

Public Service Loan Repayment strategies

Spring 2013

The Good News!

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- New loan forgiveness programs
- New income-defined repayment options
- USF Loan Repayment Assistance Program (LRAP)

A New Federal Loan Forgiveness Program

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- Public Service Loan Forgiveness Program (PSLF)

Additional Programs for Prosecutors & Legal Aid Attorneys

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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: [*EqualJusticeWorks.org*](http://EqualJusticeWorks.org) for more information about these two programs.

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Loan Forgiveness

Public Service Loan
Forgiveness Program
(PSLF)

What is PSLF?

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Public Service Loan Forgiveness (PSLF) is a federal program that provides for the forgiveness of any outstanding balance on a Federal Direct Loan once the borrower completes 120 months of qualifying employment/payments (tax-free).

PSLF

Key Points

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- ❑ DIRECT Loans only
- ❑ Work full-time as a paid employee for an eligible public service organization for 10 years (120 months)
- ❑ Repay loans using IBR or PAYE
- ❑ For more information, go to:
[StudentAid.ed.gov/publicservice](https://studentaid.ed.gov/publicservice)

PSLF

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To apply 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

Eligible Loans

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Following loans are eligible for PSLF:

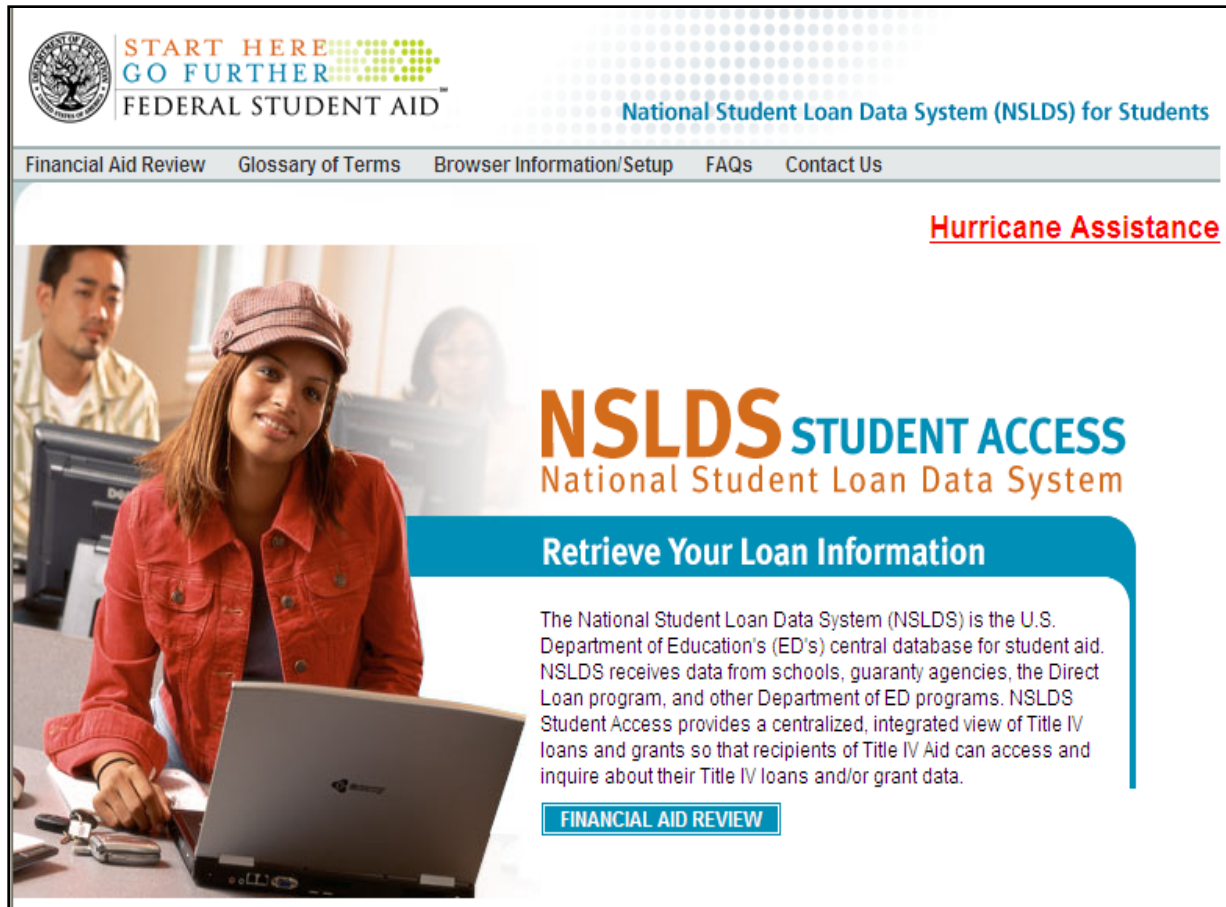
- ❑ Federal DIRECT Sub/Unsub Loans
- ❑ Federal DIRECT Grad PLUS Loans
- ❑ Federal DIRECT Consolidation Loans

