

Lifting the Burden on Borrowers with High Debt and Low Income

Public Law 110-84

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Rapidly Increasing Cost of Law School Attendance

Class of	Average Annual Cost of Attendance, Private Law Schools	Cost of Living (1987 = \$100)
1988	\$14,800	\$100
2006	\$45,000	\$177
Percentage increase	204%	77%

Median Starting Salaries, Law Graduates, Class of 2006

(Chronicle of Higher Education, 11/16/07)

Mid-size law firms	\$ 90,000
State Prosecutors	\$ 46,374
Civil legal aid	\$ 36,000

Typical Legal Aid Lawyer With \$100,000 Debt @ 6.8%, 10 Year “Standard” Repayment

- **\$36,000 salary**
- **\$31,000 after federal and state taxes**
- **\$13,812 loan repayment**
- **\$17,188 for everything else**

ICR (Enacted '93, Effective '94)

- **Schedule payment over 25 years**
- **Repay at a rate of 20% of (AGI – poverty level)**
- **Amount not paid is added to balance**
- **Forgiveness of any remaining balance after 25 years**
- **No public service required – just a repayment plan**
- **Virtually nobody elected to use this system!**

from the office of

Senator Edward M. Kennedy

of Massachusetts



- Income Based Repayment (IBR)
- Loan Forgiveness after ten years



- Forgiveness extended to all employees of governments and nonprofit (501(c)(3)) organizations

Income-based Repayment WITHOUT Public Service

- **Pay annually 15% of (AGI – 150% of poverty level), regardless of debt size, until debt is paid**
- **If standard repayment would be less than that, revert to standard repayment, based on original balance**
- **If IBR payments won't cover all the interest on subsidized Stafford loans, the government pays interest for three years**
- **Any remaining balance is forgiven after 25 years.**

Examples WITHOUT Public Service

\$100,000 debt @ 7.22%

**Standard repayment would be \$1173/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
\$35,000	3%	\$246	\$321	\$500	\$107,655	\$172,970
\$40,000	3%	\$309	\$403	\$627	\$135,000	\$145,606
\$40,000	4%	\$309	\$462	\$893	\$166,119	\$110,239
\$40,000	5%	\$309	\$526	\$1173	\$201,998	\$63,035
\$50,000	3%	\$434	\$566	\$881	\$189,688	\$82,233
\$50,000	4%	\$434	\$640	\$1173	\$228,106	\$23,323

Income-based Repayment WITH Public Service

- **Same repayment formula as IBR, except**
- **Remaining debt is forgiven after TEN years of full time public service during which the monthly payments are made**
- **Breaks in service are allowed so long as you make 120 payments during public service employment**
- **Qualifying debt: Stafford and Grad PLUS loans, and Perkins loans if consolidated**
- **Qualifying jobs: All government and all 501(c)(3) organizations**
- **Benefits are not limited to lawyers**

Examples WITH Public Service

\$100,000 debt @ 7.22%

Standard repayment would be \$1173/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 without public service, over 25 years	Amount forgiven by federal government after 10 years
\$35,000	3%	\$246	\$321	\$33,850	\$107,655	\$138,400
\$40,000	3%	\$309	\$403	\$42,448	\$135,000	\$129,802
\$40,000	4%	\$309	\$462	\$45,701	\$166,119	\$126,548
\$40,000	5%	\$309	\$526	\$49,132	\$201,999	\$123,118
\$50,000	3%	\$434	\$566	\$59,644	\$189,688	\$112,606
\$50,000	4%	\$434	\$640	\$63,710	\$228,106	\$108,509
\$55,000	4%	\$496	\$729	\$72,715	\$230,086	\$99,009

Effective Dates

- **Borrowers were able to start counting the ten years on October 1, 2007**
- **But the IBR repayment schedule doesn't start until July 1, 2009**
- **Meanwhile, borrowers may repay through income-contingent repayment (ICR): 20% of (AGI – poverty level), then switch to IBR**
- **FFEL borrowers must graduate and then consolidate into a federal direct consolidation loan before starting to count the ten years**

How to calculate a personal
repayment schedule
(courtesy of Mark Kantrowitz)



www.finaid.org/calculators/ibr.phtml

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Advice to students who expect to perform ten years of public service

- **Borrow everything you need through Stafford and Grad PLUS loans; avoid credit card debt, commercial debt, and family loans that will have to be repaid, even if the interest rate is lower!**
- **Consolidate and choose ICR until 7/1/09**
- **Change to IBR on that date**
- (Low-income borrowers NOT planning ten years of service may want to use IBR for a few years until income becomes higher, or longer if debt/income ratio will remain high)

Advice to students who are not sure about performing ten years of public service

- IBR at least for a few years may still be a good plan but:
- Using Grad PLUS at 8.5% may be an issue for those with the highest credit ratings
- Accumulating interest will increase the balance
- Borrowers unsure about forgiveness might want to pay at least the amount of interest due

Married Borrowers: Recent Congressional Action



- IBR formula was based on income of borrower and spouse “if applicable”
- Public Law 110-153: spouse’s income not included if borrower files a separate tax return

IBR-Repayer with 35,000 Gross Income, \$100,000 debt, Spouse with \$60,000 Gross Income and No Qualifying Debt

	Couples' AGI	Federal Tax	Loan Repayment (first year)	Income after tax and loan payment
Cohabiting single partners	\$92,500 (after interest deduction)	\$12,625	\$2568	\$79,987
Married, filing jointly, CCRAA as originally passed	\$92,500 (after interest deduction)	\$11,981	\$10,752	\$72,267 (Marriage penalty = \$7720)
Married, filing separately, CCRAA as amended	\$95,000 (no interest deduction)	\$13,000	\$2952	\$79,048 (Marriage penalty = \$939)

Pending Legislation

(Passed Senate; Passed House Education Committee)

- Additional loan forgiveness civil legal aid lawyers
 - Up to \$6000/yr., \$40,000 lifetime
 - Subject to appropriations
- Additional loan forgiveness for prosecutors and defenders
 - Up to \$10,000/yr., \$40,000 lifetime
 - Subject to appropriations

Opportunities for Law Schools with LRAP Programs

- Coordinate with federal programs to make LRAP dollars go further
- Simplify LRAP programs (e.g., use federal eligibility definition)
- If budget permits, pay the graduate's share of IBR repayment, enabling those going into public interest to attend law school free
- If budget does not permit, pay an affordable fraction of the graduate's IBR repayment

For More Information

Philip G. Schrag,

“Federal Student Loan Repayment Assistance
for Public Interest Lawyers and Other Employees
of Governments and Nonprofit Organizations”

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Available now at:

http://www.law.georgetown.edu/news/releases/documents/Forgiveness_000.pdf