

## THE FEDERAL STUDENT LOAN FORGIVENESS LAW *THE COLLEGE COST REDUCTION AND ACCESS ACT OF 2007*

The College Cost Reduction and Access Act of 2007 helps public service lawyers in two main ways:

1. **Lowers monthly student loan payments on federally guaranteed student loans (Income Based Repayment or IBR)**
2. **Cancels remaining debt for public servants after 10 years of public service employment (Loan Forgiveness for Public Service)**

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

Congress created a new repayment program—income based repayment (IBR), which significantly reduces monthly payments for high debt/low income borrowers with “partial financial hardship.”

#### ***What will my monthly payment be under IBR?***

Annual educational debt payments under IBR are capped at 15% of discretionary income (defined as adjusted gross income minus 150% of the poverty level for the borrower’s family size). The following example uses the 2007 Federal Poverty Guideline for a household of one of \$10,210.

**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.

#### ***How does a spouse’s income affect IBR?***

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.

#### ***Which student loans are eligible for IBR?***

All Federal Direct Loans (FDL) and federally guaranteed loans (FFEL) are eligible including: subsidized and unsubsidized Federal Stafford loans; Federal Grad PLUS loans (but not Parent PLUS loans); and Federal Direct Consolidation loans; however only Federal Direct loans (including Federal Direct Consolidation loans) are eligible for Loan Forgiveness for Public Service.

#### ***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. Also, Parent PLUS loans are not eligible for IBR. Federal Perkins Loans are only eligible when part of a Federal Direct Consolidation Loan. Borrowers should seek advice before consolidating a Perkins loan because Perkins loans include cancellation provisions.

### ***When can I elect IBR?***

IBR goes into effect July 1, 2009. Members of the Class of 2009 will be able to elect IBR within two months of graduation.

People who graduated or will graduate before IBR takes effect will have to wait to elect IBR. Borrowers may elect the previously established Income-Contingent Repayment (ICR) plan while waiting to switch into IBR in 2009. Monthly payments under ICR are higher than under IBR but still much lower than payments calculated using a standard 10 year repayment term.

### **Loan Forgiveness for Public Service Employees**

Congress created loan forgiveness for public service employees—if a borrower makes 120 qualifying loan payments on a Federal Direct loan (including Federal Direct Consolidation loans) while working full-time for 10 years in public service employment, the unpaid balance on the loan is forgiven by the federal government.

**Example:** Jane Justice started out owing \$100,000 in qualifying debt at 6.8% interest and took a full-time public service job with a starting salary of \$40,000 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.**

### ***What is a “qualifying loan payment” for Loan Forgiveness for Public Service Employees?***

A payment on a Federal Direct loan (including a Federal Direct Consolidation loan) of the amount calculated under either the Income-Contingent Repayment (ICR) plan, the Income-Based Repayment (IBR) plan, or not less than the amount required under a Standard Repayment plan based on a 10-year repayment schedule.

ONLY payments made on Federal Direct loans (including Federal Direct Consolidation loans) count toward the 120 payments required to qualify for Loan Forgiveness.

### ***When can I begin counting my time in public service towards forgiveness?***

Beginning October 1, 2007, borrowers who have Federal Direct loans (including Federal Direct Consolidation loans) may begin counting time in public service. Borrowers who have already consolidated their loans outside of Federal Direct must wait until July 1, 2008 for the right to “reconsolidate” into Federal Direct and begin counting time in public service.

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### ***Additional Resources:***

- Equal Justice Works Resources: <http://www.equaljusticeworks.org/resource/ccraa>
- Read the law review article authored by Georgetown Professor Phil Shrag that provides detailed descriptions of IBR and Loan Forgiveness for Public Service Employees: <http://www.law.georgetown.edu/news/documents/Forgiveness.pdf>.
- Use the IBR monthly repayment calculator: <http://www.finaid.org/calculators/ibr.phtml>
- Use the ICR monthly repayment calculator: <http://www.finaid.org/calculators/icr.phtml>
- Federal direct consolidation loan information and applications: <http://loanconsolidation.ed.gov/>