Check your loans at: *NSLDS.ed.gov*

FFEL and Federal Perkins Loans must be consolidated (i.e., refinanced) through the Federal Direct Loan Program to be eligible for PSLF. To consolidate loans, go to: *LoanConsolidation.ed.gov*

To access,
enter:

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



The screenshot shows the NSLDS Student Access website. At the top left is the U.S. Department of Education seal and the text "START HERE GO FURTHER FEDERAL STUDENT AID™". To the right is the title "National Student Loan Data System (NSLDS) for Students". Below this is a navigation bar with links: "Financial Aid Review", "Glossary of Terms", "Browser Information/Setup", "FAQs", and "Contact Us". On the right side of the page, there is a red link for "Hurricane Assistance". The main content area features a large image of a young woman in a red jacket and cap sitting at a desk with a laptop. To the right of the image, the text "NSLDS STUDENT ACCESS National Student Loan Data System" is displayed. Below this, a blue banner reads "Retrieve Your Loan Information". A text box explains that NSLDS is the U.S. Department of Education's central database for student aid, receiving data from schools, guaranty agencies, the Direct Loan program, and other Department of ED programs. It states that NSLDS Student Access provides a centralized, integrated view of Title IV loans and grants so that recipients of Title IV Aid can access and inquire about their Title IV loans and/or grant data. At the bottom of this text box is a blue button labeled "FINANCIAL AID REVIEW".

START HERE
GO FURTHER
FEDERAL STUDENT AID™

National Student Loan Data System (NSLDS) for Students

Financial Aid Review Glossary of Terms Browser Information/Setup FAQs Contact Us

[Hurricane Assistance](#)

NSLDS STUDENT ACCESS
National Student Loan Data System

Retrieve Your Loan Information

The National Student Loan Data System (NSLDS) is the U.S. Department of Education's (ED's) central database for student aid. NSLDS receives data from schools, guaranty agencies, the Direct Loan program, and other Department of ED programs. NSLDS Student Access provides a centralized, integrated view of Title IV loans and grants so that recipients of Title IV Aid can access and inquire about their Title IV loans and/or grant data.

FINANCIAL AID REVIEW

FFEL vs. Direct

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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 3rd 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

Qualifying Employment

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Must be FULL-TIME, paid employee of a:

- ❑ 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 the greater of:

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

Qualifying Payments

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Payments must be made using:

- Income Based Repayment (IBR)
- Income Contingent Repayment (ICR)
- “Pay As You Earn” Repayment (PAYE)
- Standard Repayment (10-year fixed plan)

OR

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

Potential Pros and Cons

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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
- Program could be changed or eliminated through statutory changes by Congress

Suggested Steps to Participate in PSLF

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- Consolidate any non-Direct Federal Student Loans in the Federal Direct Loan Program at:
LoanConsolidation.ed.gov
- Use IBR or PAYE to repay your Direct loan(s)
- Make 120 payments (on-time) while employed full-time in qualifying public service position(s)
- Keep good records regarding all qualifying employment
- NEW □ **Submit “Employment Certification Form for PSLF” annually**
- Apply for PSLF after 120 months of qualifying activity has been completed

NEW for PSLF!

Employment Certification Process

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- Complete “**Employment Certification for Public Service Loan Forgiveness**” form annually OR whenever you change jobs
- Form online at: *StudentAid.ed.gov/PublicService*
- Submit completed form to: **FedLoan Servicing**
- **FedLoan Servicing** will review and process form
- **FedLoan Servicing** will inform you regarding your current status toward meeting the PSLF requirements
- If you have accumulated eligible months, **FedLoan Servicing** will become your Direct Loan servicer if not currently servicing your Direct Loans

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Repayment Plans

IBR and PAYE

IBR vs. PAYE

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IBR

- Direct and FFEL loans
- Annual amount paid based on 15% of “Discretionary Income”
- Loan cancellation after 25 years

PAYE

- Direct loans only
- Annual amount paid based on 10% of “Discretionary Income”
- Loan cancellation after 20 years
- Must meet two additional eligibility requirements

PAYE

Additional Eligibility Requirements

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- ❑ Must be a “new borrower” on or after October 1, 2007 (10/1/2007)
 - ❑ No federal loans before 10/1/2007, OR
 - ❑ No outstanding balance on an existing federal student loan when you borrowed your first federal student loan on or after 10/1/2007
- ❑ Must have had a disbursement of a federal student loan on or after 10/1/2011

IBR and PAYE

How do you qualify?

