/> Prepayment
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