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To enter IBR/PAYE, you must have:

**PARTIAL FINANCIAL HARDSHIP
(PFH)**

What is PFH?

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Partial financial hardship exists when:

Standard
10-year
payment
\$\$\$\$\$

>

IBR/PAYE
payment
\$\$

IBR and PAYE

How is monthly payment calculated?

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When PFH exists, payment is based on:

- Household AGI
- Household size
- Federal Poverty Guidelines

“Household AGI”

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- Your AGI
- Spouse's AGI, only if joint federal tax return was filed

NOTE: Household's eligible debt in PFH determination will include spouse's eligible debt, if spouse's AGI is included

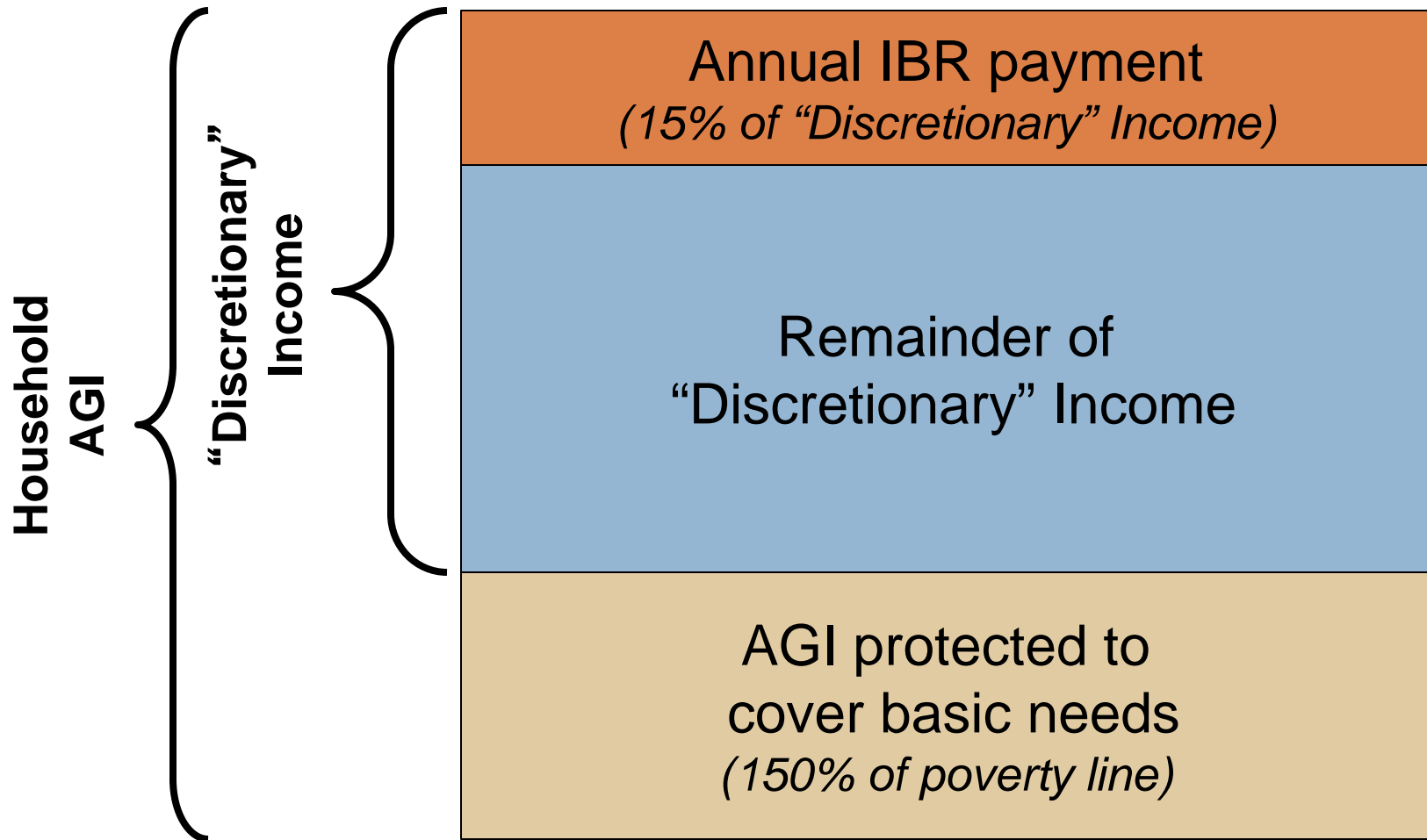
“Household Size”

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- You
- Spouse
- Dependent children
- Other dependents in household who receive $> 50\%$ support from you

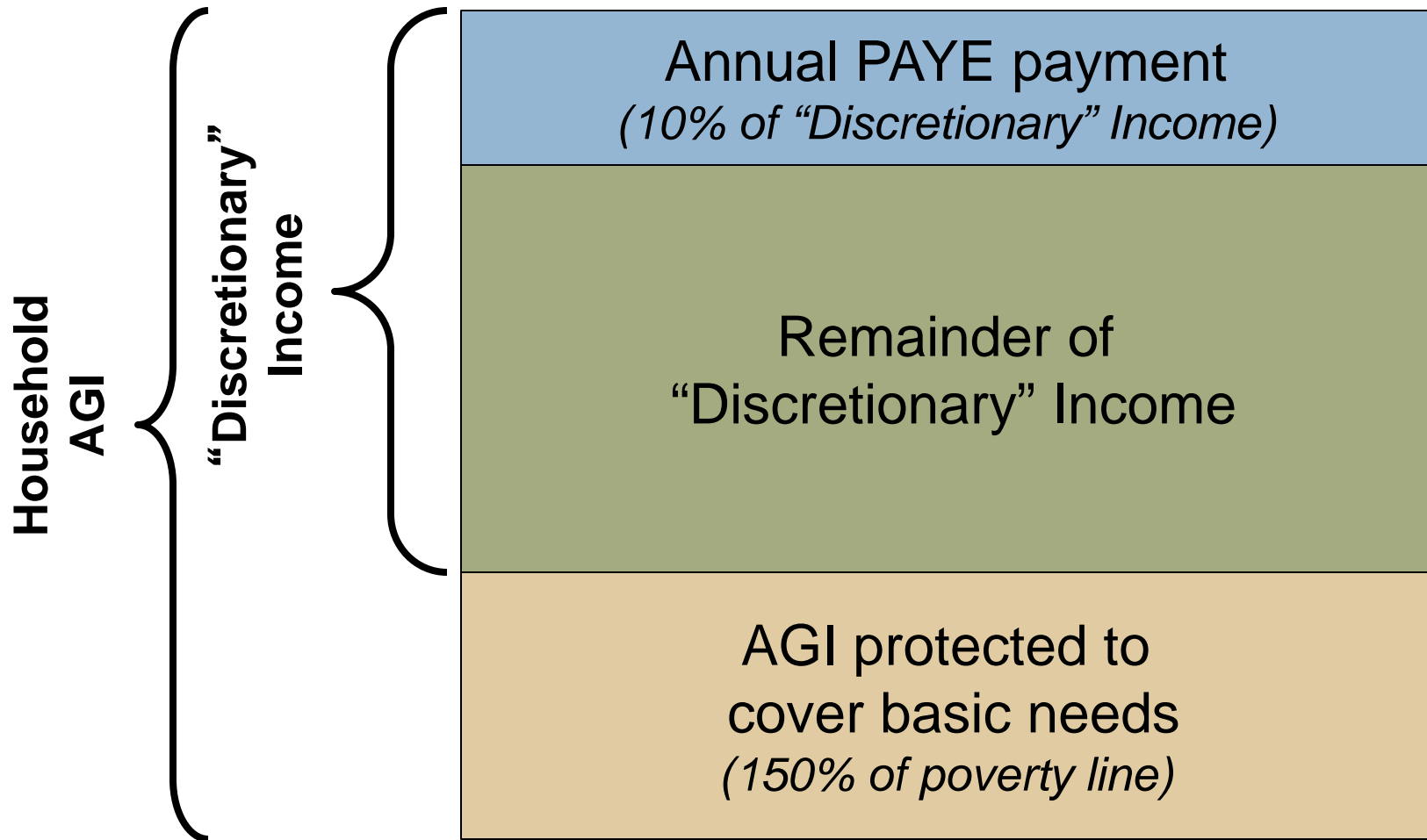
Annual amount paid in IBR is 15% of “Discretionary” Income

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Annual amount paid in PAYE is 10% of “Discretionary” Income

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Sample IBR Payments

15% Formula

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Household AGI	2012 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	\$41	\$0	\$0
\$30,000	\$166	\$91	\$17
\$40,000	\$291	\$216	\$142
\$50,000	\$416	\$341	\$267
\$60,000	\$541	\$466	\$392
\$70,000	\$666	\$591	\$517
\$80,000	\$791	\$716	\$642
\$90,000	\$916	\$841	\$767
\$100,000	\$1,041	\$966	\$892

Sample PAYE Payments

10% Formula

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Household AGI	2012 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	\$27	\$0	\$0
\$30,000	\$110	\$61	\$11
\$40,000	\$194	\$144	\$95
\$50,000	\$277	\$228	\$178
\$60,000	\$360	\$311	\$261
\$70,000	\$444	\$394	\$345
\$80,000	\$527	\$478	\$428
\$90,000	\$610	\$561	\$511
\$100,000	\$694	\$644	\$595

IBR and PAYE

Negative Amortization

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- ❑ IBR/PAYE payment can be less than accrued interest
- ❑ Unpaid interest accrues
 - ▣ Unpaid interest accruing on subsidized Direct/Stafford Loan debt is waived by government for up to first 3 consecutive years in IBR or PAYE plan
- ❑ Debt increases

IBR and PAYE

What happens if PFH ends?

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- Remain in IBR/PAYE
 - ▣ Pay initial original 10-year amortization amount
- Exit IBR/PAYE

Applying for IBR or PAYE

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- Contact current loan servicer to apply for IBR/PAYE
- Complete online application, as directed (every 12 months)
 - ▣ Application collects basic demographic information as well as information about household adjusted gross income (AGI) and household size

You must **CONSOLIDATE** any non-DIRECT federal student loans (e.g., FFEL, Perkins) before you can repay that debt using PAYE

Apply at: *loanconsolidation.ed.gov*

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PSLF

Sample Case Study



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Income-Based Repayment Calculator (15% version)

This calculator compares the cost of repaying Federal student loans using the [Income-Based Repayment](#) (IBR) option and the standard repayment option, including the [net present value](#) of those payments.

The Income-Based Repayment option was proposed 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 improved version of the income-based repayment plan for new borrowers of new loans made on or after July 1, 2014. The improved income-based repayment plan cuts the monthly loan payments by one third from 15% of discretionary income to 10% of discretionary income and accelerates loan forgiveness from 25 years to 20 years. Please use the [10% version of the income-based repayment calculator](#) for borrowers who qualify for the improved income-based repayment plan.

Please click on the field names for help in using this calculator. For more information about discount rates, see also the discussion of [net present value](#).

IBR/PSLF Calculator

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.

PSLF – Sample Case (IBR)

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Assumptions	
Eligible federal student loan debt	\$166,000
1 st year Household Adjusted Gross Income (AGI)	\$49,000
Assumed annual increase in AGI	3%
Assumed annual increase in poverty guideline	3%
Assumed AGI in 10 th year	\$63,934

IBR Payment Information	
IBR monthly payment in 1 st month	\$403
IBR monthly payment in 120 th month (max)	\$526
Total amount paid in IBR over 10 years	\$55,448

Estimated Loan Forgiveness	
Total accrued interest forgiven after 10 years	\$66,153
Total principal forgiven after 10 years	\$166,000
Total amount forgiven after 10 years	\$232,153

Calculations made using 2012 federal poverty guidelines and Income-Based Repayment Calculator (15% Version) at: FinAid.Org/calculators

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Final Comments

To benefit from PSLF ...

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1. Consolidate any non-Direct Federal Student Loans in the Federal Direct Loan Program at:
LoanConsolidation.ed.gov
2. Use IBR or PAYE to repay your Direct loan(s)
3. Make 120 payments (on-time) while employed full-time in qualifying public service position(s)
4. Keep good records regarding all qualifying employment
5. Submit “Employment Certification Form for PSLF” annually (available at: *StudentAid.ed.gov/publicservice*)
6. Apply for PSLF after 120 months of qualifying activity has been completed

For more information ...

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- Public service: *StudentAid.ed.gov/PublicService*
- Federal student loan repayment: *StudentAid.gov*
- Federal Direct Consolidation Loans:
LoanConsolidation.ed.gov
- National Student Loan Data System: *NSLDS.ed.gov*
- Federal loan repayment calculator: *StudentAid.gov*
- PSLF benefits estimation: *FinAid.org/calculators*
- Equal Justice Works: *EqualJusticeWorks.org*
- Ask Heather Jarvis: *AskHeatherJarvis.com*

THE GOOD NEWS:

Options exist to help you repay your federal student loans if you are planning a career in public service!